

BTI 2008 | Libya Country Report

Status Index	1-10	4.24	# 97 of 125	
Democracy	1-10	2.98	# 114 of 125	↗
Market Economy	1-10	5.50	# 63 of 125	↗
Management Index	1-10	3.12	# 107 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	5.9	HDI	0.80	GDP p.c. ³	\$	8,438
Pop. growth ¹	% p.a.	2.0	HDI rank of 177	64	Gini Index	-	
Life expectancy	years	74	UN Education Index	0.86	Poverty ⁴	%	-
Urban population	%	84.4	Gender equality ²	-	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006 | African Development Bank, Latest Selected Statistics on African Countries. Footnotes: (1) Average annual growth rate 1990–2005. (2) Gender Empowerment Measure (GEM). (3) Data for 2006. (4.) Percentage of population living on less than \$2 a day.

Executive Summary

Since the revolution on 1 September 1969, Libya's authoritarian political system has shown considerable stability despite many institutional transformations as well as tension and conflicts with foreign nations, including war with Chad, conflict with the United States, and U.N. sanctions from April 1992 to April 1999. As in the past, Libya's political evolution is currently dominated by revolutionary leader Muammar al-Qadhafi, who determines the main direction of policy. It should be noted, however, that in doing so he must take into account the interests of the country's largest families and tribes. Qadhafi has determined the country's political and economic evolution since 1969. This includes the reforms instituted between 1987 and 1992, those put in place after U.N. sanctions were suspended in April 1999, as well as the enforcement of reforms after U.N. sanctions were lifted in September 2003. Reforms were initiated with the objective of restoring Libya's full scope of action. The deeply politicized case of five Bulgarian nurses and a Palestinian doctor who were sentenced to death at the end of 2006 on allegations of having deliberately infecting children with HIV, provoked a chorus of Western condemnation. As such, this may constitute a setback for Libya's efforts to improve ties with the West. At no time did political reform aim at a democratization of the political system in accordance with Western criteria. The population's only means of participating in the decision-making process is still limited to attending People's Congresses, which are controlled by the Revolutionary Committees. The only improvement since 1999 has been an increased tolerance for interest articulation. However, it should be noted that the lack of political challengers has softened the state's handling of political dissent. Examples thereof include the release of political prisoners, a curtailing of the use of torture and the abolition of the People's Court. These measures could be reversed at any time. According to official discourse, the trend toward a free market economy, first witnessed in the late 1990s, has become irreversible. However, bureaucratic structures that hinder administrative

efficiency as well as anti-reform forces such as the state sector of the Revolutionary Committee movement keep economic reforms from being enforced rigorously. Revolutionary leader al-Qadhafi has yet to take an active role in confronting either of these issues. However, the impulse for foreign investment and thus further economic reforms are poised to improve the economic framework and render it more efficient in the process. Most of the sanctions imposed by the United States remained in place until March 2004, when Libya acknowledged that it had produced and maintained stockpiles of chemical weapons. U.S. oil companies have returned to Libya since then, although the United States continued to list Libya as a state sponsor of terrorism until mid-2006.

History and Characteristics of Transformation

More than three decades of revolutionary history in Libya should not be viewed as one monolithic period, but rather as several stages of political and economic development. According to one widely-accepted analysis, there have been three recognizable political phases. In the first phase, lasting from 1969 to 1970, a political and organizational model was sought to overcome the shortcomings of the preceding monarchy. In the second phase, which lasted from 1971 to 1975, the Arab Socialist Union was established as the sole political party based on the Nasserite constitutional model. From 1975/1976 to the present, the Nasserite model was replaced with an officially sanctioned, vertically organized system of “direct democracy” based on elected executive People’s Committees responsible to legislative People’s Congresses at the national, regional and local levels. In this last phase, the Nasserite model was abandoned because of problems such as a parallel bureaucracy in the form of the Arab Socialist Union.

This system, which has been in place for almost three decades, is grounded in resolutions passed by “the masses,” or Jamahir in Arabic. Thus, in Libya, the state is referred to as the Jamahiriya, or state of the masses, though it should be noted that the word is often translated into English as “republic.” The Jamahiriya has itself been through various phases, albeit without significant change to its central mechanism of governance, marked by Qadhafi’s control of the system through “Revolutionary Leadership.” The following is an account of significant events, measures and stages that mark the period from 1975 to 2005: In 1975, Part I of the Green Book was put forward as the ideological basis of the new political system, which was then established in 1976. On 2 March 1977, The Proclamation of Rule by the Masses was issued, functioning as a written constitution. In 1977, Qadhafi’s loyal followers formed the Revolutionary Committees, which remain active to this day. The original task of the committees was to establish the political system, but members have increasingly controlled the system and shut out the political opposition, effectively dissolving it. In 1979, Qadhafi declared himself “Leader of the Revolution.” Structurally, this

