



Libya at the Dawn of a New Era: Improving Competitiveness in the Global Economy

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Libya's Recent Progress in Internationalization



US lifts sanctions on Libya

WMRC – April 2004

US seeks normal Tripoli ties

Agence France Presse – February 2005

Libya's application for WTO moves forward

Financial Times – July 2004

Libya: The world comes calling

African Business – November 2004

EU/Libya: Union pledges to bring Tripoli into Barcelona Process

European Information – April 2004

Libya now top African nation for investment

LiquidAfrica – January 2005

Libya has made significant progress in building relationships with the global community



- Strong GDP growth in recent years
- Relatively equal distribution of wealth among the Libyan population

HOWEVER

- High and increasing dependence on oil revenues as GDP growth is driven exclusively by oil prices
- New demands on the economy as the country has embarked on opening up to the outside world
- Relatively weak performance of social system, i.e. healthcare and education, despite Libya's investment of considerable resources



Libya's Past

- Significant isolation from the outside world
- Focus on equality of living conditions and social standards
- Oil revenues as the main source of national prosperity
- Government's central focus on the distribution of oil revenues to address social needs



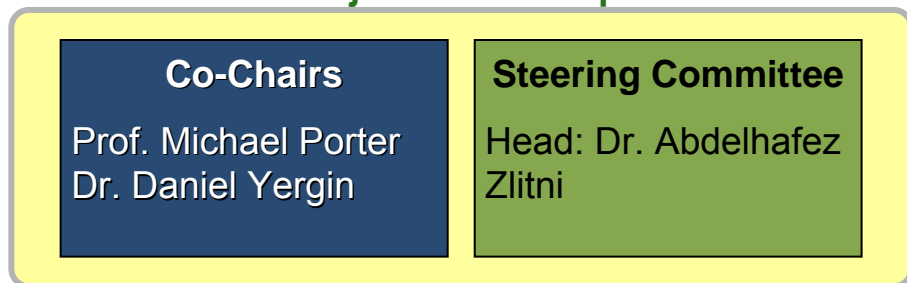
Libya's Emerging Future

- Increasing integration with the outside world
- Greater opportunities for individual achievement and involvement in the productive sector
- Oil revenues supplemented by wealth created in other parts of the economy
- Government increasingly working with the private sector to enable the creation of wealth in competitive markets

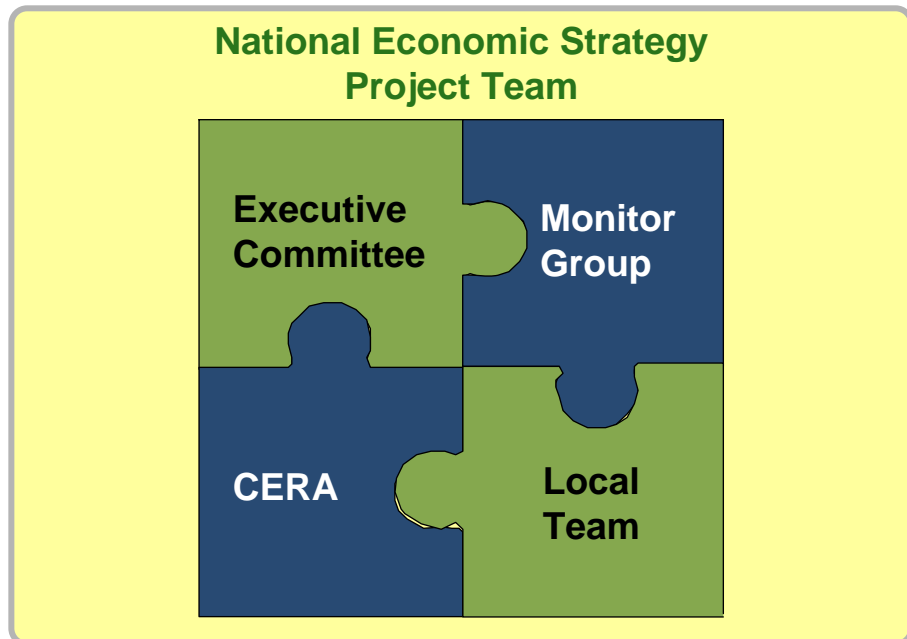
National Economic Strategy Project: A Collaboration of Libyans and Foreign Experts



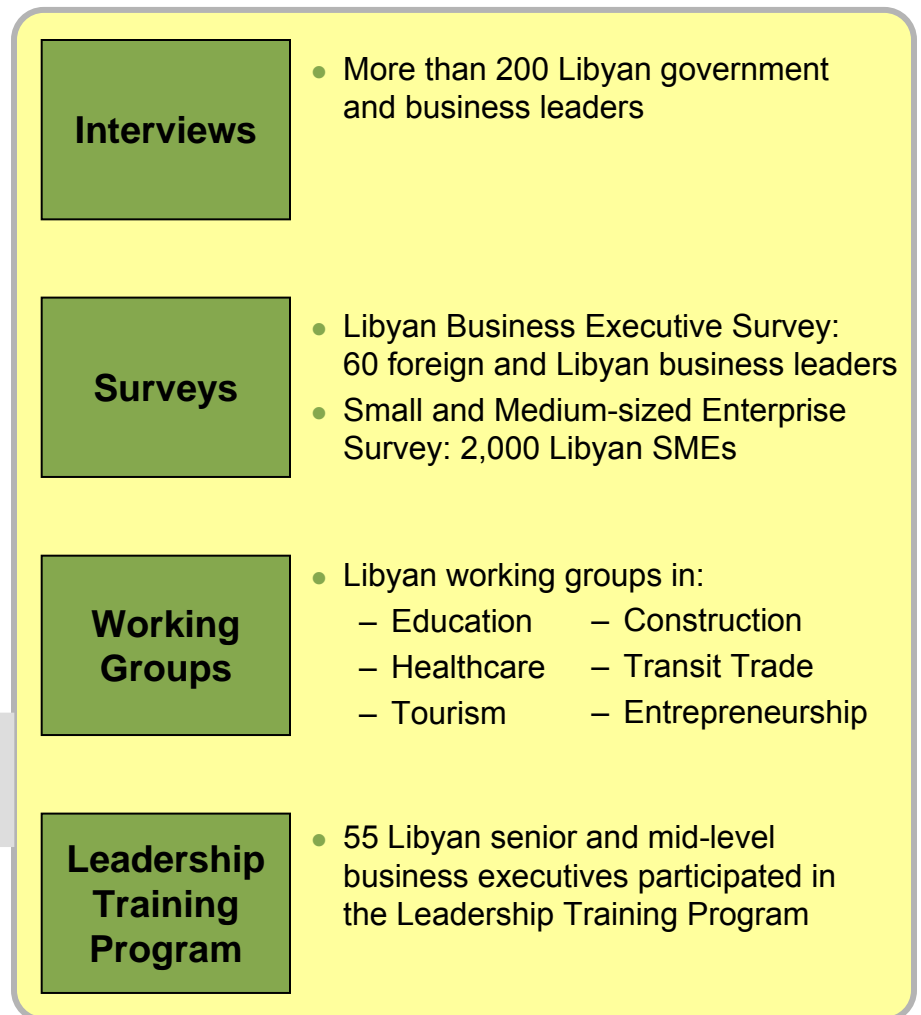
National Economic Strategy Project Leadership



National Economic Strategy Project Team



Involvement of Libyan Experts





- **Competitiveness in the Modern Global Economy**
- Libya's Competitive Position in 2006
- Long-term Vision: Libya in 2019
- Action Agenda for Libya



What Is Competitiveness?

- Competitiveness is determined by the **productivity** (value per unit of input) with which a nation or a region utilizes its human, capital and natural resources. Productivity determines a nation or region's standard of living (wages, return on capital, returns on natural resources)
 - Productivity depends both on the **value** of products and services (e.g. quality, uniqueness) as well as the **efficiency** with which they are produced
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how** firms compete in those industries
 - Productivity in a nation or region is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is **secondary** for national prosperity
 - The productivity of '**local**' industries is fundamental to competitiveness, not just that of traded industries
 - Devaluation and revaluation do **not** make a country more or less 'competitive'



- Nations and regions compete in offering the **most productive environment** for business
- The public and private sectors should play **different but interrelated roles** in creating a productive economy



Inherited Prosperity

- Prosperity is derived from selling **inherited** natural resources or real estate
- Prosperity is constrained by the amount of resources available, and is ultimately **limited**
- Focus gravitates towards the **distribution of wealth** as interest groups seek a bigger share of the pie



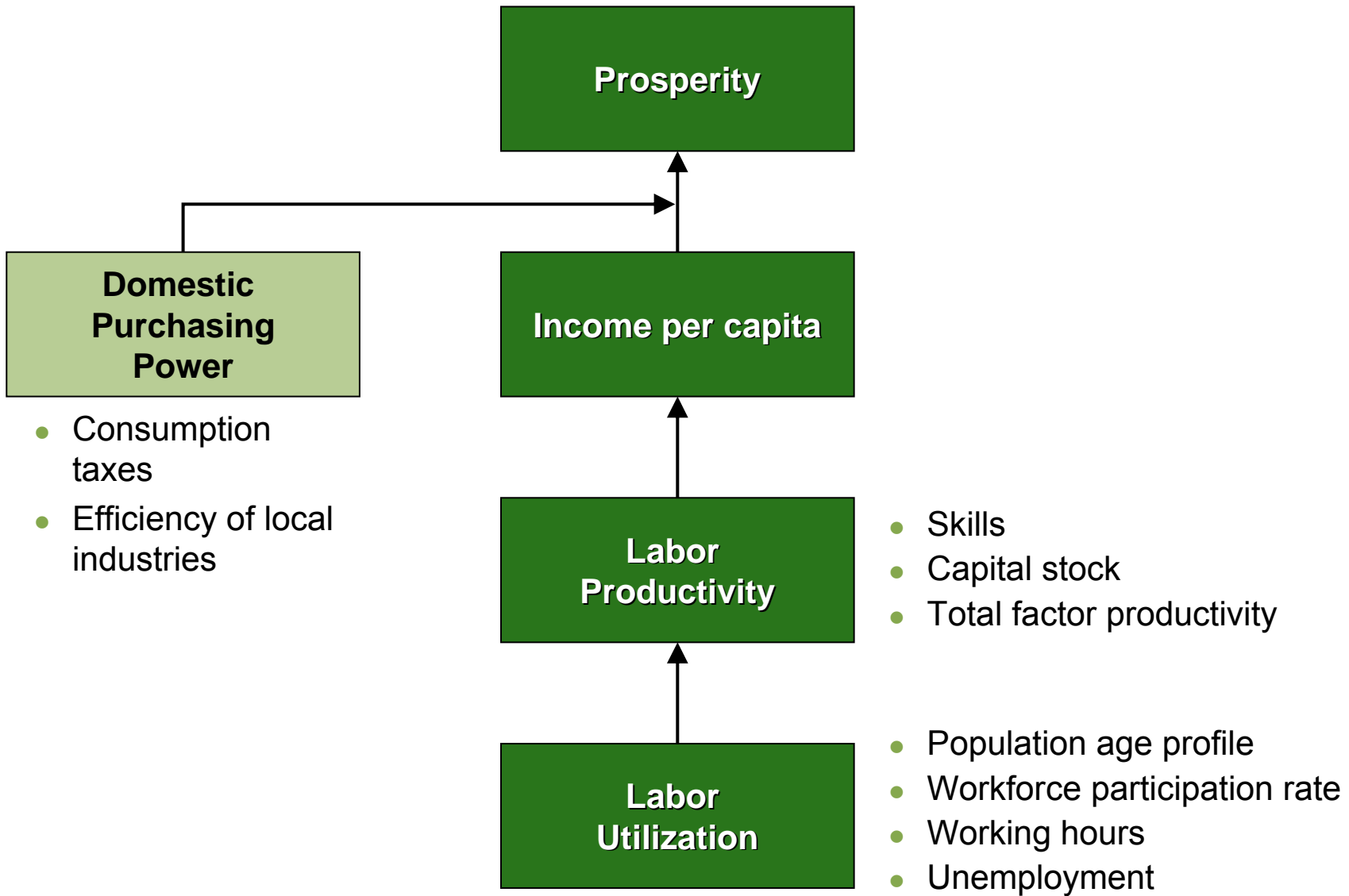
- **Government** is the central actor in the economy as the owner and distributor of most wealth
- Resource revenues allow **unproductive policies and practices to persist**
- Resource revenues support **distortive subsidies** which work against efficiency in the economy

Created Prosperity

- Prosperity is derived from **creating valuable products and services**
- Prosperity can only be created by **firms**
- Prosperity is **unlimited**, restricted only by the innovativeness and productivity of companies and subsidiaries operating in the economy
- Creating the **conditions** for productivity and innovation is the central policy challenge



- **Companies** are the central actors in the economy
- **Government's** role is to create the enabling conditions to foster private sector development





Macroeconomic, Political, Legal and Social Context

Microeconomic Capacity

The Sophistication
of Company
Operations and
Strategy



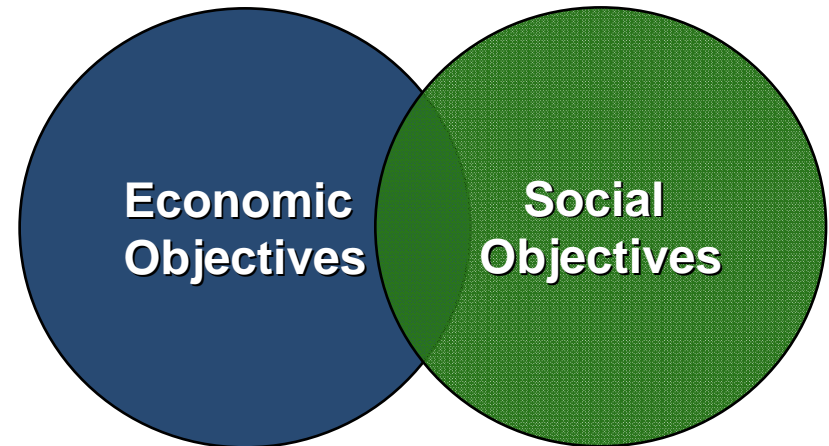
The Quality of the
Microeconomic
Business
Environment

- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Only **firms**, not government, can create wealth



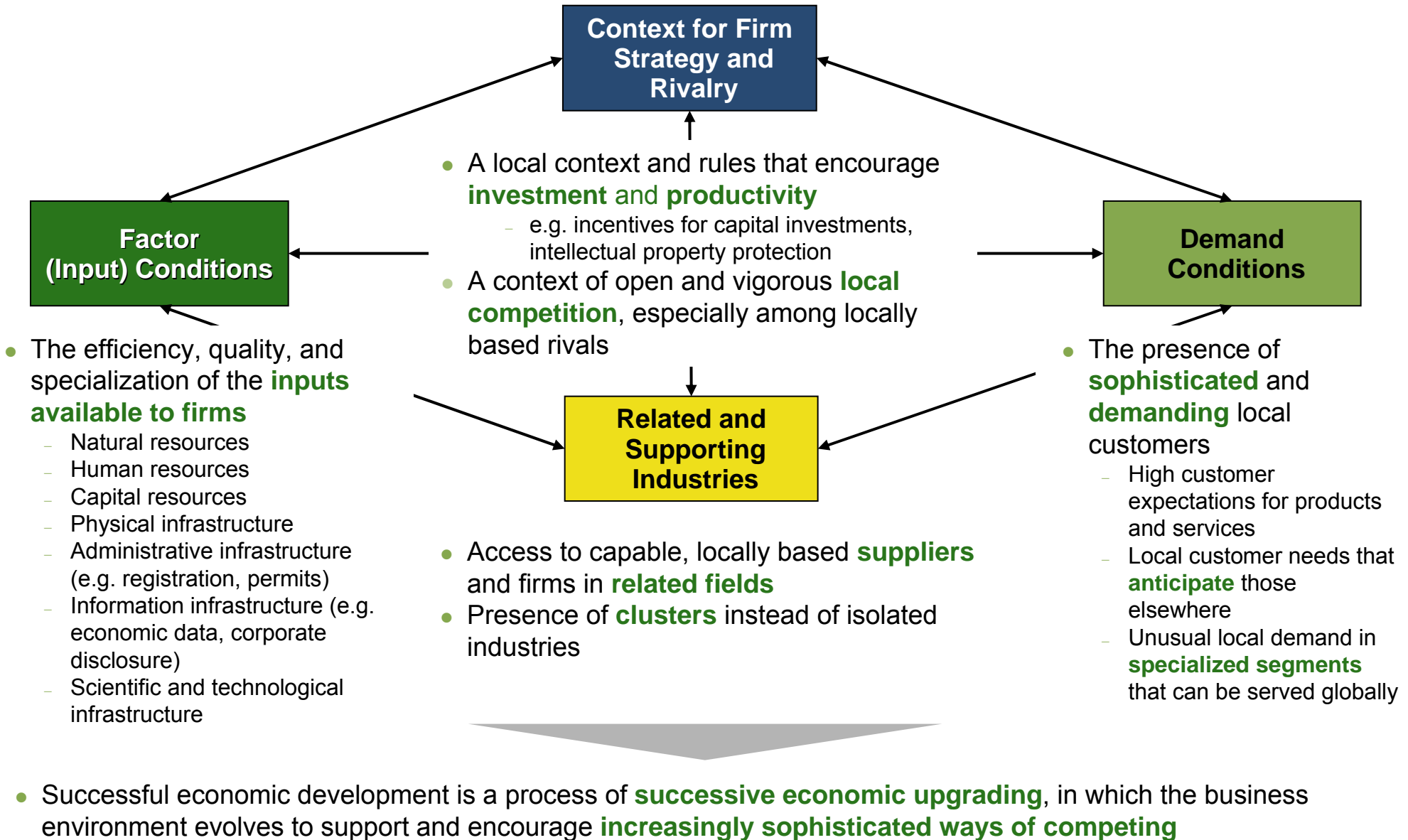
Social Policies and Competitiveness are Inter-related