designation made him a political and ideological figurehead who operates outside the People's Congress/Committee system, influencing it through the Revolutionary Committees, which he controls. In 1987, following military losses in Chad, the international financial crisis of 1986, and a generally deplorable state of domestic affairs, political and economic reforms were instituted. These reforms included limiting the authority of the Revolutionary Committees, lifting travel restrictions, and reinstating private enterprises nationalized in 1979. By the early 1990s, political reforms were abandoned or discontinued in response to increased Islamist violence toward the secularist-oriented Jamahiriya government as well as the imposition of U.N. sanctions in response to Libya's implication in the 1992 Lockerbie bombing. Reforms were cautiously re-instituted in 1999, following the state's repression of militant Islamist groups and the de facto lifting of U.N. sanctions. Libya's relationship with the West has clearly improved in the wake of a series of diplomatic endeavors, including: the official lifting of U.N. sanctions in September 2003; Libya's cooperation with the United States in its "war on terrorism"; and the official renunciation of acquiring weapons of mass destruction in December 2003.

These developments have also prompted internal economic reforms. There has been a noticeable push forward in political reforms during the period under review, although they remain secondary to economic reforms. The year 2006 was dominated by concerns over the trials and appeals of six foreign medical workers convicted of conspiring to deliberately infect 426 children with the HIV in 1998. The international community and medical authorities disputed the convictions and argued that the HIV infections were caused by pre-existing conditions of poor hygiene, that the infections began with a single child admitted prior to the medical workers' arrival in Libya, and that they had become scapegoats used by Libya as a bargaining chip. Libya has a vested interest in resolving the case amicably with Europe, as it seeks to join the European Union's "Barcelona" trade partnership. Executing the medics would almost certainly ruin any chances of Libya's joining in the future.

Transformation Status

I. Democracy

Over the last three decades, Libya's political order has seen no institutional changes of note. This is the result of the ideological stance of the revolutionary leadership, according to which the state structure of "direct democracy" – embodied in the Jamahiriya system and operating in accordance with Part I of the Green Book implemented the People's Congresses and Executive People's Committees – constitutes the "definitive solution" to the "problem" of democracy. Minor alterations to administrative structures – such as changes in the number of General People's Congresses and reorganizations carried out at the regional level – have not fundamentally altered the basic workings of this non-party political system. Opportunities for participation in the political order have not changed in recent years, and therefore the parastatal professional organizations marked by compulsory membership exist still as an institutionalized form of participation within the political system. Aside from the opportunities for political articulation presented by the People's Congresses, the available means are limited to non-state associations and interest organizations – which are distrusted and viewed as being "divisive." Since the suspension of U.N. sanctions, however, the government has displayed an increased willingness to tolerate comment on and criticism of political decisions in both the People's Congresses and the public arena. This new tolerance is the result of the easing of diplomatic tensions with the United States and the European Union, as well as other states, and the dearth of internal Islamist opposition. As the extent of this liberalization remains subject to the revolutionary leadership's need to retain authority, however, it is by no means irreversible. It is in this context that discussion about human rights has intensified, leading not only to the first positive outcomes of measures taken by the Qadhafi Charity Organization, including an anti-terror campaign, improvement in prison conditions and the abolition of the People's Court in January 2005. In February 2006, some 130 political prisoners were released, including some prisoners of conscience. Those released included 85 members of the Libyan Islamic Group (as the Muslim Brotherhood is called), many of whom had been held since June 1998. The release of the Muslim Brothers had been expected. They were reportedly made to sign pledges that they would not undertake any political activities. However, the release is seen as an important step towards the improvement of the human rights

situation in Libya. In view of Qadhafi's advancing age, the question of "political heir" has increasingly come to fore. Because there is no constitution, uncertainty about the outcome of this matter is to be expected. Devoted advocates of the Jamahiriya system stand opposed to revisionists (such as the faction around Shukri Ghani and Qadhafi's son, Saif al-Islam al-Qadhafi), who favor the introduction of political parties and a presidential system.

1 | Stateness

There have not been any problems regarding stateness since Libya gained independence in 1951. The state has an unrestricted monopoly on the use of force, challenged only in the 1990s by Islamist groups.

Monopoly on the use of force

All citizens have the same formally defined civic rights, and the nation state is widely accepted as legitimate. Definitions of and qualifications for citizenship are politically irrelevant. It should be noted that the Berbers – which constitute approximately 20% of the population, though this figure is contested – have expressed reservations about the dominant Arabic emphasis in language and tribal lineage and the discrimination of the Berber language.

State identity

The political process is secularized, though the state and official state religion (Islam) do occasionally overlap. The government is legitimized by Islam in the sense that the People's Congresses are equated with implementation of the Islamic principle of consultation – as prescribed by the Quran in Chapter 42, verse 38.

No interference of religious dogmas

The nationwide administrative system has extremely bureaucratic tendencies and is involved in jurisdictional disputes. It suffers, however, from widespread corruption and low technical skill levels. The introduction of a regional administrative level, the Sha'biyat, has not improved the efficiency of the administration. Public safety and rule of law are largely guaranteed. Criminal activities are said to have increased mainly due to migrants from sub-Saharan Africa.

Basic administration

2 | Political Participation

Every four years the membership of the Local People's Congresses elects by acclamation both their own leadership and secretaries for the People's Committees, sometimes after many debates and a critical vote. The leadership of the Local People's Congress represents the locality at the next level of the People's Congress and has an imperative mandate. The members of the National General People's Congress elect the members of the National General People's Committee (the Cabinet) by acclamation at their annual meeting. The most

Free and fair elections

important and recent meeting, which took place in Sirt over three days in early March 2006, was the 30th annual conference. While there is discussion regarding who will run for executive offices, only those approved by the revolutionary leadership are eligible for election. The government administration is effective as long as it operates within the directives of the revolutionary leadership. The revolutionary leadership has absolute veto power, despite the constitutionally established people's democracy and alleged rule of the people.

There is a dual governing structure in Libya. The "revolutionary sector" comprises Revolutionary Leader Qadhafi, the Revolutionary Committees, and the remaining members of the 12-person Revolutionary Command Council, which was established in 1969. The revolutionary leadership established in 1969 is not elected and cannot be voted out of office, as they are in power by virtue of their involvement in the revolution. The revolutionary sector dictates the decision-making power of the second sector, the "Jamahiriya Sector." Making up the legislative branch of government, this sector comprises Local People's Congresses in each of the 1,500 urban wards, 32 Sha'biyat People's Congresses for the regions, and the National General People's Congress. These legislative bodies are represented by corresponding executive bodies (Local People's Committees, Sha'biyat People's Committees and the National General People's Committee/Cabinet).

Effective power
to govern

Political parties were banned by the Prohibition of Party Politics Act Number 71 of 1972. According to the Association Act of 1971, the establishment of non-governmental organizations (NGOs) is allowed. As they are required to conform to the goals of the revolution, however, the number of NGOs in Libya is small in comparison with that in neighboring countries. Unions do not exist as such. However, the numerous professional associations are integrated into the state structure as a third pillar, alongside the People's Congresses and Committees, though it should be noted that they do not have the right to strike. Professional associations send delegates to the General People's Congress, where they have a representative mandate.

Association /
assembly rights

The government controls both state-run and semi-autonomous media, and any articles critical of current policies have been requested and intentionally placed by the revolutionary leadership itself, often as a means of initiating reforms. In cases involving a violation of these "taboos," the private press, such as the Tripoli Post, has been censored. The violation of taboos therefore is highly unusual and Libya's journalists practice a distinctive self-censorship. If a taboo is violated, it is done so, for the most part, with the state's blessing. For instance, in the 1980s, an article criticizing the army (entitled "al-Jaish – Hashish wa Taish," or The Army: Hashish and Carelessness) was launched by Qadhafi in conjunction with his aim of restructuring the army.

Freedom of
expression

3 | Rule of Law

Despite significant improvement since the 1980s regarding the rule of law, Libya still shows considerable shortcomings in this area, as exhibited by instances of imprisonment without trial, torture, and insufficient separation of powers. Nonetheless, the Libyan tribes are powerful insofar as Qadhafi's Qadhdhadfa tribe is small and relies on a confederation with the other tribes in order to remain in power. This fact evokes compromises.

Separation of powers

While a separation of powers between the legislative and executive branches exists to some degree, the judiciary is not independent, as it is still subject to "revolutionary control." However, this applies only to court proceedings on political issues, whereas common criminal proceedings such as those for murder, robbery, larceny or traffic violations, and proceedings relating to matters of personnel statutes are not subject to political influence.