- There is an **inevitable link** between the needs of businesses and the needs of society
- The **competitiveness of Libyan companies** depends heavily on such things as
 - Improving education and skill levels
 - A trusted rule of law
 - Safe working conditions
 - A healthy population
 - A sense of equal opportunity
 - Protecting the natural environment
- The **health of the Libyan society** depends on such things as
 - A sustainable source of wealth
 - Competitive companies that can create wealth
 - Participation in the economy that is open to all citizens
 - Productive workers



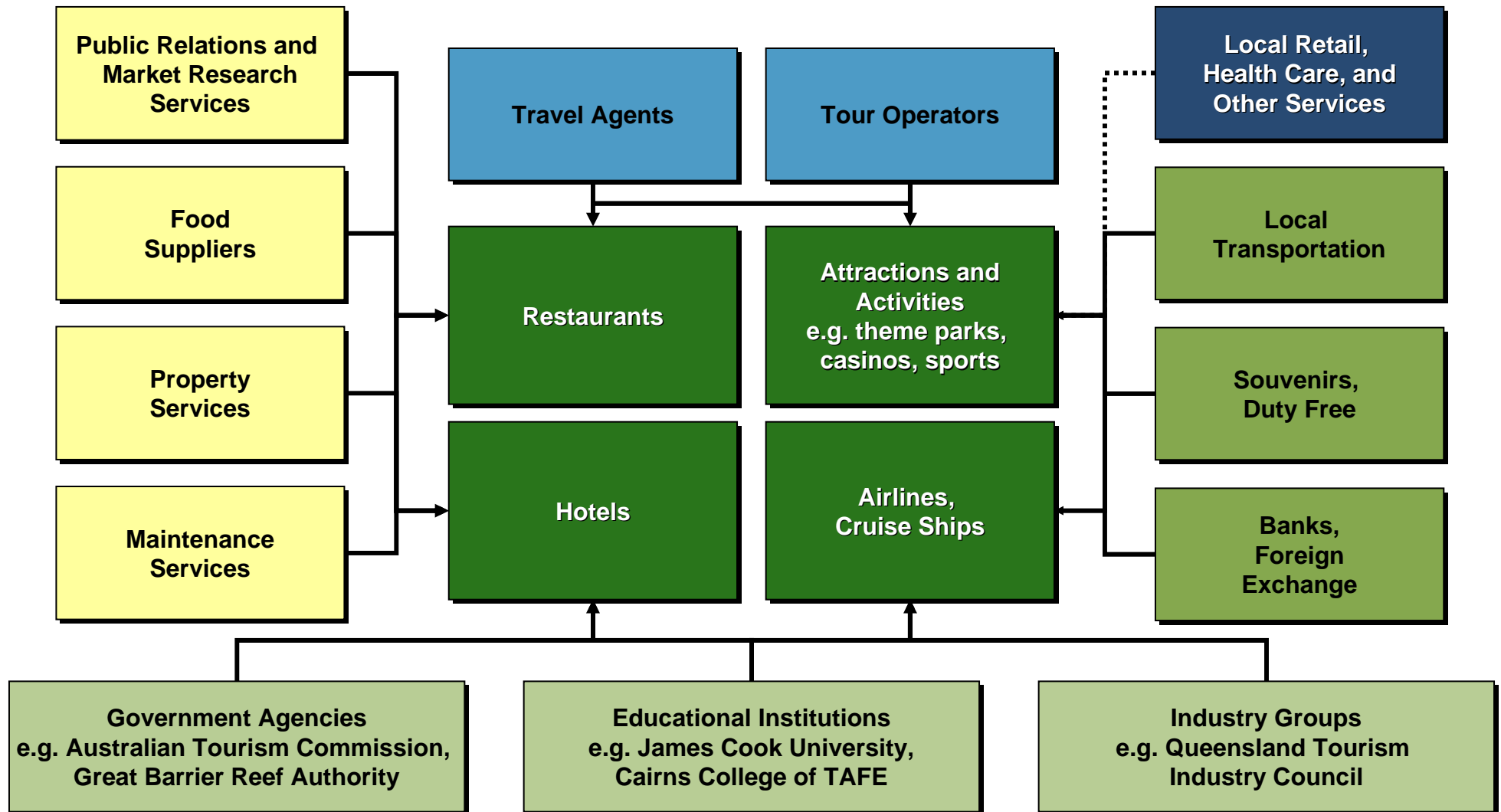
There is a long-term synergy between economic and social objectives, not conflict

Competitiveness and the Business Environment



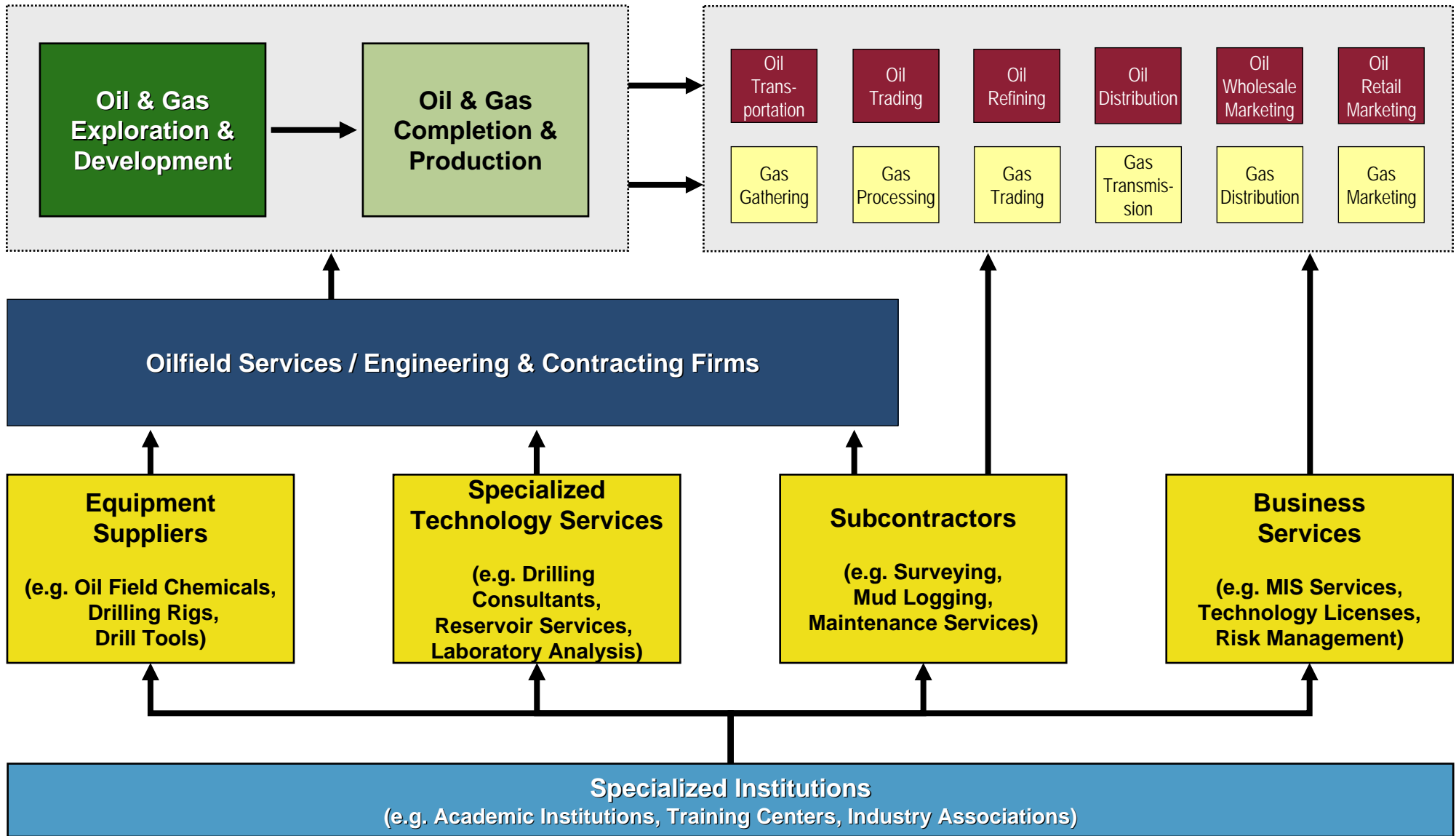
Competitiveness and Cluster Development

Cairns (Australia) Tourism Cluster



Competitiveness and Cluster Development

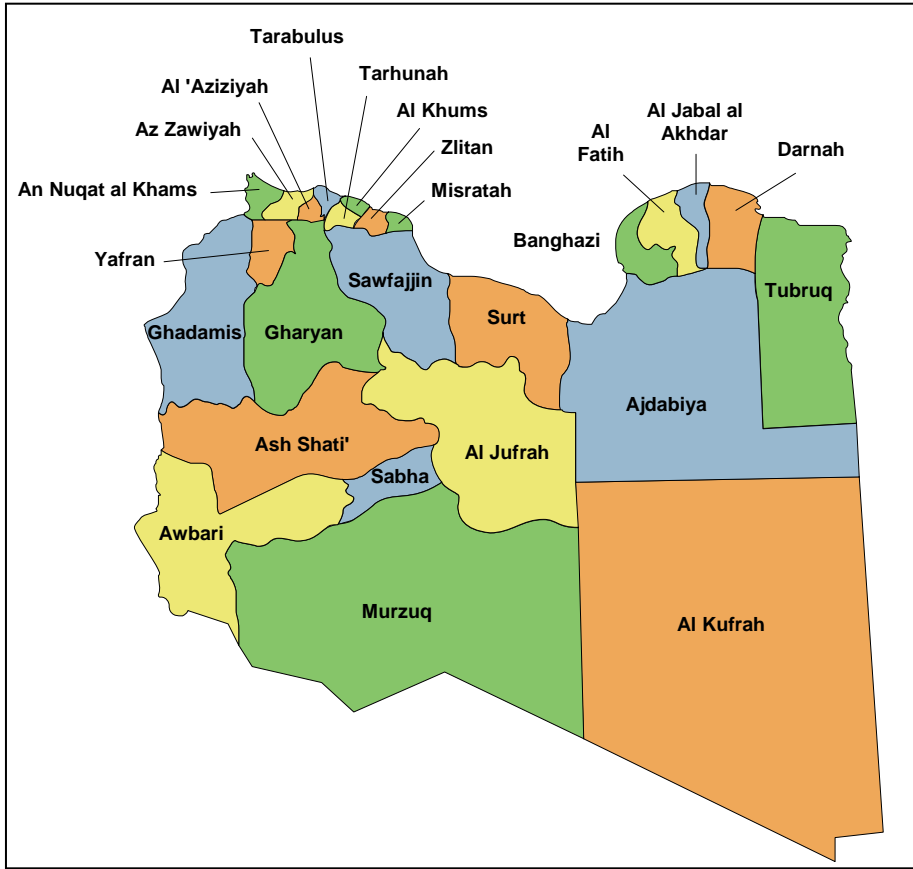
Houston Oil & Gas Cluster



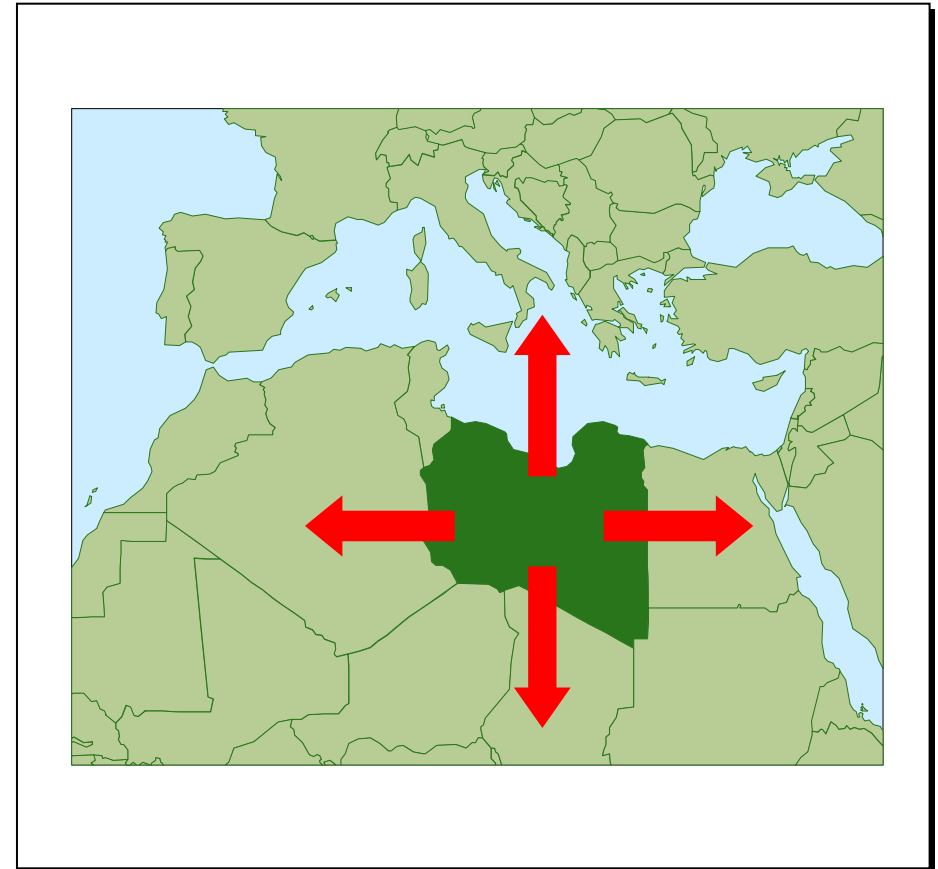
Competitiveness is Affected at Multiple Geographic Levels



Shabias in Libya



Libya's Neighboring Countries



- Competitiveness is important at all geographic levels and must be addressed at the national, state, city and rural levels
- Economic coordination among neighboring countries can improve competitiveness



Traditional Approach

- **Government** drives economic development through policy decisions and incentives



Modern Approach

- Economic development is a **collaborative process** involving government at multiple levels, companies, universities, and institutions for collaboration

- Competitiveness must become a **bottom-up process** in which many individuals, companies and institutions take responsibility
- **Every** community and cluster can take steps to enhance competitiveness



- A **successful economic transition** will require **integration** of the principles of economic competitiveness and Libya's values
 - The Competitiveness framework and *The Green Book* **share essential principles:**
 - Libya's popular democracy system supports the **bottom-up** approach critical to building competitiveness
 - The commitment to ensure all Libyans control their own economic needs—e.g. housing, health-care—is consistent with policy to provide a **social safety net** in building a more competitive economy
 - Building competitiveness is based on **productive** enterprises and is neutral with regard to state or private ownership
- ↓
- The Competitiveness framework enables a country to define its own **unique economic model**



- Competitiveness in the Modern Global Economy

- **Libya's Competitive Position in 2006**

- Long-term Vision: Libya in 2019
- Action Agenda for Libya



1 Economic Performance

2 Economic Composition

3 Factors Driving Competitiveness
– Overall Context
– Microeconomic Capacity

**Competitiveness
Assessment**

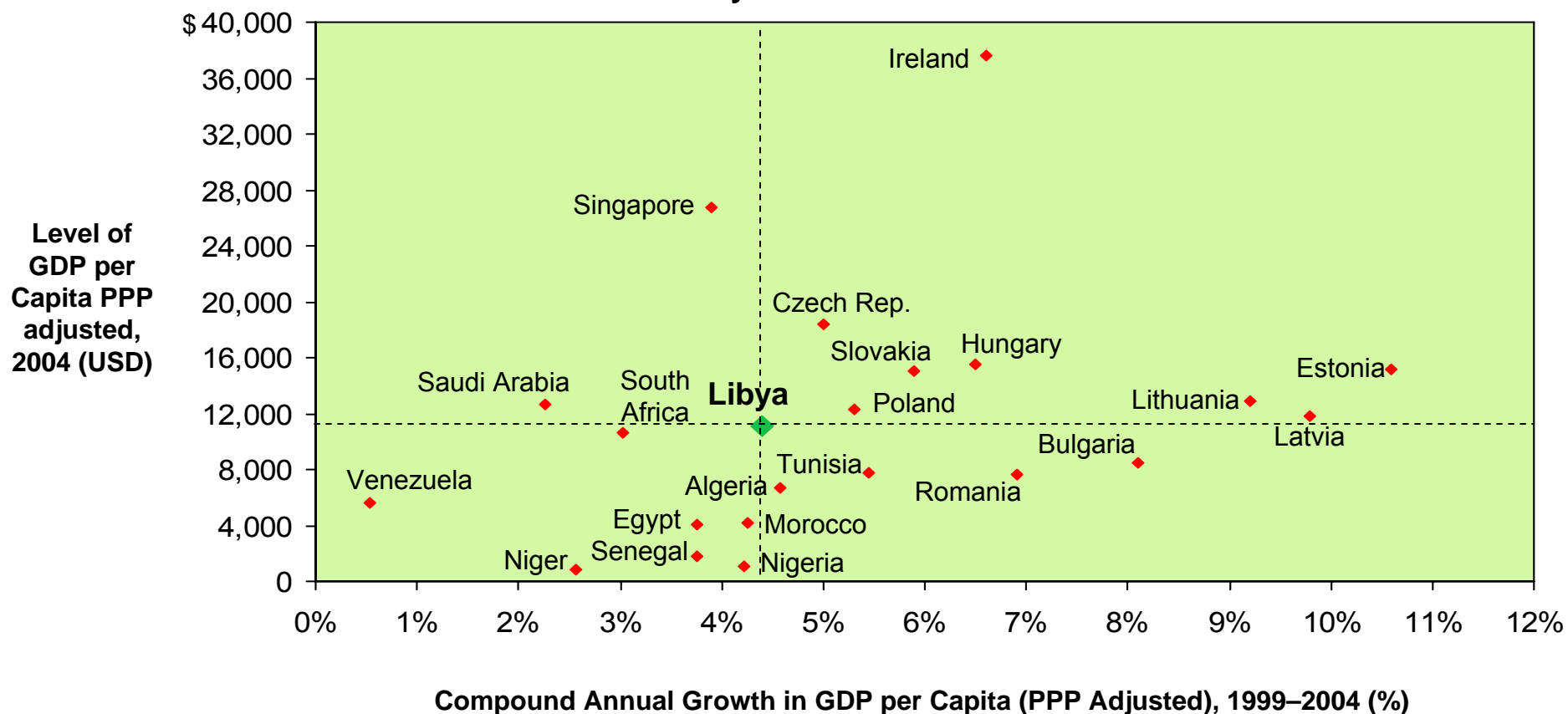
- Each country or region needs to assess its competitiveness along all three dimensions in order to develop a competitiveness agenda that meets its unique needs
- The competitiveness assessment needs to build on facts and neutral data sources to move beyond high level ideological discussions