Independent judiciary

The revolutionary leader (Qadhafi) does not have a direct legislative role and does not sign executive orders. However, the revolutionary leadership can intervene in the legislative, executive and judicial arenas. When certain procedures and regulations are activated, the relevant body will take suitable action or will issue appropriate texts such as laws or decrees. No formal controls are placed on the revolutionary leadership, and the desire to maintain power governs its activities. Corruption is a serious problem that, while denounced at the highest levels, is tolerated to a certain degree because the most corrupt people – the members of the revolutionary committee movement – are the regime's biggest supporters. As such, although anti-corruption laws do exist, they are not enforced.

Prosecution of office abuse

Civil liberties are respected only in principle. In reality, the judiciary is controlled by the state, and there is no right to a fair public trial. Citizens also lack the right to any input in the government. Freedom of religion, association, assembly, press and speech are restricted. Independent human rights organizations are prohibited, and Libya continues to have a poor record in the realm of human rights although on 12 June 1988 the Great Green Human Rights Charta was declared. In practice, however, this declaration does not prevent the numerous and serious abuses, poor prison conditions, arbitrary arrest and detention, prisoners held incommunicado as well as political prisoners held for many years without charge or trial. Concerning the civil rights of women, the problem is concerned mainly with the state's insufficient protection of women and girls against violence, including rape, and spousal abuse, which seems to be widespread. Ethnic and minorities suffer discrimination, and the state continues to restrict the labor rights of foreign workers, as exemplified in the case of the foreign medics sentenced to death in 2006.

Civil rights

4 | Stability of Democratic Institutions

The institutions established in 1976 as part of the Jamahiriya government have functioned as envisioned at the time. The basic People's Congresses meet three times yearly (one time for national issues), and a National General People's Congress is held annually, most recently in Sirt for its 30th orderly session from 2 to 5 March 2006. Suffrage is universal but also compulsory, meaning that all Libyan men and women over the age of 18 are required to participate. Manipulative intervention by the General Secretary of the General People's Congress and the Revolutionary Committee's control of discussions have, so far, prevented the system of direct democracy from truly functioning. Nevertheless, the revolutionary leadership prefers not to issue resolutions in a blatantly authoritarian manner, but would prefer to make it appear that resolutions are made as a result of the direct democratic process.

Performance of democratic institutions

There is no modification of the political system in sight. To the contrary, in January 2005, Qadhafi urged the United States to adopt the Jamahiriya model of direct democracy for itself.

Commitment to democratic institutions

5 | Political and Social Integration

Political parties were banned by the Prohibition of Party Politics Act Number 71 of 1972.

Party system

Outside the government-sponsored system of political participation, representation of special interests is minimal. Associations are exceptions to this rule, particularly those that operate nationally, such as the General Administration for Drug Control or the General Union for Youth, the latter being of importance for Qadhafi's son Saif al-Islam, exhibited by the fact that he addressed this union in a speech on 23 August 2006 explaining his ideas on reforms. Because of the prevailing tribal system, there is little need for socially oriented self-help organizations. By contrast, there are well-established organizations for professionals, for high school and college students, and for women, including numerous local women's organizations that are members of the National Women's Union. Professional organizations vary widely and regulate matters specific to their areas of concern. They represent profession-specific views at the General People's Congress, but are also used, as needed, as instrumental bodies by the revolutionary leadership. This results in an asymmetrical relationship between revolutionary leadership and professional organizations.

Interest groups

No information is available regarding the popular political opinion or positions on individual issues. This is due to a lack of public opinion polls, a lack of freely-operating NGOs, the Local People's Congresses' restricted ability to articulate

Consent to democratic norms

political will, as well as the 1972 ban on political parties that stated “establishing a party equals an act of treason against the unity of the people.” Insofar as opposition can be articulated in the form of poor attendance at the Local People’s Congresses, it can be assumed that the level of political indifference and even opposition reaches between 50% and 80%. Figures on election turnout, such as the most recent elections to the People’s Committees, held in 2004, go unpublished. That said, strong family and tribal ties – still very important as a cornerstone of individual action – see to it that Libyans take advantage of the resources of the rent-seeking state to the greatest extent possible through a presence in the system’s institutions and bodies – among others through the Social People’s Leadership Committees, established in 1994.

Strong family and tribal ties – still very important as a cornerstone of individual action - see to it that Libyans take advantage of the resources of the rent-seeking state to the greatest extent possible through a presence in the system’s institutions and bodies – among others through the Social People’s Leadership Committees, established in 1994. Nonetheless the “wathiqat al-sharaf” of 9 March 1997 commits the clans and tribes to loyalty to the revolutionary system and imposes a collective punishment on clans or tribes who perpetuate (armed) oppositional activities.

Associational activities

II. Market Economy

After two decades of comprehensive state socialism (“People’s Socialism”), Libya has only recently initiated a cautious series of changes that have accorded the private economy greater political status, broken up monopolies, and permitted foreign investment in Libya, and offered at least a chance for economic reform. Indeed, these changes have all come within the past five years, in large measure as a result of the economic consequences of U.N. sanctions. Implementation of reforms will depend on how forcefully Qadhafi supports the contents of reform. Acknowledgement of the free market is still modest and selective. Figures on income distribution do not exist, but Libyan society has traditionally tended toward egalitarianism. Despite this, there is an unmistakable tendency toward an expansion of lower income levels and the development of a small group of profiteers capitalizing on the process of economic transformation.

6 | Level of Socioeconomic Development

The U.N.’s 2006 Human Development Index (HDI) ranks Libya 64th of 177 countries. As such, the country is on the top in its “level,” particularly when

Socioeconomic barriers

compared with elsewhere in Africa (excluding the Gulf States). The revolutionary leadership's policies regarding the advancement of women have largely eradicated gender discrimination, while social exclusion due to poverty and lack of access to education is nearly nonexistent since health, education and social equality are high priorities. The salary level above the basic guaranteed salary is low due to wages having been frozen since the 1980s, which affects the lower salary brackets of the civil service, about 700,000 employees. At this salary level, civil servants are forced to take second jobs or find other ways of earning money, setting the stage for a high proclivity to daily low-scale corruption that is harshly criticized by Qadhafi. Yet, at the beginning of 2007 the salary level increased by 110 up to 275%. There is no East-West disparity within Libya despite an uneven population distribution, where population is concentration in the greater Tripoli area in the West. If any disparity exists, it is between north and south, as goods are often in short supply in the vast desert regions of the south. Legal immigrant workers and especially the over one million illegal immigrants from sub-Saharan Africa living in the country since the end of the 1990s face a relative disadvantage when compared to the permanent residents of Libya. In contrast to black Libyan citizens, they face also massive racial discrimination, such that in September 2000 some immigrants were even killed in the city of Zawiya.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	19,241	23,231	30,162	38,756
Growth of GDP	%	3.3	9.1	4.6	3.5
Inflation (CPI)	%	-9.9	-2.1	-2.2	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	117.0	3642.0	3503.0	14945.0
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-

		2002	2003	2004	2005
Government consumption	% of GDP	16.7	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.7	3.2	2.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.4	2.3	2.0	2.0

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Despite being ideologically prone to market intervention, the Libyan government, thanks in large part to high oil profits, has facilitated a free market framework with a well-developed infrastructure and diversified petrochemical industry. Efforts at industrial reform outside the petrochemical sector have so far yielded little progress. Nevertheless, detailed concepts about future adjustments to the economy do exist (\$35 billion, according to the Economic and Social Plan 2002 – 2006 or \$50 billion by 2005), which are to be instituted by the General Planning Council. During the First National Conference on Economic Activity, economic experts and businessmen met for the first time in February 2003 to discuss reform priorities. The result was the Statement in Support of the Implementation of 34 Reform Measures. Problems in the execution of these reforms, however, have arisen out of the blockages caused by bureaucratic mechanisms and turf battles between the agencies involved. These cause delays in decision-making and can result in poor decisions being made (sometimes by necessity) at the highest levels. Despite reforms in economic policy already in place, only Qadhafi has the authority to decree reforms and to order their implementation. But even Qadhafi cannot pursue the correction of existing problems single-mindedly since he must take into consideration the political and social consequences of reform. The faction favoring reforms of Shukri Ghanim (2004 – 2006) is opposed by the influential faction favoring the status quo approach of Ahmad Ibrahim (a member of the General Secretariat of the General People's Congress). Qadhafi himself did not clearly side with Ghanim and therefore, for instance, his criticism expressed in January 2001, of the bloated state apparatus, consisting of 700,000 persons, has so far produced no result due to the current deficit of at least 300,000 jobs and an unemployment rate of some 30%. While Libya continues to have a centralized economy, the revolutionary leadership has advocated more productive investments and greater efficiency in the past five years, and private enterprise has spread into an increasing number of sectors. The state encourages

Market-based competition

collective/co-operative private property, or companies owned by the workforce, which fits ideologically to Qadhafi's version of socialism, as he noted in a speech on January 12, 2005. Bureaucratic regulations and the lack of a legal framework often hinder quick implementation. As such, the Heritage Foundation/Wall Street Journal Index of Economic Freedom 2007 categorizes Libya as "repressed," and ranked 155th out of 157 countries. It is important to note, however, that Qadhafi's ideological positioning becoming increasingly flexible. For instance, Qadhafi now mentions the concept of "tashakuriyat," or the acquisition of companies by employees, not only in the context of people's socialism but also in the context of people's capitalism.