Comparative Economic Performance

Prosperity Level and Growth



GDP per capita PPP Adjusted – Level and Growth, Libya & Selected Countries

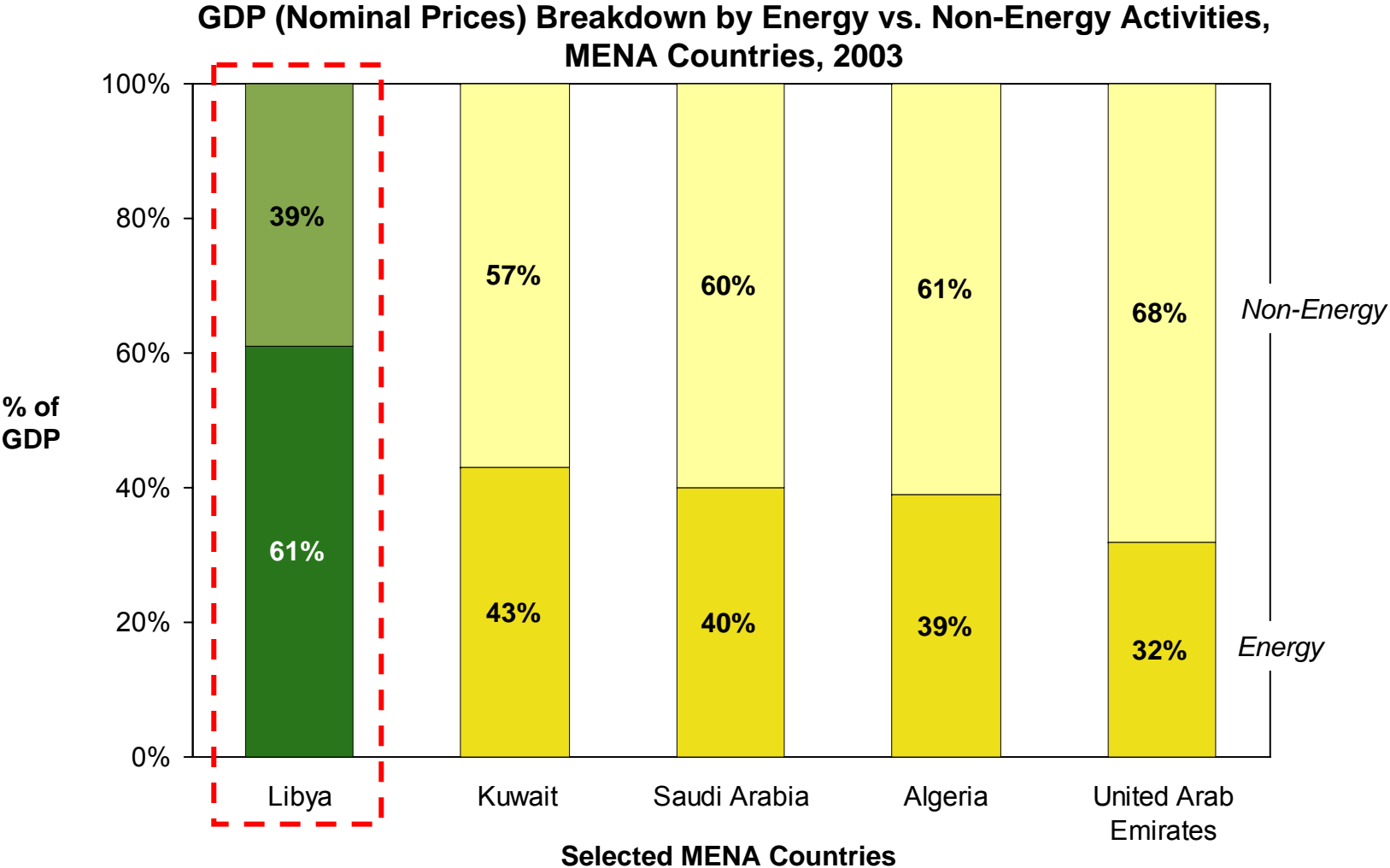


Note: Though Libya's nominal GDP in USD has shrunk between 2000–2005 due to a significant devaluation of Libyan Dinar, its PPP adjusted GDP has grown during this period. Negative growth of Non-oil GDP due to devaluation of Libyan Dinar at the beginning of 2002

Source: IMF, World Bank, Monitor Analysis

Comparative Economic Performance

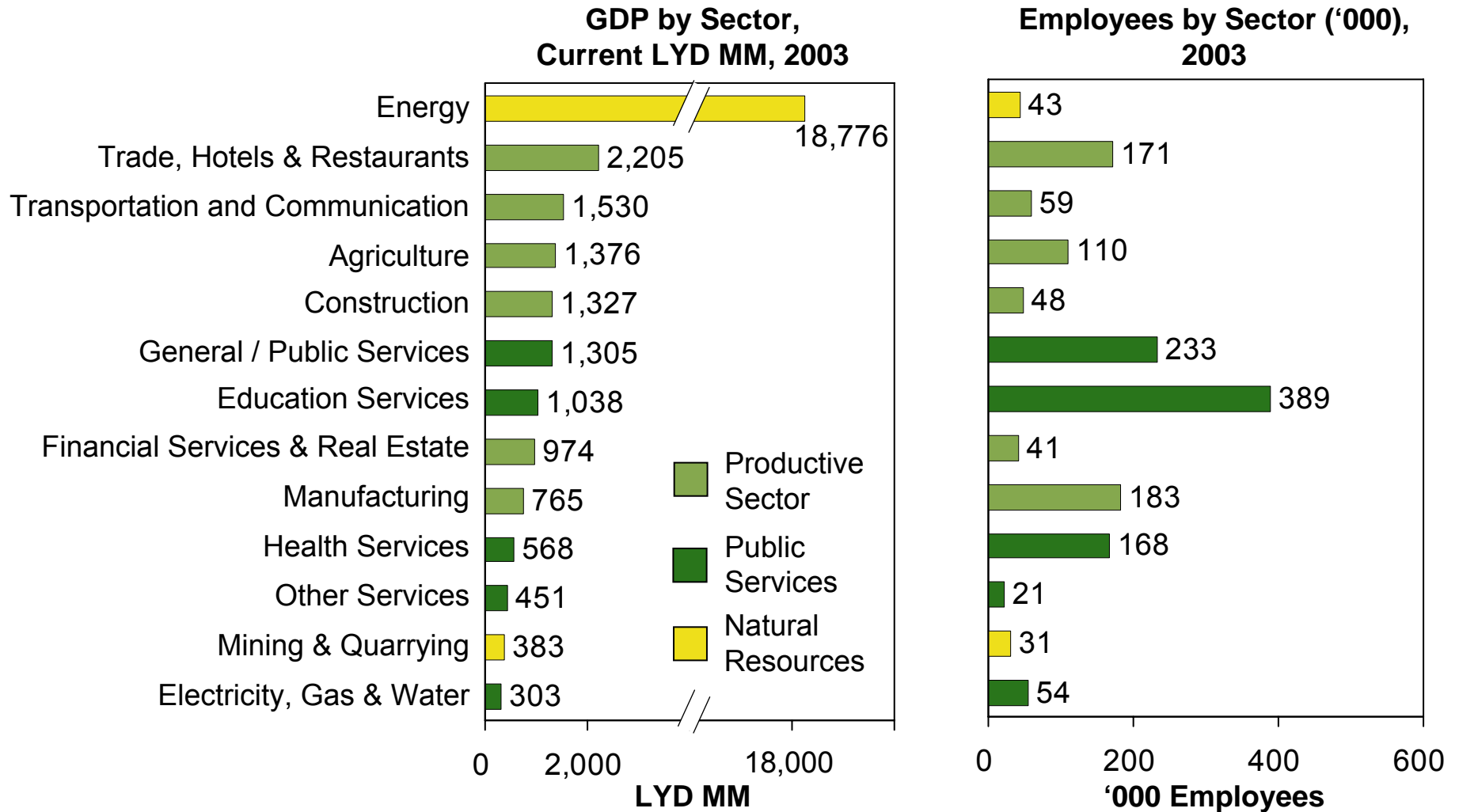
Sources of Prosperity



Note: 1. Kuwait data is for 2002, 2. UAE data is consolidated for all the 7 Emirates, and the GDP distribution is skewed by Abu Dhabi, the largest of the 7 Emirates
 Source: IMF, Saudi Arabia Central Department of Statistics

Economic Composition

Libyan Output and Employment by Sector

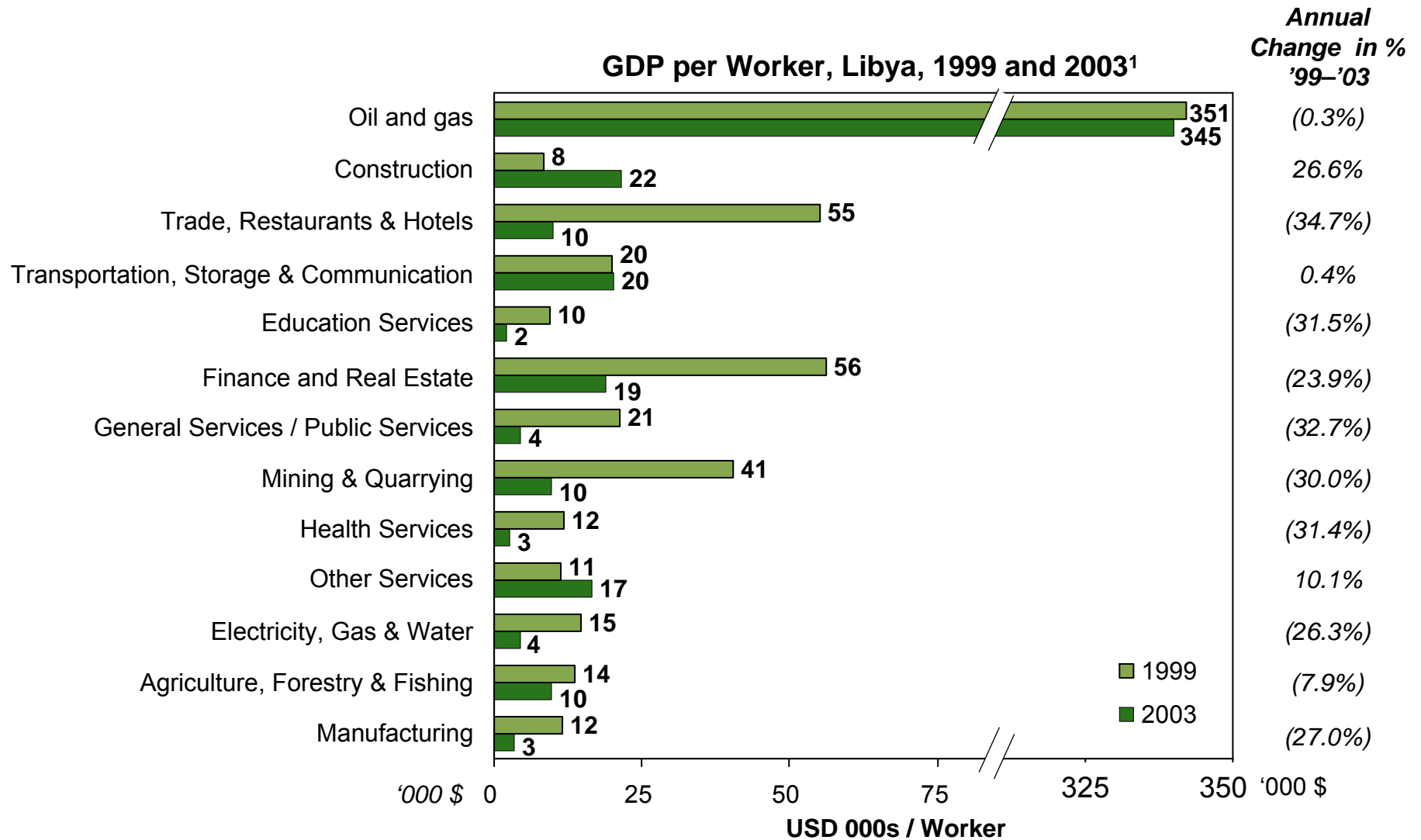


“The size of the informal economy is estimated to be as much as 30%–40% of official GDP”

Note: ¹ 2003 employment data are interpolations. ² Energy GDP change is computed net of exchange rate fluctuations and of the 2002 devaluation of the Libyan Dinar
 Source: IMF; Central Bank of Libya; Monitor analysis

Economic Composition

Level and Change in Output Per Worker by Sector



¹ Energy GDP in 1999 is adjusted to eliminate exchange rate devaluation and oil prices between 1999 and 2003

² GDP at current prices; Libyan Dinar was devaluated by 65% between 1999 and 2003