Progress has only been made to the degree that the revolutionary leadership has broken up monopolies (by revoking the exclusive privileges of state-owned companies and banks) and tolerated private business activity. Numerous industries – including crude oil production, aviation and energy production – remain state-owned.

Notwithstanding the mixed assessment given above, it must be noted that there were numerous decisions aimed at promoting market structures and competition during the period under consideration. Former "prime minister" Ghanem introduced a privatization program on behalf of the government, which represents a shift toward less state control over the economy. This reorganization created several new secretariats, which was expected to assist the economic reform process. In a report published in 2006, the IMF praised the Libyan authorities for their achievements in economic diversification, which was measured by the fact that non-oil GDP increased about 4.5% in 2005. By mid-2006, however, only 66 out of the planned 216 privatizations of small enterprises were reported to have been completed. It was also announced that Libya's divestment program would be broadened to include sectors such as insurance, health and transport. In addition, foreign trade has been almost entirely deregulated.

Libya's financial system is outdated and highly centralized. In 1970, the government nationalized all banks and private ownership of financial institutions was not officially permitted until 1993. Libya's first small private bank since 1969 was allowed in 1996. An active central bank and eight other government-owned financial institutions dominate the banking sector. While wide-ranging privatization of this sector is planned within the next ten years, there is no coherent plan to privatize state banks. Legislation passed in 2005 permits foreign banks to open branches. Three foreign banks had representative offices as of June 2006. The government adopted a law to establish a stock market in June 2006, but there is no capital market yet. At the beginning of February 2007, steps to modernize the banking system were made with the aim of further privatization of banks as well as of the accreditation of foreign banks.

Anti-monopoly policy

Liberalization of foreign trade

Banking system

8 | Currency and Price Stability

In 2005 and 2006, Libya's central bank pursued consistent inflation and exchange rate policies. As an institution, it was protected from ideologically motivated interference in much the same way as the crude oil sector. Inflation was reduced from approximately 40% in the middle of the 1990s to 2.6% in 2006 by appropriate measures. Most prices are determined by the government, through price controls and state-owned enterprises and utilities.

Anti-inflation /
forex policy

Libya's previously over-valued currency was standardized and adjusted to a more realistic exchange rate against the dollar in 2002, to 1.36 Libyan dinars per dollar. Libya's foreign debt to Russia – totaling between \$3 and \$4 billion – has not yet been amortized, mainly because of political considerations. Given the high price of crude oil in 2003 and 2004 (Libya's 2004 GDP was \$29,119 billion), Libya's foreign currency situation is still considered excellent since the price for crude oil has not increased.

Macrostability

9 | Private Property

Attacks on private property in the early 1980s, legitimized by the publication of Part II of the Green Book in 1978, have ceased and have even been reversed to some extent insofar as the reform initiatives introduced in the 1990s and include the return of houses to previous owners. The current politically motivated support of private enterprise offers additional protection for the rehabilitated owners. Following modifications to the Estate Property Law in 2004, the private ownership of more than one accommodation unit is allowed – a modification which came about due to an urgent need for 200,000 accommodation units for "rent" to Libyan as well as foreign residents. However, there is still little land ownership, and the government may re-nationalize the little private property that exists, especially that which has been granted to foreign companies.

Property rights

The state subsidizes the purchase of a companies by their workforce (private collective ownership) through an extension of credits. Act Number 21/2001 has been modified correspondingly. Foreign private investment in Libya was made possible by modifications to Investment Act Number 5/1997.

Private
enterprise

10 | Welfare Regime

The Libyan population has two types of social security: citizens are protected both by largely-intact family relationships or membership in a tribe, as well as by an extensive social security net and subsidy policy that, despite forced cutbacks,

Social safety nets

has remained a high priority for the revolutionary regime since 1969. Free education, near-free healthcare, health insurance, social security, and subsidies for basic foodstuffs and fuel are part of the government's welfare policy, and every Libyan citizen has access to these benefits. According to the U.N. definition, poverty does not exist in the country: no Libyan must subsist on less than 1 dollar per day.

Equal opportunity in education is offered by the welfare state, and more than 50% of students in some courses of study are women, even though family relations can restrict women's access to the job market and traditional social behavior and values result in gender-based discrimination. This is less true in the political sphere, where the revolutionary leadership has strongly supported women's participation. In November 2006, the Libyan general people's Committee had raised monthly social pensions from 90 Libyan dinars (\$72) to 130 dinars (\$104) for people without dependants, 180 Libyan dinars (\$144) for two-member families and 220 Libyan dinars (\$176) for families with three or more members. In January 2007, the Libyan General People's Committee passed a decree –which came into force retroactively, on 1 January 2007 – setting 250 Libyan dinars (\$200) as the minimum wage for employees of companies and institutions that are not paid from the public treasury. Parties concerned with the minimum wage increase include the individual, family or association activities, joint ventures, public, joint and foreign companies as well as the other institutions governed by the provisions of Law 21 and its rules of execution on the running of economic activities.

Equal opportunity

11 | Economic Performance

In macroeconomic terms, Libya's economy has suffered for over a decade due to U.N. sanctions throughout the 1990s and the finance crisis resulting from a hike in the price of raw materials in the 1980s. A rigid austerity policy restricting imports and cutting expenses reversed the negative GDP growth trend in 1999. Nevertheless, growth remained too low to provide competitive salaries in a number of important sectors. This was particularly true in the non-crude oil sectors, where annual growth was less than 3%. Libya's economic performance has also deteriorated in terms of deregulation, dismantling entrenched bureaucratic structures, and optimizing production and management processes. Corruption and mismanagement obstruct performance. Throughout the year 2004, Dr. Shkri Ghanem, former Secretary of the People's Committee, complained repeatedly of his lack of authority to fill executive posts with competent persons who enjoyed his confidence. The government's decision in December 2003 to cease all activities in the "Acquisition of Nuclear and Chemical Weapons of Mass Destruction" is a welcome step in economic terms. Ghanem's removal in March

Output strength

2006 shows that not all members of the General People's Congress share his ideas about the necessity of economic reforms. Economic decision-making can and does result in more positive results, albeit mostly when the government comes under duress. Once the economic costs of X become too high, decision makers bow to the central bank's advice and realign economic policy, often revising the interventionist practices of the past.

12 | Sustainability

The Libyan revolutionary leadership is aware of the finite nature of its crude oil reserves and, as a result, has been trying since the 1980s to improve the country's agro-industrial basis. In particular, the "Great Man-made River" (GMR) project, which accesses fossil water reserves for use in large-scale agricultural colonization in western Libya, is of major significance in terms of sustainability. Despite environmental protection laws passed in the 1990s, there are still considerable legislative shortcomings in the industrial sector, as well as in waste disposal and recycling. The General Environmental Authority, established in 2000, has begun operations. The position of Secretary of the Environment was created as part of the General People's Conference and operated between 2001 and 2003. In 2003, the responsibility for the environmental protection was delegated to the regional level, the Sha'biyat People's Congresses. Implementation remains problematic, however, as do the creation of environmental norms. Even in the Tripoli area, garbage collection still does not function well. International environmental agreements have, until now, been signed only selectively. While the Convention on Biological Diversity was approved, the Kyoto Protocol has not.

Environmental policy

A sophisticated education and healthcare infrastructure is in place nationwide and ranks among the best in all of Africa, with numerous clinics and 15 universities. The quality of education and medical treatment, however, lags behind the status of the infrastructure – a fact dramatically revealed by the HIV/AIDS scandal in Banghazi and contaminated blood banks. Figures for expenditures in education have not been released, but remain at a high level. So far, few forward-looking technical or industrial research facilities have been established. Existing facilities are state-run, with a few exceptions such as the Academy for Higher Studies in Tripoli.

Education policy / R&D

Transformation Management

I. Level of Difficulty

While there is no chance of institutional reform in the political sphere (such as re-legalization of political parties) and a certain degree of dogmatism is noticeable in the Jamahiriya governmental structure, this is not the case in the economic sphere. The economic arena is becoming less and less ideologically based, with this trend limited only by the need for it to occur at a rate that will not cause the government to lose face. One structural problem has to do with the high level of volatility in the legislative branch. The fact that many laws are modified shortly after being passed results in administrative confusion.

Structural constraints

Owing to the lack of political parties, the limited number of civil associations and the fact that occupational associations have been absorbed into the political system, civil society in Libya can be seen as either co-opted or non-existent. As a consequence of their long experience with repression, the population is apolitical and oriented primarily toward family and clan.

Civil society traditions

There are no irreconcilable ethnic, religious or social cleavages in Libya. The Berbers, which constitute approximately 20% of the population, have some reservations about the dominant Arabic emphasis in language and tribal lineage and the discrimination of the Berber language. Migrants from other African states in transit to Europe are associated with increasing levels of theft and violence.