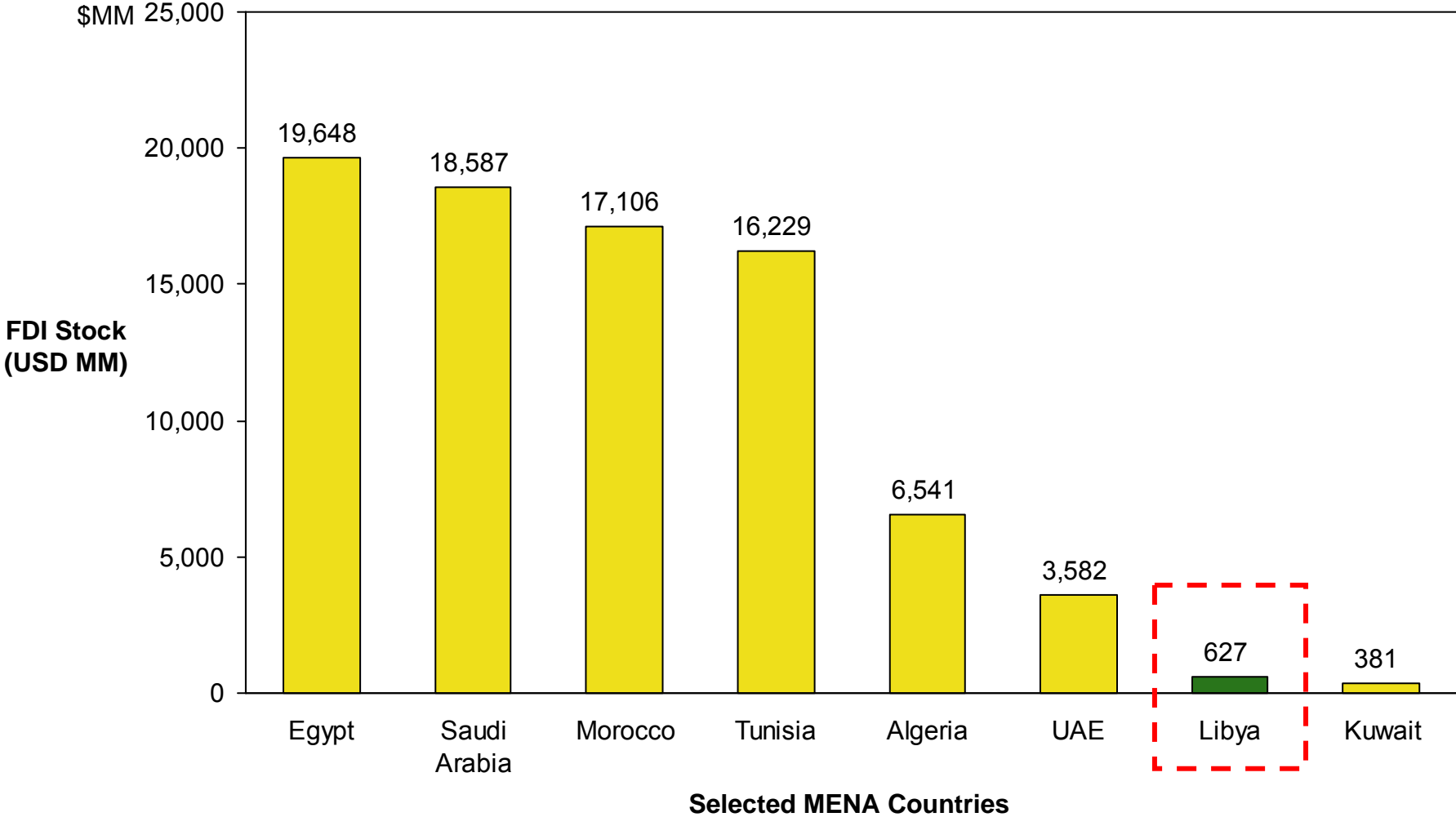
Source: IMF, Central Bank of Libya

Comparative Economic Performance

Foreign Direct Investment (FDI) Stocks in Selected MENA Countries



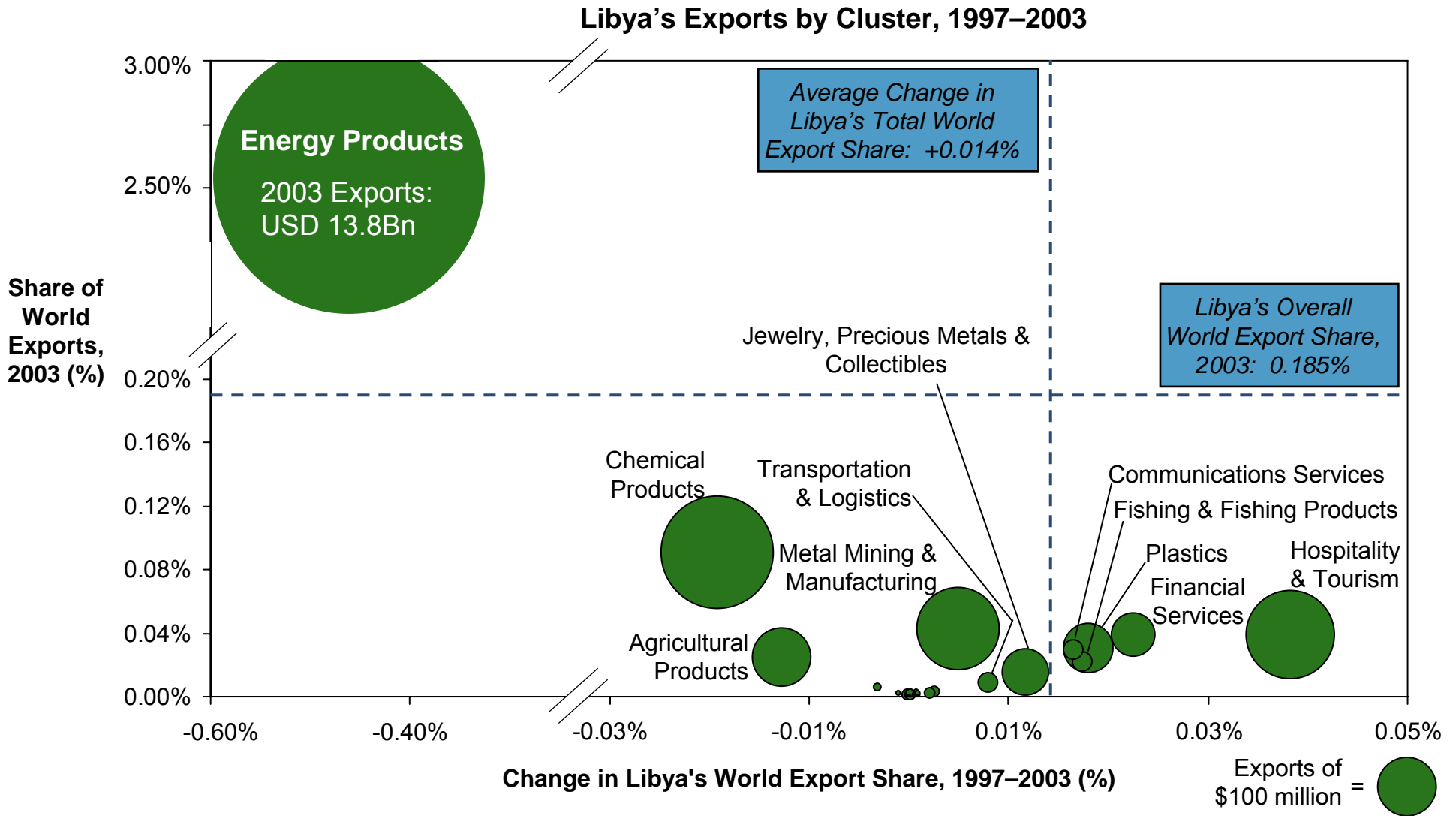
FDI Stocks, 2004



Source: UNCTAD, World Investment Report 2005
An Assessment of Libya's Competitiveness

Economic Performance

Libya's Exports by Cluster, 1997–2003



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project; UN Comtrade, IMF
An Assessment of Libya's Competitiveness

Libya's Economic Performance Reveals Important Underlying Weaknesses



Prosperity

- While Libya is the wealthiest country in North Africa, with a high availability of natural resources and a relatively equitable distribution of wealth among its people, the **living standards** of Libyans **fall short** of its GDP per capita

Labor Productivity

- There is **low labor productivity**, including in public services

Market Position

- Libya's export position is **highly dependent on the energy sector** and overall exports are stagnating
- **Foreign direct investment is limited** and only a fraction of approved projects are realized

Composition of the Economy

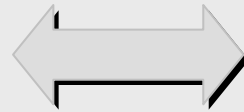
- Value creation in the economy is **dominated by the oil and gas sector**, which generates a level of prosperity, which cannot be sustained by Libya's overall business competitiveness



Macroeconomic, Political, Legal, and Social Context

Microeconomic Capacity

**The Sophistication
of Company
Operations and
Strategy**



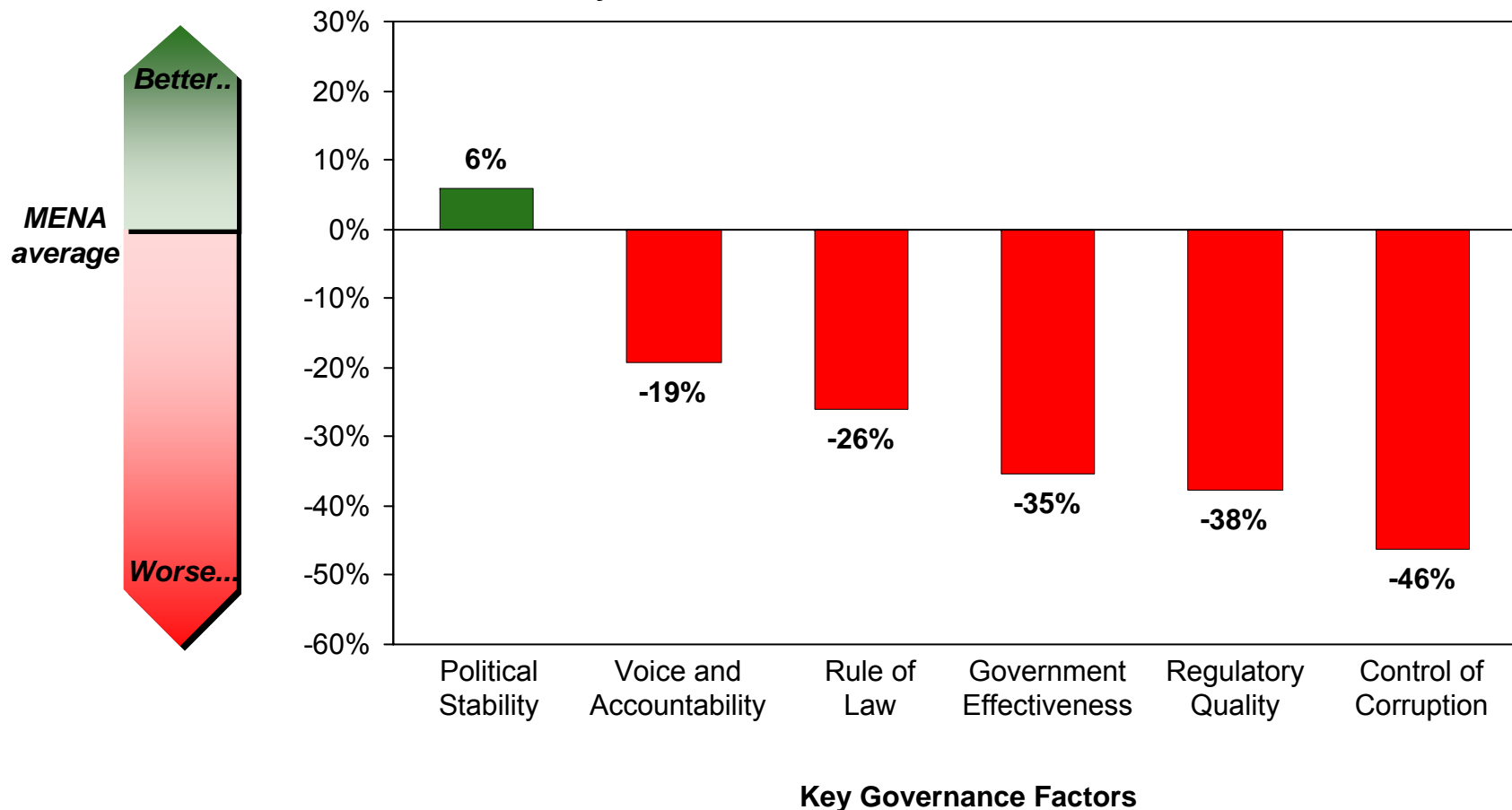
**The Quality of the
Microeconomic
Business
Environment**

Quality of Macroeconomic, Political, Legal and Social Context

Key Governance Factors



Libya's Position Relative to MENA Countries¹, 2004



Note: ¹Includes Algeria, Egypt, Kuwait, Morocco, Saudi Arabia, Tunisia, United Arab Emirates

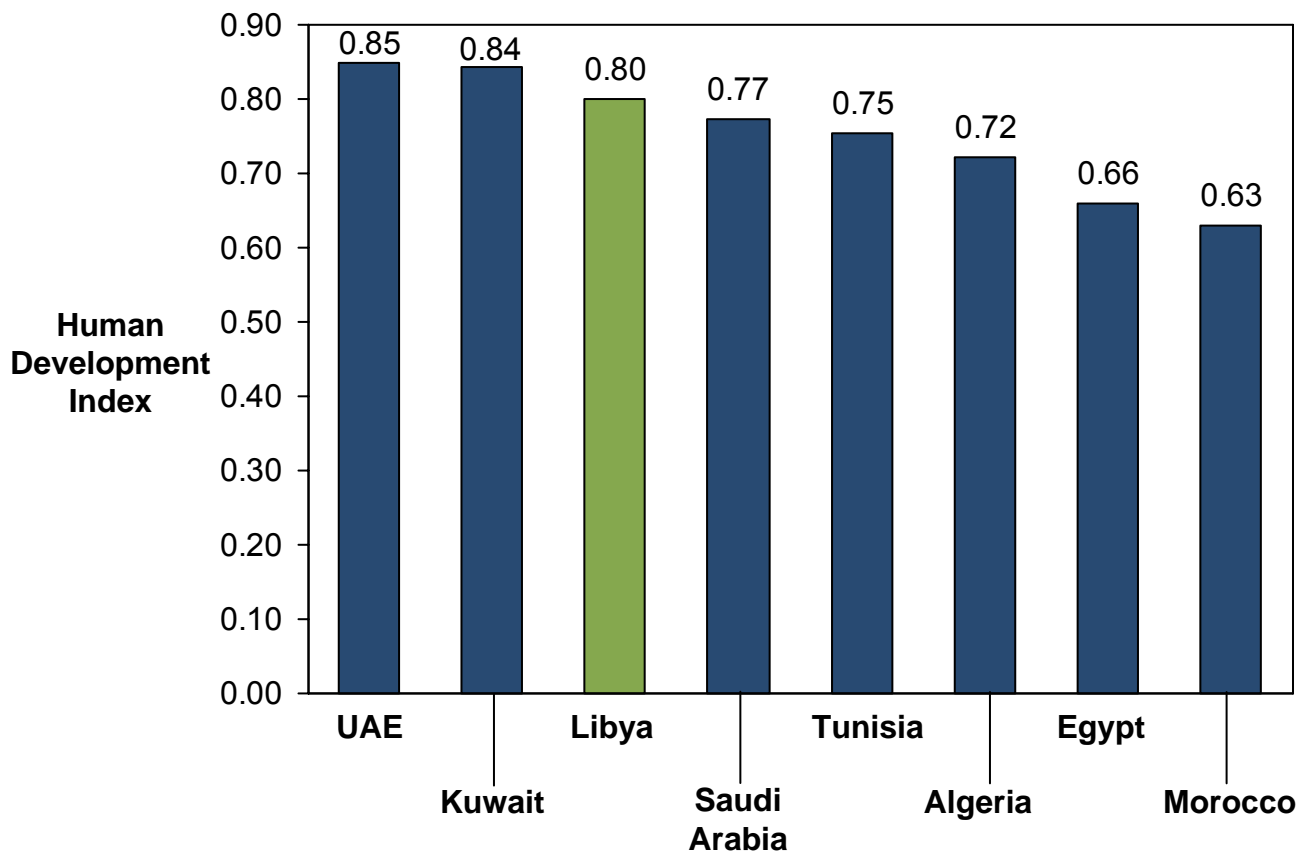
Source: "Governance Matters IV: Governance Indicators for 1996–2004" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 2005

Quality of Macroeconomic, Political, Legal and Social Context

Libya's Position in the United Nations Human Development Report



**Human Development Index
of Selected MENA Countries, 2003**



Human Development Index

The Human Development Index is a composite score, taking into account:

- Life expectancy at birth
- Adult Literary rate (ages 15 and above)
- Combined gross enrollment for primary, secondary and tertiary schools
- GDP per capita (PPP adjusted)

Despite its good performance on basic development indicators compared to other countries in the region, Libya has significant challenges in the efficiency of its social sectors, especially healthcare

Quality of Macroeconomic, Political, Legal and Social Context

Assessment of Libya's Direct Democracy



- Libya has the **only functioning example of direct democracy** on a national level
 - Basic People's Congresses (BPCs) provide a meaningful forum for Libyan citizens to participate directly in law-making
- ↓
- The system requires up-grading to **remove inefficiencies and strengthen participation**
 - **Lack of information.** Agenda and draft laws are not disseminated prior to BPC meetings
 - **Low attendance.** Of the 5,000-10,000 members of each of the 468 BPCs, typically less than 20% of members attend meetings and only a fraction speak
 - **Lack of training.** Those running BPCs have no required skill set and no facilitation training
 - **Need for consistent rules and procedures.** BPCs handle local, regional and national issues but have no guidebook to maximise participation and the airing of diverse viewpoints
 - **Need for greater transparency and accountability.** Currently there are no mechanisms to track individual BPC decisions once they move to Shabia and national level
- ↓

System upgrading will create efficient, transparent and stable political structures to support realization of the National Economic Strategy

Assessment of Libya's Competitive Position

Microeconomic Conditions of Competitiveness



Macroeconomic, Political, Legal, and Social Context

Microeconomic Capacity

The Sophistication
of Company
Operations and
Strategy

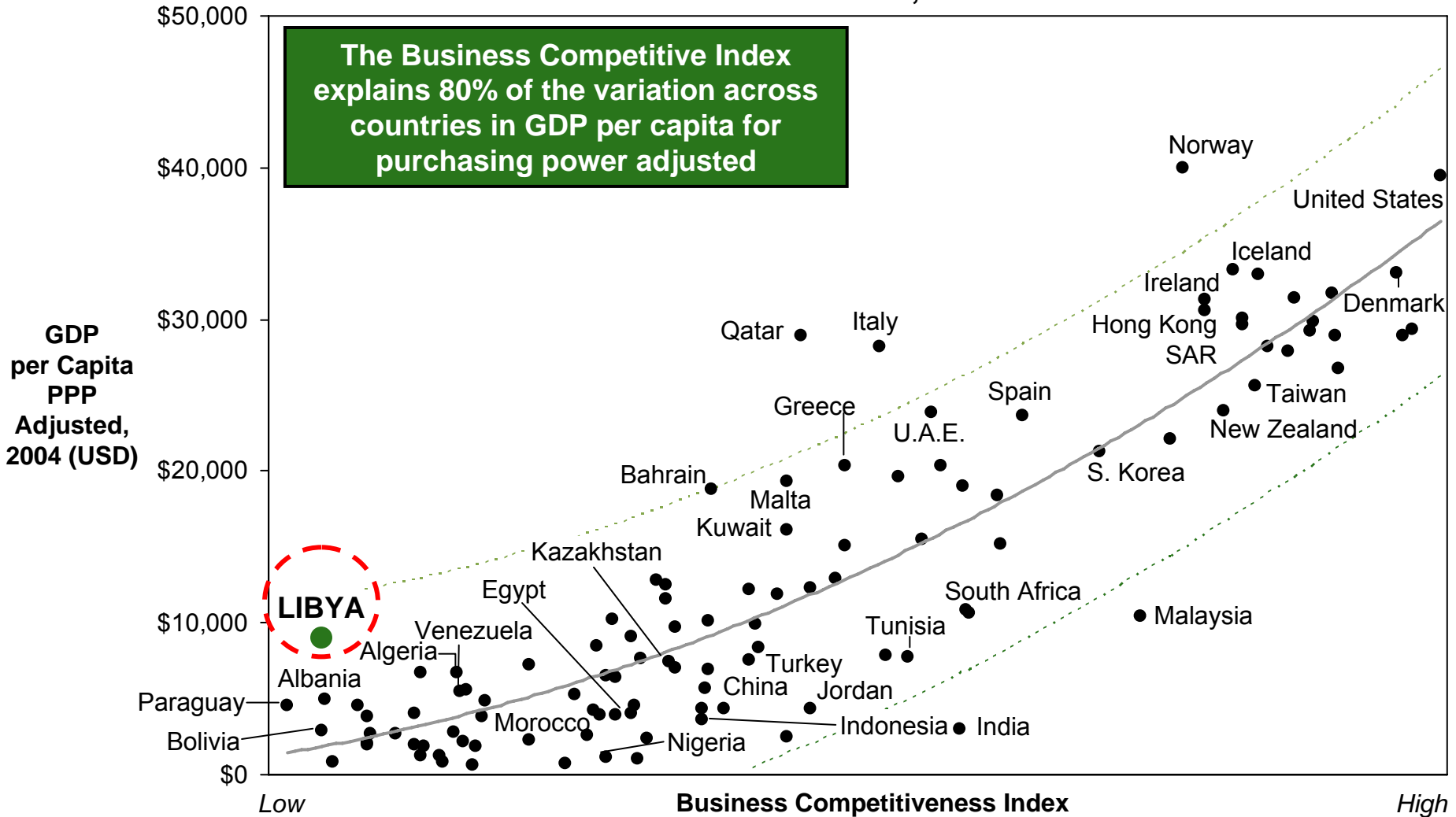


The Quality of the
Microeconomic
Business
Environment

Prosperity and Business Competitiveness Comparative Analysis across Countries



GDP per Capita (PPP Adjusted) and Business Competitiveness Index, Libya and Selected Countries, 2004



Note: All calculations relative to average of all 111 countries (including Libya) in the sample
 Source: Institute for Strategy and Competitiveness, November 2005; Libya Business Executive Survey 2005

Assessment of Libya's Competitiveness

Sophistication of Company Operations



- Government dominance in production and distribution
 - Lack of a meaningful private sector
- Isolation from the international community



Both public and private sector companies are relatively less sophisticated than regional and global peers

- Lack of sophistication in production processes
- Insufficient employee training
- Low company spending on R&D
- Lack of access to international markets
- Limited customer orientation and marketing

A few sophisticated companies do exist—both in the energy sector (e.g. NOC) and among the new private companies (e.g. Al Buraq and Corinthia Hotel)—that are investing in improving quality and efficiency

Assessment of Libya's Competitiveness

Perceived Strengths of the Libyan Business Environment



- Libya is richly endowed with **natural resources** such as oil and gas
- Libya is in a **strong financial position** due to foreign currency earnings driven by high oil prices
- Libya is in a geographically **attractive location** linking Europe and Northern Africa
- Libya has traditionally had a **well-educated** population



***Libya has some advantages on which to build competitiveness.
However, a preliminary assessment shows that Libya is not making the most of them***

Competitiveness of the Libyan Oil and Gas Cluster



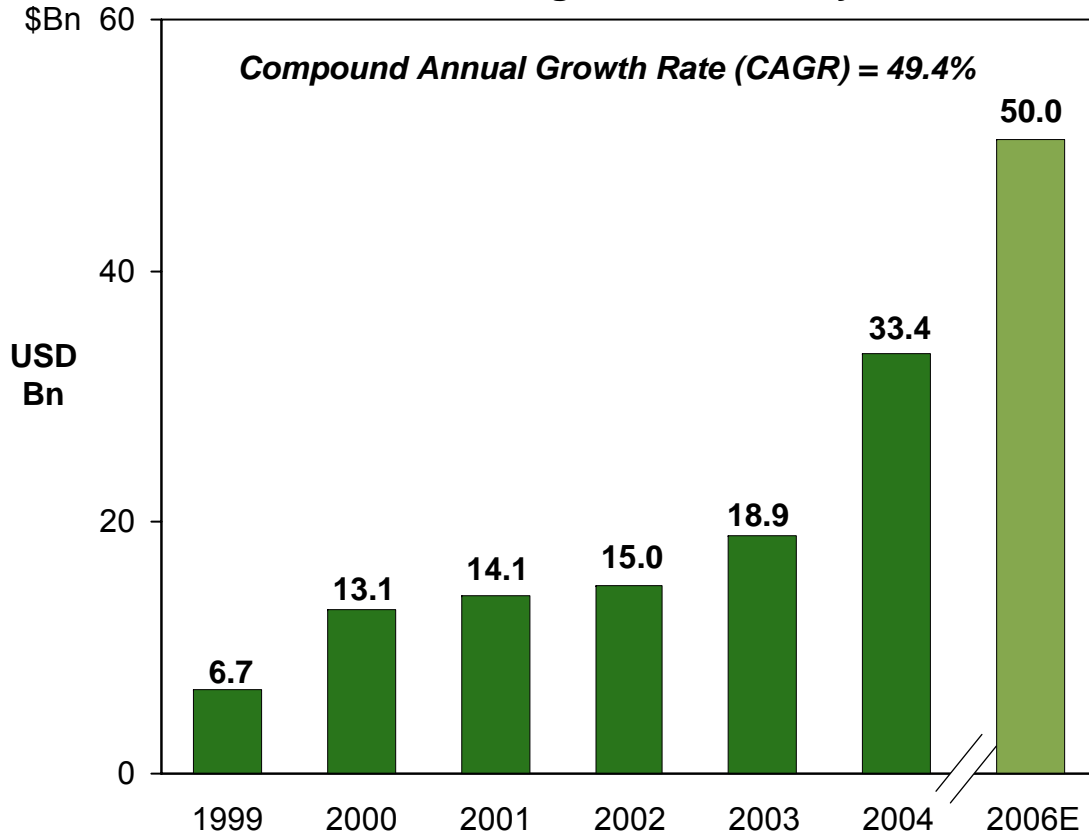
- There is potential to increase oil production to 3mbd, and increase gas production to meet domestic needs and double exports
 - Benefit of some \$9 Bn per year
 - Requires increased funding of NOC to almost \$3.5 Bn a year, focused on existing fields and discoveries
 - Also requires institutional and behavioral changes
- Refinery upgrades are needed to match product output with domestic demand
- There are opportunities for growth in petrochemicals by switching to Natural Gas Liquids feedstock
- Electricity generation capacity must increase and improve its effectiveness
 - Reduce losses in generation, transmission and especially in commercial
 - Substitute diesel fuel with gas
- Delivery mechanism for fuel price subsidies should be re-examined

Quality of the Libyan Business Environment

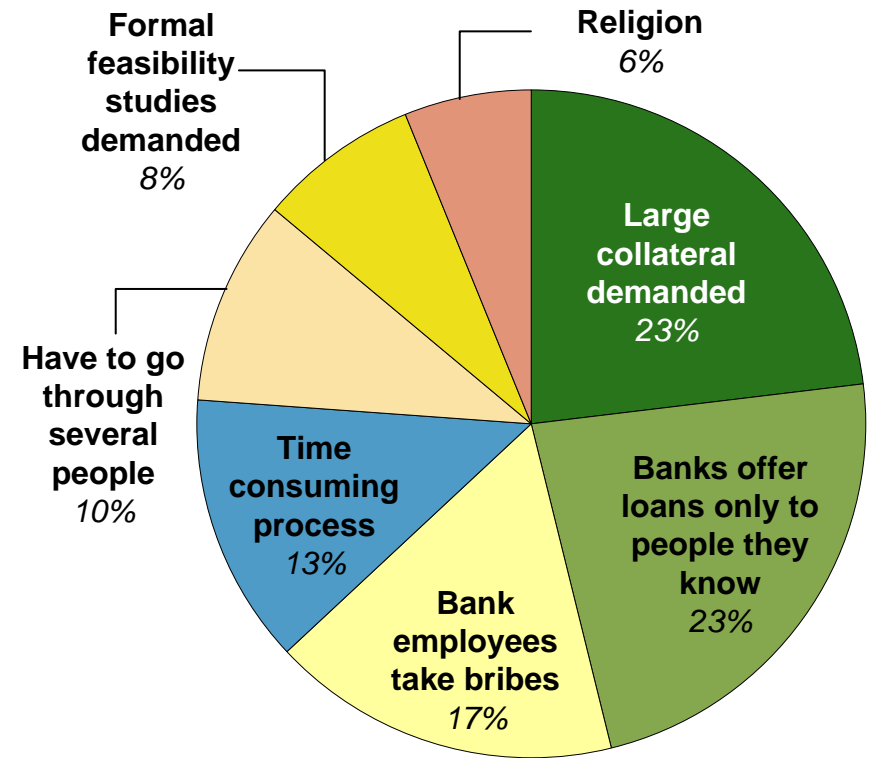
Availability and Accessibility of Capital in Libya



Accumulation of Foreign Assets in Libya, 1999-2006E



Main Difficulties Faced While Raising Capital from Government Banks



2/3rd of Libyan SMEs face difficulties in accessing loan financing from banks

Quality of the Libyan Business Environment

State of the Libyan Banking Sector



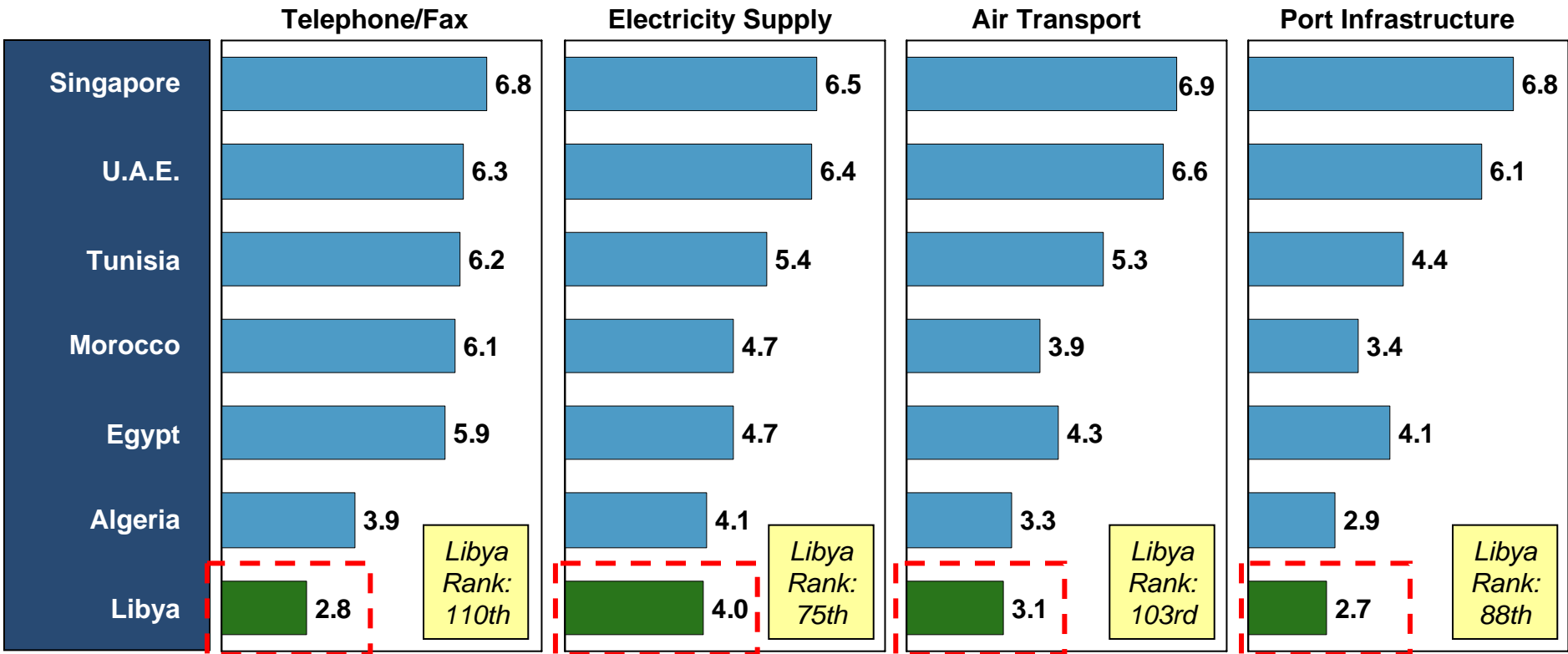
- The banking sector is the **backbone** of Libya's financial system
 - Equity markets do not exist
 - Debt market is small and immature
- The Libyan banking sector is **highly concentrated**
 - Over 85% of total banking assets are accounted for by six commercial banks
 - Of the six commercial banks, five are owned by the Central Bank
- **Intermediation** and **payments facilitation** are still primitive: the vast majority of payment transactions are still carried out in cash
- Libyan banks follow a **tight lending policy** despite substantial available liquidity
 - Substantial parts of funds are held in liquid assets—it is estimated that 40% of commercial banks' assets are held in cash or short term deposits
 - Substantial collaterals required due to lack of adequate risk management mechanisms—in some cases as much as 125% of the total loan amount
 - Bank managers are not incentivized to lend money, and run high personal risks in case of loan defaults
 - Energy sector has the easiest access to formal banking capital
- The government has **taken some steps to reform** the banking system. The adoption of the new Banking Law has been the most visible

Quality of the Libyan Business Environment

Comparison of Physical Infrastructure in MENA Countries



Physical Infrastructure Global Competitiveness Report (GCR)/ Libyan Business Executives Study (LBES) Scores, Libya & Peer Countries



The advantages of Libya's geographic location are eroded by the poor quality of physical infrastructure, which reduces connectivity, both within Libya and with the outside world

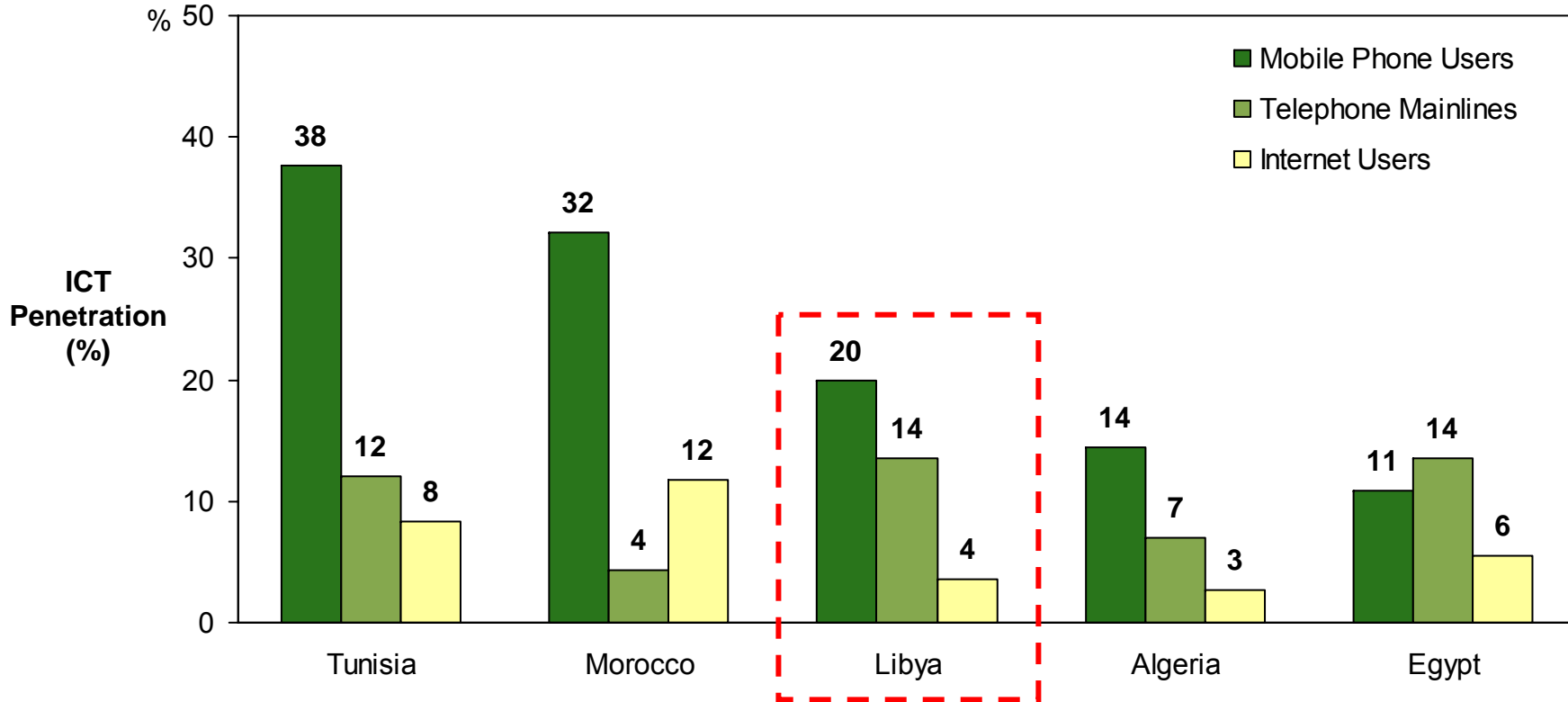
Note: Scores are on a scale of 1–7
 Source: Global Competitiveness Report 2005–2006; Libya Business Executive Survey September–October 2005
 An Assessment of Libya's Competitiveness

Quality of the Libyan Business Environment

Comparison of Libya's Telephone and Internet Penetration with Neighboring Countries



Information and Communication Technology (ICT) Penetration, Libya & Peer Countries, 2004¹



Network performance in both fixed and mobile telephony remains a major challenge for Libya, with consumers complaining of poor coverage and dropped calls at peak times

Note: ¹ Libya mobile penetration is based on a GPTC estimate for Q4 2005

Source: International Telecommunications Union, GPTC

Quality of the Libyan Business Environment

Availability of Human Resources



- Basic education in Libya is well developed
 - Literacy levels are among the highest in the MENA region

HOWEVER

- Current education does not provide a 'job-ready' work force. The education system is disconnected from the demands of the job market

“450 college students graduated yesterday and joined us. At the moment, it takes us 18 months to turn a graduate (in geology, petrochemical engineering, finance etc.) into a productive member of staff. That’s too much. NOC is, effectively, backward integrated into education – we need to be more connected to our educational needs as a country”

– Chairman, NOC

- Continuing education is almost non-existent
 - E.g. during isolation, Libyan doctors could not update themselves on developments in international healthcare on an ongoing basis
- Previous education policy decisions have negatively affected education in important areas for business such as IT and foreign languages

Quality of the Libyan Business Environment

Other Areas of Weakness



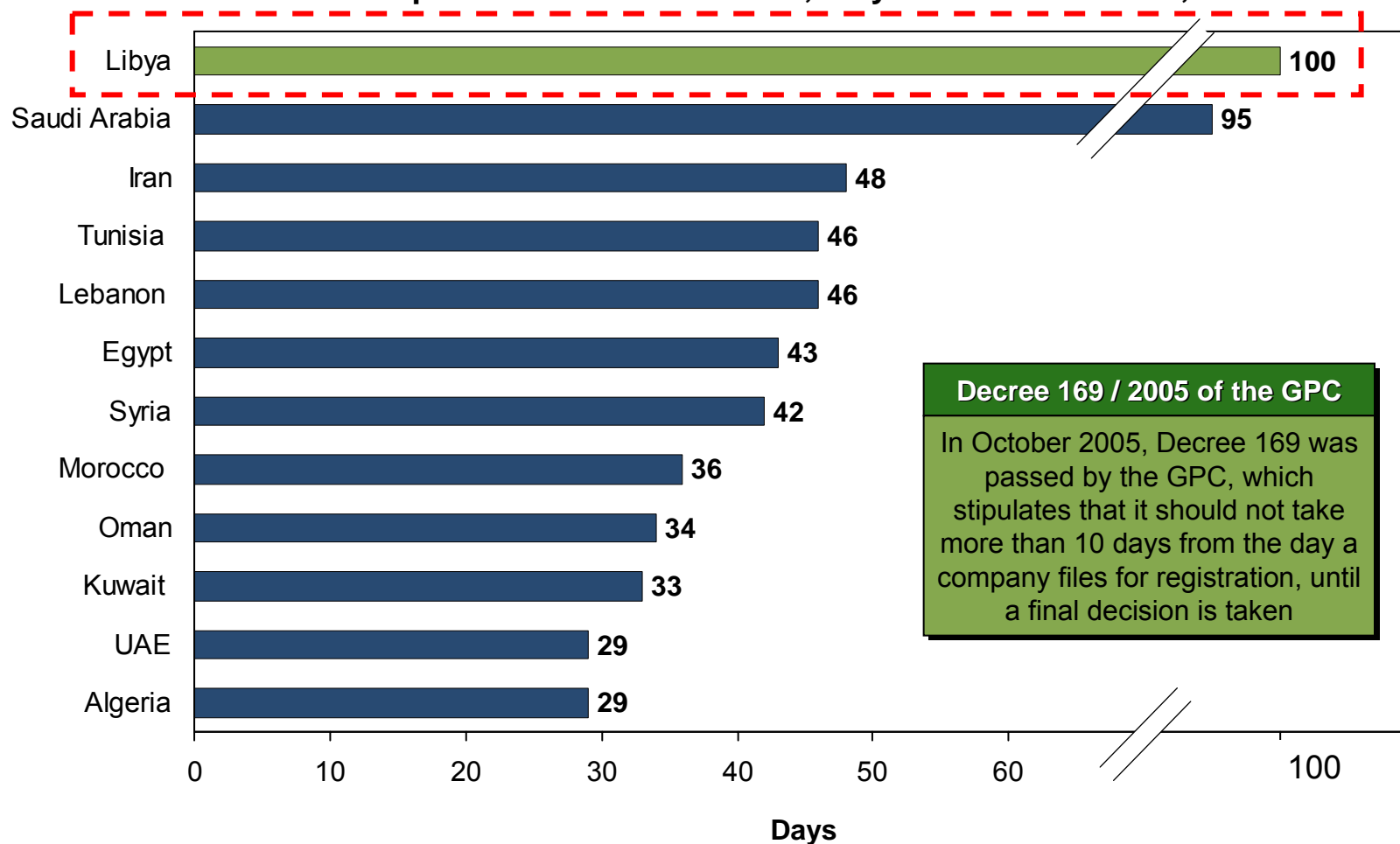
- **Inefficient government bureaucracy** creates obstacles for entrepreneurs to start and run businesses
- **Poor regulatory quality** – Frequent change of policies makes it difficult for business and individuals to adapt
- **Corruption** – Low income levels and lack of standards and accountability lead to an increased incidence of corruption
- There are significant **barriers facing foreign companies** in investing in Libya

Quality of the Libyan Business Environment

Time Required to Start a New Business



Time Required to Start a Business, Libya & Peer Countries, 2004¹

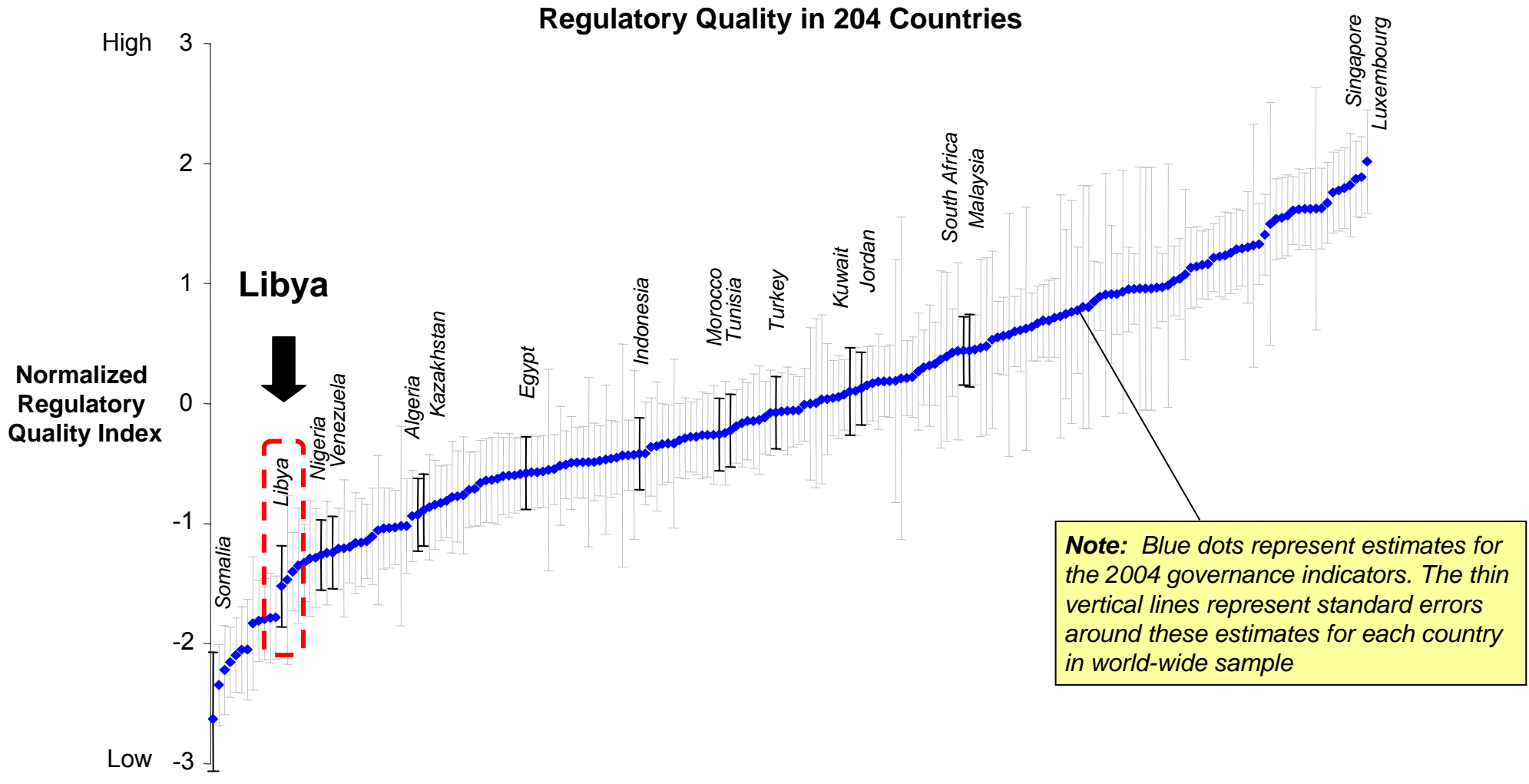


Note: ¹ Libyan data based on a survey conducted with Small and Medium Enterprises in July 2005. Libya data is for 2005 while that for other countries is 2004

Source: World Bank (2004), Libya SMME Survey July 2005

Quality of the Libyan Business Environment

Regulatory Quality



Note: The country sample includes the countries with the highest and lowest score, and the sample of countries included in the comparative GCR analysis

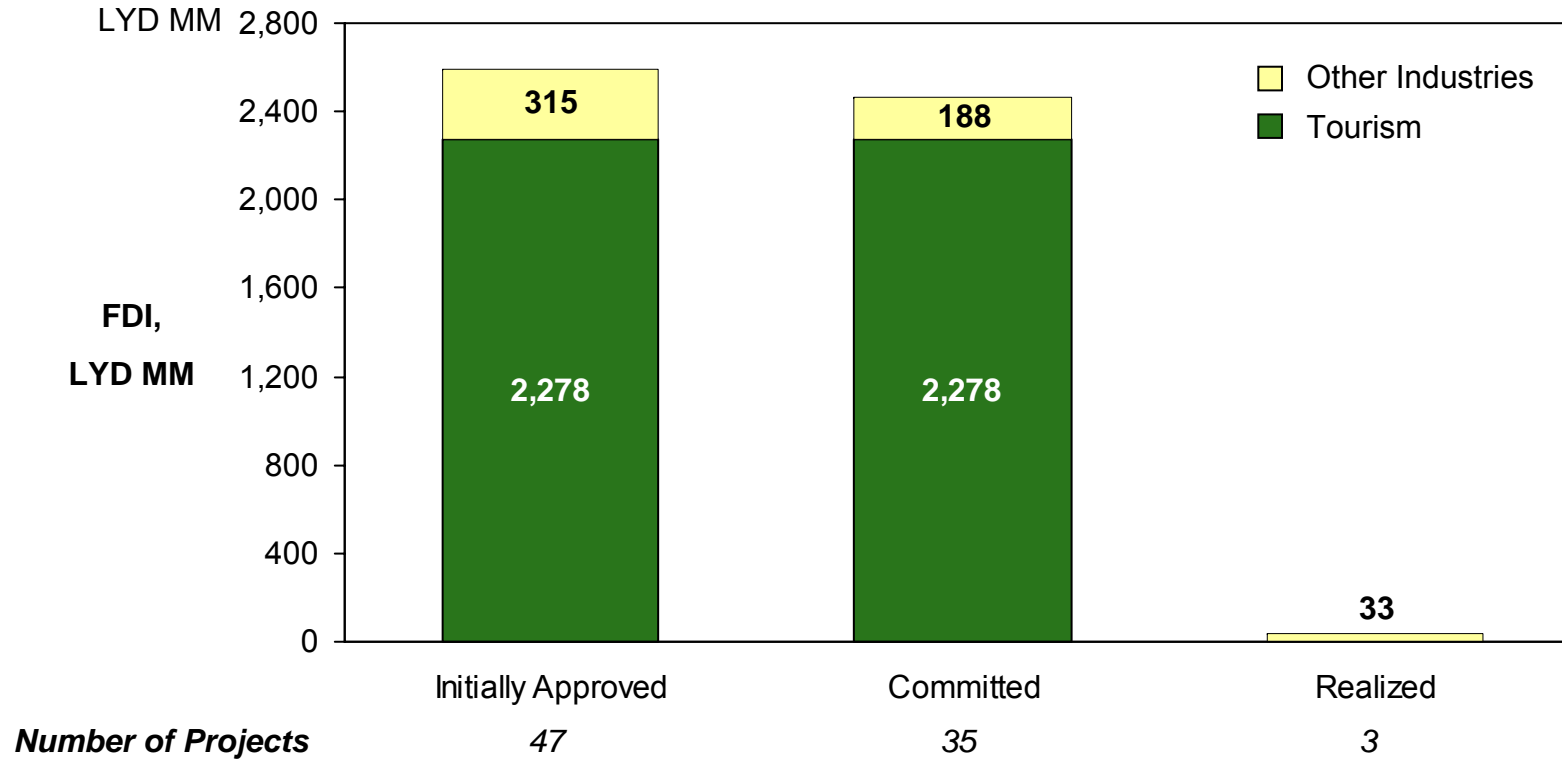
Source: "Governance Matters IV: Governance Indicators for 1996–2004" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 2005

Quality of the Libyan Business Environment

Foreign Direct Investment (FDI) in Libya, Except Oil & Gas



Foreign Direct Investment (FDI) in Libya, 2004¹ —
Approved vs. Committed vs. Realized



While there appears to be interest among foreign investors in opportunities in Libya, very little investment is actually being realized

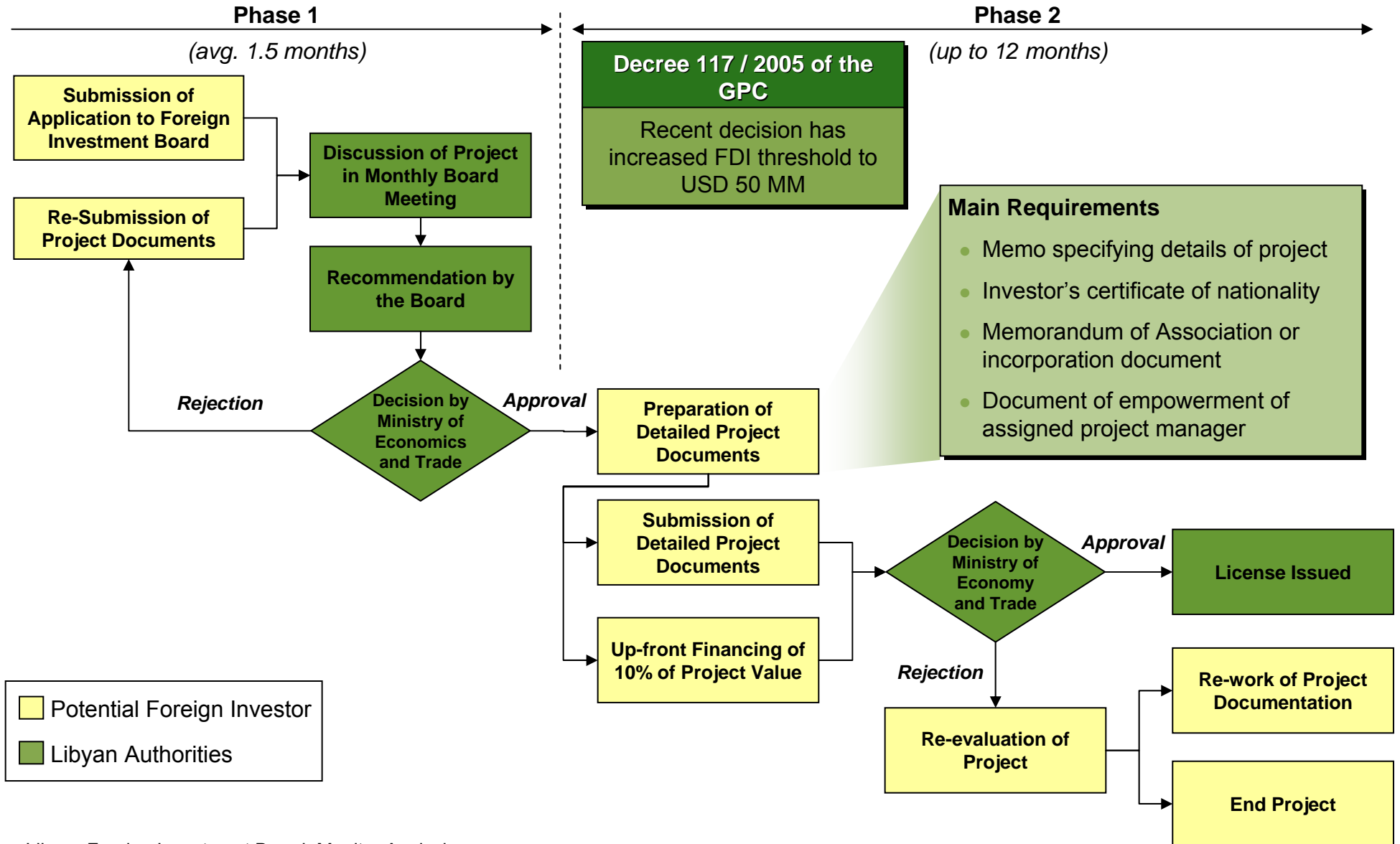
¹ Tourism figures are for 2005

² Experience in projects like Corinthia Tripoli, suggest that a significant part of the FDI commitment is unlikely to be realized

Source: Libyan Foreign Investment Board, Ministry of Tourism, Libyan Investment Promotion Board, Monitor Analysis

Quality of the Libyan Business Environment

FDI Approval Process



Attracting Foreign Direct Investment (FDI) Examples From Other Countries



“The [Singaporean] government was not only very aggressive but very professional in its recruitment of foreign capital....Access to them was always very easy”

– Manager, Mobil Oil company
Singapore, 1980s

“Over a period of nearly 20 years operating in Ireland...the real sense of support and partnership we have experienced here has been a constant”

– Terry Landers, Head of Corporate Affairs, Microsoft Ireland

“[In Ireland] we know we're not the centre of the world, and so we're highly flexible and adaptable in our approach”

– Dick Meaney, Vice-President, Analog Devices, Limerick

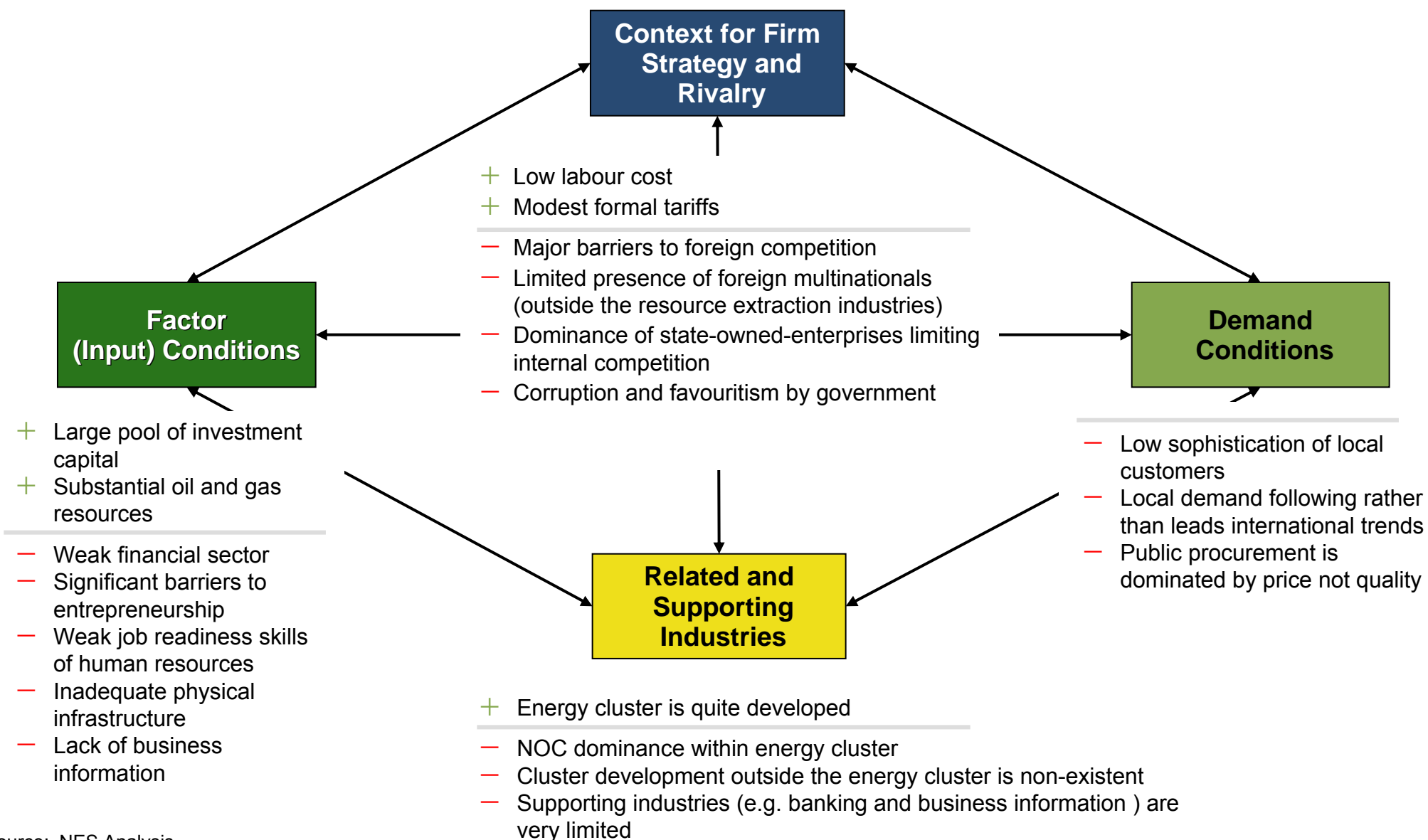
**FDI Inward Stock as % of GDP, 2004 —
EU vs. Southeast Asia vs. North Africa**



Source: IDA Ireland website; “Strategic Pragmatism: The Culture of Singapore’s Economic Development Board”, E. Schein, 1996; UNCTAD World Investment Report 2005; Monitor Analysis

Quality of the Libyan Business Environment

Overall Assessment of the Quality of the Libyan Business Environment





- Competitiveness in the Modern Global Economy
- Libya's Competitive Position in 2006
- **Long-term Vision: Libya in 2019**
- Action Agenda for Libya



National Economic Strategy

What is a **unique competitive position** for the country?

- What is the country's unique value proposition as a business location?
- What roles can the country play in the world and the regional economy?
- For what range or types of businesses can the country be competitive?



Developing Unique Strengths

- What **elements of the business environment** are essential to the national value proposition?
- What **existing and emerging clusters** must be mobilized?



Achieving and Maintaining Parity with Peer Countries

- What **macroeconomic, political, legal and social improvements** are necessary to maintain parity with peer countries?
- What areas of the **general business environment** must improve to maintain parity with peer countries?



Addressing these questions will enable Libya to define a clear competitive profile within the global economy



Ireland: A Clear Vision helped it become a Celtic Tiger

- From independence in 1922 until the 1960s, Ireland followed an import-substitution economic policy, with disastrous consequences. **Economic growth stagnated** and local industry failed to develop resulting in mass emigration and population decline
- In the early 1960s, Ireland recognized the need to change its economic policy to better integrate with the global community. In particular, the Irish government pursued an aggressive approach to **attract foreign direct investment (FDI)**
- This approach has been successful in making Ireland one of the most **impressive economic growth** stories of the last few decades



- Ireland has been successful in positioning itself as an **efficient location** for multinational companies **to serve the European market** by:
 - Establishing a **specialized investment promotion agency** to identify and attract multinational companies in key sectors, and facilitate all their business requirements
 - Developing **communication and transport infrastructure** to provide an efficient platform to reach other, larger European markets
 - Investing in **education** to provide a well-educated workforce at competitive wage levels



Key Learnings

- Clear **positioning** of an integrated set of unique advantages a location either has or can reasonably develop, is essential
- Single-minded **focus** on those policy areas key given the positioning



- Libya's vision for 2019—the 50th anniversary of the Revolution—highlights the potential economic, social and political opportunities for Libya. Key aspirations include:
 - Building a competitive national economy that has significantly raised the standard of living and provides opportunities for all Libyans
 - Developing Libya's oil and gas cluster to be among the world leaders
 - Diversifying the economy beyond the oil and gas cluster
 - Utilizing Libya's strengths to the full extent—e.g. geographic location, historical assets, culture
 - Actively engaging the participation of Libyan citizens—through direct democracy—in shaping the nation's economic development



Libya's Vision for 2019: Core Aspirations

Libya's vision for 2019—the 50th anniversary of the Revolution—highlights the potential economic, social and political opportunities. There are ten core aspirations.

1. **Egalitarian** – Libya is a leader in social welfare; citizens control their economic needs
2. **Democratic** – Libyans make decisions efficiently and benefit from a responsive government
3. **Productive** – Libyans are productively employed, real employment rate of >90%
4. **International** – Libyan economy is fully integrated with the international economy
5. **Competitive** – Libya has a thriving diversified economy; Libyan firms are globally competitive
6. **Entrepreneurial** – Libya is a centre of dynamic entrepreneurial activity; has one of the fastest rates of business formation in the world
7. **Skilled** – Libya is a leading centre of education and training
8. **Connected** – Libya has state-of-the-art Information and Communication Technology infrastructure
9. **Green** – Libya is an environmentally friendly country, protecting its history, heritage and culture
10. **Regional Leader** – Libya has a leadership role in the region, and contributes to the wealth and stability of its neighbours



- Competitiveness in the Modern Global Economy
- Libya's Competitive Position in 2006
- Long-term Vision: Libya in 2019
- **Action Agenda for Libya**

Principles of Economic Reform

General Principles



- Identify and build on **existing and potential strengths**, rather than focus solely on addressing weaknesses
- Achieve clear progress on **human development** in parallel to economic reforms
- Employ **accelerators of development** to rapidly upgrade the economy to compensate for decades of economic isolation, e.g. Diaspora, FDI, Outsourced management of concessions, infrastructure, specialized agencies

Principles of Economic Reform

Key Dimensions of an Action Agenda



Business Environment

- Improves conditions for conducting business and individual businesses and clusters
- Upgrades rules and institutions for cluster development

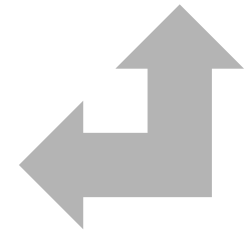
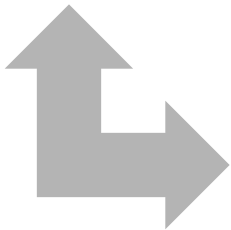


Cluster Development

- Highlights business environment weaknesses
- Enables companies to become more productive, raising the overall sophistication of the economy
- Facilitates productive dialogue between private and public sectors

Capacity Building

- Provides context and institutional capabilities for sustaining the competitiveness orientation over time





Economic Reasons

- Develop economic capabilities that can sustain prosperity once natural resources have been depleted
- Provide opportunities for the vast majority of the population not engaged in the oil sector to be a productive part of the economy and society
- Increase the standard of living through the availability of efficient local goods and services in a competitive domestic market
- Limit the exposure to volatile global prices for natural resources

Social and Political Reasons

- Reduce the focus on wealth distribution with its corrupting effect on all public institutions engaged in this process
- Separate the link between individuals' political power and economic prosperity which tends to undermine the rule of law and create increasing inequality



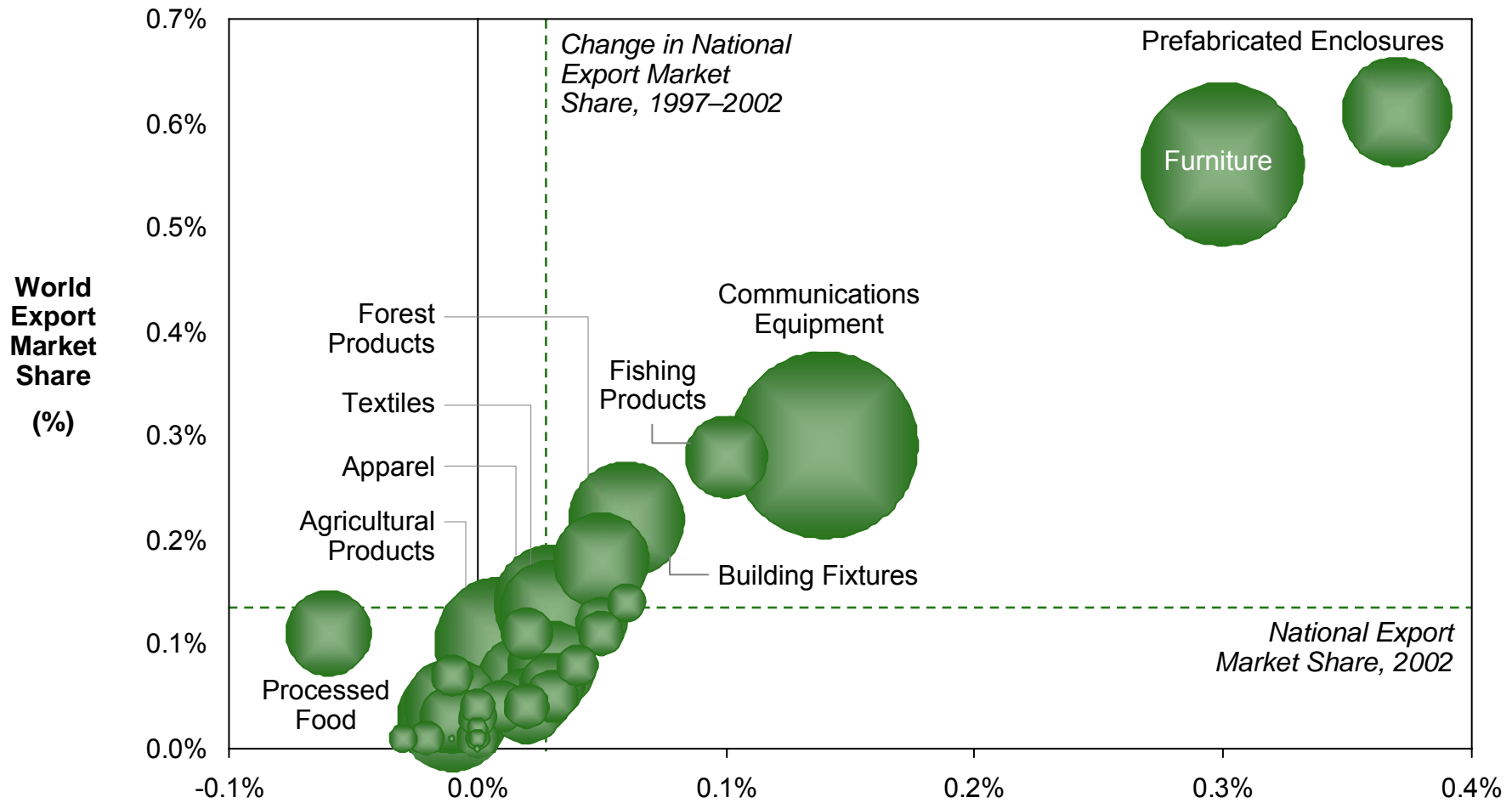
Economic diversification **needs time**; it is critical to start the process well in advance of the eventual depletion of natural resources

Principles of Economic Reform

Estonian Cluster Portfolio — Goods Exports



World Export Market Share by Cluster, Estonia, 2002



Compound Annual Growth Rate of Estonian World Export Market Share, 1997-2002

Note: Bubble size is proportional to absolute export value

Source: UNCTAD Trade Data; International Cluster Competitiveness Project at ISC (HBS)

Principles of Economic Reform

Appropriate Roles of Government in Cluster Development



- A successful cluster policy builds on **sound overall economic policies**
- Government should support the development of **all clusters**, not pick winners among them
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- Government can **seed new clusters** through attracting foreign direct investment
- Government's role in cluster initiatives is as **facilitator** and **participant**. The most successful cluster initiatives are public-private partnerships
- Government should **NOT** provide subsidies, set preferential tariffs, exclude from competition laws, give preferential tax exemptions, etc.

Principles of Economic Reform

Role of Foreign Direct Investment (FDI)



- Foreign investors bring critical new **skills, management techniques**, and **access to foreign markets**
- Foreign-owned operations provide a **training ground** for Libyans who later on set out on their own ventures with the experience of working in a multinational
- Foreign-owned operations provide a **market opportunity** for Libyan suppliers and service providers, exposing them to sophisticated demand at the global level



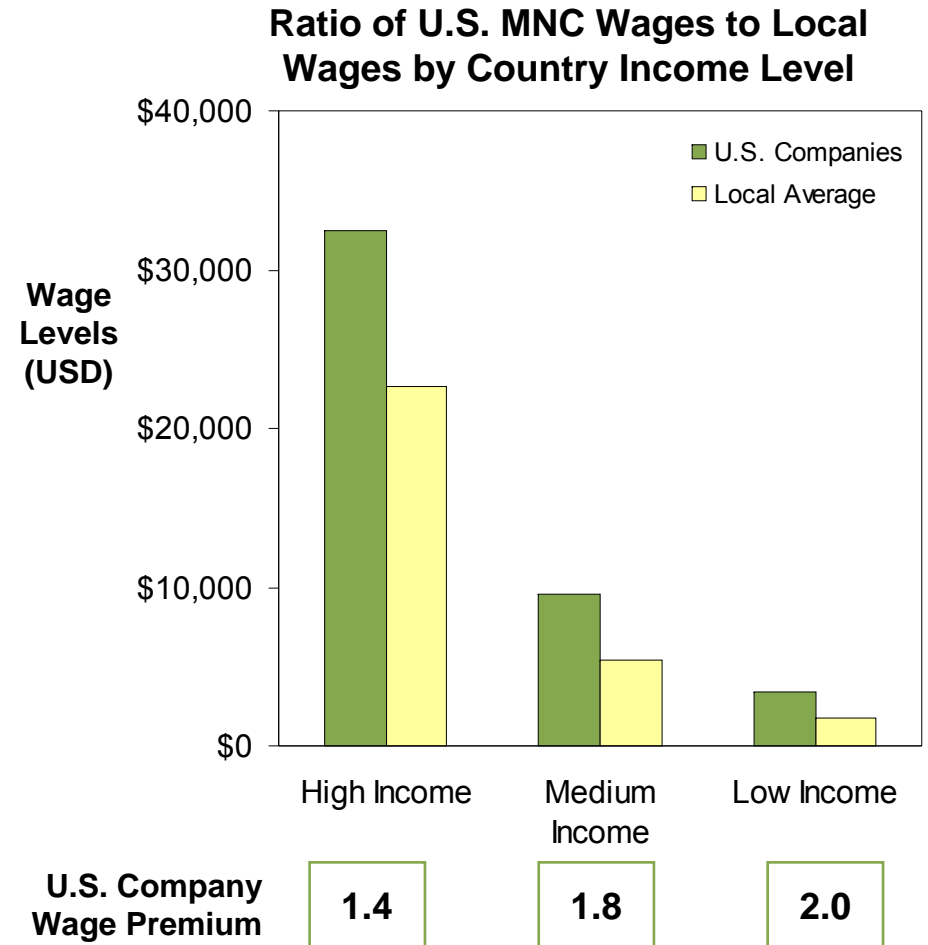
- Libya should take **active steps** to mobilize FDI
- Libyan FDI policy should combine **high openness** for foreign investors with steps to ensure a maximum level of **integration** of their activities into the Libyan economy
- FDI attraction needs to be based on the **inherent opportunities** present in the Libyan market, business environment, and natural resource-deposits, **not** in selling preferential access

Principles of Economic Reform

Evidence on the Behavior of Foreign Investors



- Multinational companies pay **higher wages** than local competitors
- Multinational companies tend to also provide **better training** to their employees than local companies
- Multinational company presence appears to increase **knowledge flows** and spill-overs from subsidiaries to local companies



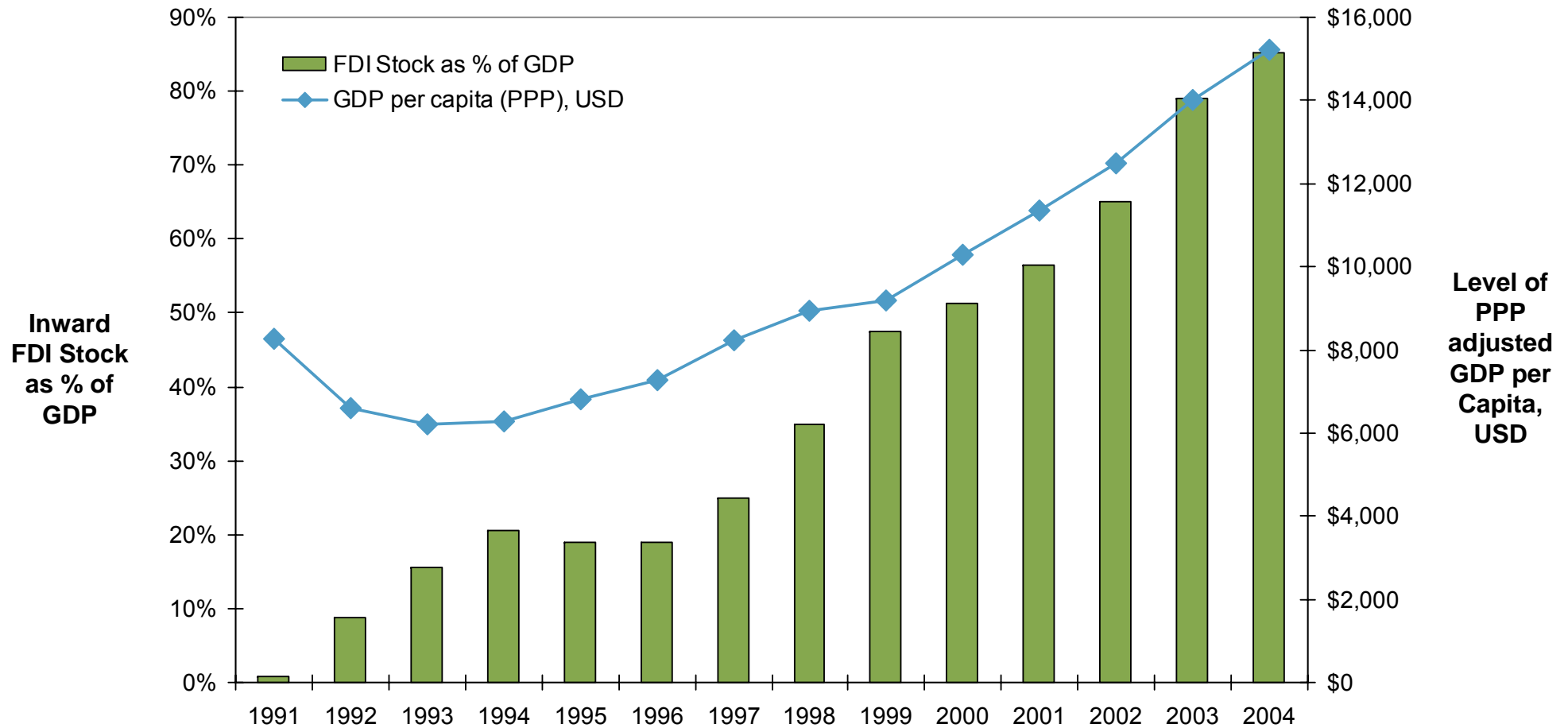
Source: Graham (2000), IMF (2001); World Bank (2001); Aitken, Harrison, Libsey (1996); Feenstra, Hanson (1997); Hallward-Driemeier (2001); Robert, Tybout (1996)

Principles of Economic Reform

FDI as a Driver of Economic Prosperity in Estonia



Foreign Direct Investment Stock and GDP per Capita (PPP Adjusted), Estonia, 1991-2004

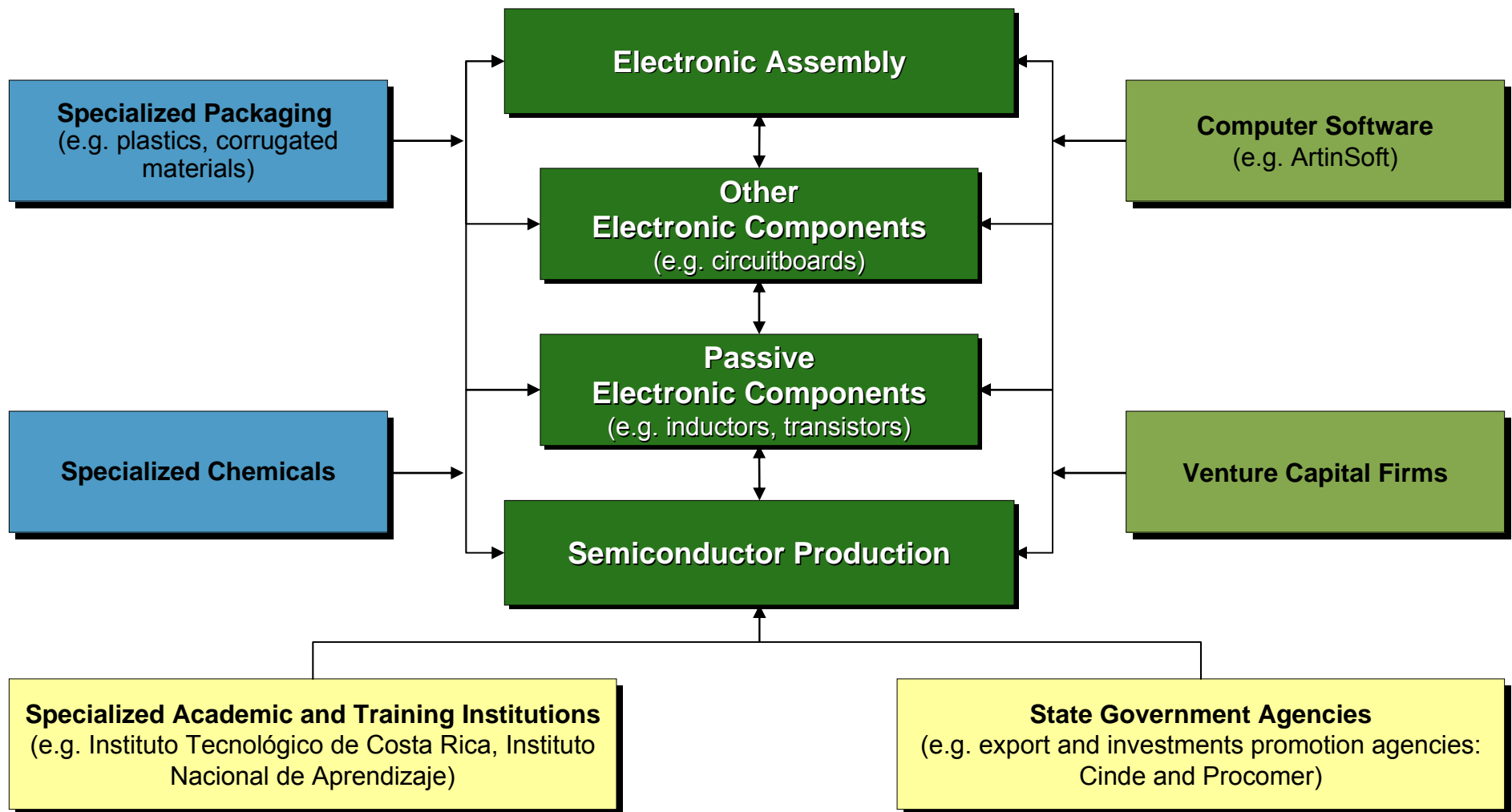


Principles of Economic Reform

Developing Technology Related Clusters



IT Cluster Development, Cost Rica





- Costa Rica's position as the most successful country in Central America has benefited from key decisions that put the country on a long-term path to competitiveness



- Costa Rica's 1948 **Constitution** provided for political stability, abolished the army to enable the concentration of resources on social development, and allocated at least 6% of GDP for education spending
- President Figueres, elected in 1994, made competitiveness a **key national objective** alongside environmental sustainability and social development, shared by all political parties despite their different views on specific policies

Principles of Economic Reform

Process Principles



- Create **new programs / initiatives** initially, rather than attempting to reform old / existing one; additive versus competitive structures
- Provide **migration paths** for affected interest groups with incentives / penalties to encourage them to embrace a new model
- Focus early on policy agendas that are **preconditions for other improvements**
- **Sequence** plans to provide infrastructure and public services that enfranchise each region, with conservative timetables that can be exceeded
- Establish **special purpose entities** instead of across-the-board reorganization
- Use **'outside' parties** to motivate reforms (e.g., WTO, EU accession)
- Set **realistic requirements** for local employment by foreign / new investors, with incentives for increasing it and a focus on training of local citizens
- Establish **special zones and designated areas** in which to implement business environment improvements instead of attempting to provide infrastructure or services everywhere
 - Preferably one zone in each region
 - Set conditions which local leaders must meet in order to participate in those programs that include incentives in the form of faster rollout

Key Elements of Libya's Economic Strategy



System of Governance

Governance Structure

People Development

Skills Development

Social Development

Cluster Development

Energy Cluster

**Hospitality and
Tourism Cluster**

**Agriculture
Cluster**

**Construction and
Real Estate
Development
Cluster**

Business Environment

**Private Sector
Activation**

**FDI and
International-
ization**

**Banking and
Financial
System**

**Efficient
Movement of
Goods,
People, and
Information**

**Restructuring
of SOE
Portfolio**



- The large extent of the **informal economy** indicates **substantial barriers to entry in the formal economy**, especially for small and medium sized enterprises (SMEs)



- **Reduce uncertainty** in the business environment by ensuring **greater stability** in both policies and business-relevant administrative infrastructure
- Undertake a broad-reaching program to **drive out inefficiencies and bureaucracy** from business-relevant processes in the public sector
- Launch a Sharia-compliant **micro-lending** scheme and venture capital fund
- **Promote SMEs** through a system of **local entrepreneurship centers** modeled on successful international models, to ensure training, expertise and capital for entrepreneurship
- Create a Libyan **social entrepreneurship fund** to support direct services in healthcare, education, and care for the elderly



Catalyze innovation, risk-taking and business formation in Libya, and create the next generation of Libyan entrepreneurs



Foreign Direct Investment and Internationalization

- FDI is a key instrument to **connect** Libya to the global economy and to provide **expertise** and **technology**



- Develop a **new framework** for FDI policy that is liberal, stable and **consistent over the medium-term**, removing the uncertainty that affects the current policy framework
- **Streamline the process** of FDI approval—especially outside the energy sector—making it a fast, simple, transparent and non preferential process
- **Remove the minimum threshold** required for FDI which currently stands at USD 50MM that excludes many foreign investors who wish to invest in smaller amounts
- Ease the **availability of visas and work permits** for foreigners, which would enable a greater inflow of foreign expertise into Libya
- Actively **engage with the Libyan diaspora** in the development process which will allow a consistent inward flow of capital, skills and expertise into Libya

Banking and Financial System

- Private sector, in particular small and medium sized enterprises, depends on **efficient access to financing**
- 
- Give greater **autonomy and incentives to state-owned banks** to enable them to lend more (and more transparently) to the private sector
 - Enable the creation of **private banks and joint ventures with foreign banks** to create competition and improve service delivery
 - Launch a **banking law reform** program that addresses the systemic weaknesses of present banking laws, e.g. separating the ownership and supervisory functions of the Central Bank
 - Build a **banking infrastructure** that meets international standards:
 - Efficient **payments and clearing systems**
 - Establish **risk assessment** and project appraisal capabilities
 - Wide and **accessible network** of branches and ATMs



Efficient Movement of Goods, People and Information

- **Economic development requires connectivity** within Libya and with the outside world
- ↓
- **Identify and speed-up the implementation** of high priority items in the Urban Master Plan in particular **key physical infrastructure** such as ports, roads and airports
 - **Remove barriers to the flow of goods and resources** into Libya by reducing protectionism and promoting an 'open-skies' policy in air transport
 - Remove **bottlenecks in the visa** process
 - Make visa upon arrival available
 - Formulate and implement a **National Information Strategy** that identifies and addresses the country's emerging information needs
 - **Review the structure and operations of the Libyan telecom** companies and how they fit within Libya's overall telecoms strategy

Restructuring of State Owned Enterprise (SOE) Portfolio

- **State owned enterprises (SOEs) dominate Libya's economy** thus their competitiveness has fundamental impact on Libya's prosperity
- ↓
- **Consolidate and professionalize** the ownership function
 - Main objective of a professional unit for ownership and corporate governance is to **develop the necessary skills** needed to manage the portfolio
 - In order to secure fair competition it is important to **separate regulatory responsibilities from the ownership function**
 - **Establish clear and single objectives** – SOEs often suffer from multiple, conflicting objectives while private sector companies focus on value maximization
 - **Transparency** provides the **basis for government accountability** and raises barriers against self serving intervention
 - **Make information available** not only on economic performance but also on the cost of pursuing non-commercial objectives and subsidies granted



Energy Cluster

- Secure and expand contribution to Libya's economic prosperity:
 - Increase production efficiency
 - Raise investment



- Develop action plans for identified priority issues:
 - Redefine relationships between key parties to increase efficiency of energy policy design and implementation
 - Create a planning system that provides investment criteria and allows effective project prioritization
 - Improve data management via greater transparency

Other Clusters

- Engage wider segments and regions of the country in the reform process
- Move towards a more diversified economy



- Launch initiatives in the first wave of clusters identified, e.g. tourism
 - Develop comprehensive long term plan to enhance tourism
 - Build regional tourism hubs around specific local attractions
 - Conduct market research to identify and address most valuable visitors
 - Address key challenges like visa issuance, employee skills, etc.



- **Increase investment** in oil, gas and power to ensure optimal production levels are achieved quickly
- **Improve structure, organization and decision-making processes** in the cluster – covering the NOC, GECOL and the government as a whole
- **Reduce the growing costs of fuel supply** to the domestic market by aligning refining outputs with domestic demand
- **Improve the mechanism for subsidizing domestic prices** of oil products, gas and electricity, to improve resource allocation and efficiency



Enhance the productivity and competitiveness of Libya's oil and gas cluster

Cluster Development

Non-Energy Related Clusters in Libya



- Launch cluster initiatives in areas that have the highest potential to support and energize the national competitiveness effort, e.g. tourism, construction, and agriculture
- Concentrate efforts to upgrade the business environment on regional bases of clusters; roll-out the measures to the wider economy in a second phase

Example of Cluster Development Activities – Tourism

- Design and implement a **comprehensive long-term plan** to enhance tourism
- Introduce **standards agencies** to ensure that key policies—business registration, taxation, regulation and dispute resolution—are applied in a consistent, fair, transparent and efficient manner
- **Open doors to foreign expertise, technology and investment**, as well as to the Libyan diaspora
- Introduce **less restrictive wage environments** that encourage the best young Libyan leaders to seek employment in these areas
- Prioritize **major infrastructural enhancements** in these clusters
- Set up **special economic zones** to swiftly implement the business environment improvements in these clusters, rather than attempting to enhance infrastructure and services everywhere in the country



Skills Development

Education Reforms

- Establish a **Human Assets Office**
 - Develop human resources strategy for Libya
 - Review educational system towards better match of skills with the requirements of a modern economy

Skill Building Actions

- Continue **best-in-class leadership training**
 - Continue and enhance Phase I Leadership Training Program
 - Select and train a core Libyan faculty
 - Develop an electronic learning platform
- Launch **civil service skills strategy**
 - Define of a larger civil service change management agenda for Libya
 - Introduce a 'fast-track' civil service

Social Development

Healthcare

- Introduce new and improved mechanisms for financing
- Increase healthcare education and awareness

Housing

- Increase efficiency of financing and planning
- Remove barriers to private construction of housing

Social Welfare

- Provide social safety nets to those who are adversely affected by the reform process, to help them make the transition smoothly



Current Model

- Direct democracy allows Libyans to contribute in the decision making process

BUT

- Inefficiencies arise from frequent last-minute announcements of the agenda
- Drafting processes are sub-optimal
- Major economic loss is incurred by closing businesses during BPC deliberations

Enhance Direct Democracy Structure

- Deepen direct democracy with a governance architecture that both enhances participative democracy and ensures the success of the NES
 - Roll-out of an e-Democracy system that enhances the efficiency and effectiveness of the system of participative democracy

Governance Structure

Enhancing Libya's System of Direct Democracy



System Challenges

Potential Actions

Information

- **Publish draft proposals** and agenda **in advance** of meetings and elicit feedback
- Allow for open **comments and notifications via e-mail, internet and mobile phone**
- Work with public facilities to install **BPC information kiosks**

Participation

- Set up **system of citizen consultation groups** to deliberate on draft laws before BPC meetings
- Use **special-purpose collaborative editing software** to enable people to make draft comments on proposals collectively before and during BPC meetings

Training

- Develop **facilitation practices** for all levels of consensus-based decision-making
 - Institute citizen training programme to teach facilitation techniques
- Set up **e-Democracy and e-Government Training Institute**

Rules & Procedures

- Develop a **guidebook** for facilitating productive deliberation at BPC meetings
- Use **centralized display screen and computer links** to make deliberative process more efficient

Feedback & Accountability

- Establish a legislative **indexing / tracking and accountability system** for BPC decisions
 - Track the progress of legislation after BPC decision-making. Disseminate information to all BPC members through e-mail, mobile phone and internet



Libyan Economic Development Board

- Coordinate the various change initiatives under a central office
- Facilitate one-stop registration of new businesses
- Develop a new framework for foreign direct investment (FDI) and its aggressive promotion
- Assess the appropriate governance and management structures for State-Owned Enterprises (SOEs)

Libyan Human Assets Office

- Develop a comprehensive human resources strategy for Libya, including short-term and medium term targets, and a plan for achieving them
- Outline a plan for a highly skilled 'fast-track' civil service cadre

National Competitiveness Council

- Provide guidance and expertise for Libya's evolving competitiveness agenda
 - Publish an Annual Competitiveness Report assessing Libya's competitiveness and tracking the progress in comparison to peer countries
 - Monitor and highlight areas where policy changes are required to maintain and improve competitiveness

Libyan Economic Strategy Action Plan



System of Governance

Governance Structure

- Democratic process (direct democracy)
- National government organization
- Regional and local government organization

People Development

Skills Development

- Training
- Higher education
- Cluster-based workforce skills upgrading
- Labor market rules

Social Development

- Housing
- Healthcare
- Basic education
- Clean water

Cluster Development

Energy Cluster

Hospitality and Tourism Cluster

Agriculture Cluster

Construction and Real Estate Development Cluster

Business Environment

Private Sector Activation

- Registration, licensing, permits
- Access to capital
- Property rights
- Regulation of business operation
- Dispute resolution

FDI and Internationalization

- FDI rules and incentives
- Diaspora engagement

Banking and Financial System

- Payment system
- Banking regulation
- Accounting and reporting

Efficient Movement of Goods, People, and Information

- Information and Communications Technology
- Roads, ports, airports, rail
- Electricity
- Customs, visas

SOE Strategy Development

- Strategy for state-owned enterprises

Libyan Economic Strategy Action Plan

First Set of Actions



- Business Environment
 - Create a **National Competitiveness Council** for Libya
 - Establish and fund a **Libyan Economic Development Board** to take the lead on critical reform priorities e.g. one-stop registration for business, attracting FDI and restructuring Libya's SOE portfolio
 - Undertake a **banking and financial sector reform**
- Cluster Development
 - Enhance productivity and competitiveness in the **energy cluster**
 - Create and implement a **tourism cluster** strategy
- People Development
 - Continue and expand **leadership training**
 - Establish a **Human Assets Office**
- System of Governance
 - Launch campaign to **improve the process of participative democracy**
 - Introduce **information technology** into governance system at all levels
 - Restructure and reform the **national budgeting process**



Libya's Past

- Significant isolation from the outside world
- Focus on equality of living conditions and social standards
- Oil revenues are the main source of national prosperity
- Government's central focus is the distribution of oil revenues to address social needs

Libya's Emerging Future

- Increasing integration with the outside world
- Opportunities for individual achievement becomes the new focus
- Oil revenues supplemented by wealth created in other parts of the economy
- Government increasingly working with the private sector to enable creation of wealth on competitive markets



Parallel changes will need to occur across many parts of Libyan economy and society to enable a successful transition



- Libya is at a critical moment in its history
- Its unique history, heritage and culture must be the foundation of its development
- It has strong assets that are currently under-utilized—in particular its people

HOWEVER

- There is a limited window of opportunity and Libyans must act now



With immediate action, a sustained phase of economic growth is a realistic goal