Conflict intensity

II. Management Performance

The reporting period from 2005 to 2007 was characterized by a number of positive developments, including the current and projected high level of currency inflows derived from oil exports (amounted to \$29.4 billion in 2004), a per capita income of \$4,400 in the same year, the lack of ethnic/religious strife (no further conflict with Islamist groups since 1996-1997), negligible polarization in the distribution of goods, a nationwide (albeit bureaucratic) civil administration

and an unmitigated state monopoly on the use of force. Taken together, these factors combine to create positive conditions for modernization and low structural constraints on governance. Nonetheless, according to a report published in 2006 by the National Economic Strategy Team, entitled “National Economic Strategy. An assessment of the competitiveness of the Libyan Arab Jamahiriya,” mismanagement and the lack of trained personnel account for the difficulties, not the lack of planning or strategic concepts.

14 | Steering Capability

Since assuming power, the revolutionary leadership has formulated specific goals and pursued them consistently. In addition to social equality, these goals predominantly relate to national and economic self-determination and the effort to efficiently achieve self-sufficiency in food needs. These goals explain the high priority given to the GMR project and the slogan “power, wealth and arms in the hands of the people.” In principal, Qadhafi’s oft-stated goal of promoting Libyan development must be taken seriously. The revolutionary leadership sets strategic priorities and attempts to integrate them into its ideology. This is demonstrated in the support of a people’s socialism compatible with the Jamahiriya model, which, at the same time, remains pragmatic and willing to repeal politically motivated measures when necessary.

Prioritization

The political leadership is not prepared to carry out all measures “optimally,” that is, to formulate all objectives on the basis of pragmatic considerations. As such, contracts in the economic arena are awarded on the basis of political rather than economic criteria, as seen in the follow-up to the GMR project, when Canada was given a contract worth \$1 billion on the occasion of the visit of Canadian Prime Minister Paul Martin in 2004.

Implementation

It is not always easy for outside analysts to determine the motives behind individual decisions, though most contain a “revolutionary” rationale. In light of the political situation, decisions are largely predictable. As such, the homogeneity that characterizes decision makers and the hierarchical structure with Qadhafi at the top ensure that inefficiencies, such as conflicting measures taken by various sub-centers, occur seldom or not at all. Furthermore, the political role played by the People’s Congress/Committee system should not be overlooked. In January 2005, Qadhafi appeared before the People’s Conference to elaborate on the structure and the functioning of the Jamahiriya model, thereby confirming it. Irrespective of the consistency with which political and economic goals are being pursued, the inability to eliminate bureaucracy and inefficiency in the structures of civil administration is one of the system’s primary downfalls.

Policy learning

15 | Resource Efficiency

The continuing lack of transparency during the period under consideration means that only conditional statements can be made about the effective use of financial resources and budget funds, the majority of which are earned from the export of crude oil. Furthermore, a large portion of Libya's financial resources go toward political or politically motivated expenditures with no immediate effect on economic growth, among others, such as the Islamic mission (for example, the World Conference in November 2004), defense and support of liberation movements, global diffusion of ideology, the International Revolutionary Committee Movement, and the regional organization Community of Sahel-Saharan States (CEN-SAD), including financing its general secretariat. In addition, billions of dollars were disbursed during 2004 as payment for terrorist attacks in previous years (Lockerbie, LaBelle, Union des Transports Aériens or UTA). Military expenditures declined markedly, to only 740 billion dinars in 2004. It remains to be seen if the allocation of \$20 billion to the GMR project was a wise economic or business investment. However, politically motivated expenditures such as those mentioned above are not the only expensive projects under way; economically motivated projects, such as the African Investment Company, which has \$1 billion under its command are just as, if not more costly. In the case of the latter, expenditures have yet to be properly accounted for in the General People's Congress.

Efficient use of assets

Despite explicit planning and reform objectives, the unwieldy nature of the People's Congress/Committee system produces considerable inefficiency in practice. While acknowledged by the state auditing authority, attempts to mitigate this inefficiency have generally fallen short.

Policy coordination

The Anti-corruption Committee established in 1994 has not yet been able to significantly stem widespread corruption. In 2005, Libya ranked 117th out of 158 on Transparency International's Corruption Perception Index. Despite strict legal measures, the patronage-oriented tribal social structure and the need for material goods prevents forward progress in this area. However, fighting corruption is highly selective and politically motivated. The activities of the "lijan tathir" in the mid-1990s represent a powerful example of this tendency.

Anti-corruption policy

16 | Consensus-Building

There is no general consensus among the population about the continued political and economic evolution of the Jamahiriya system because some, including members of the Revolutionary Committees, remain committed to a state-run economy or oppose initiatives aimed at further opening foreign policy

Consensus on goals

and feel that permitting foreign investment is damaging to national sovereignty interests.

Those remaining committed to a state-run economy and the Jamahiriya system do not constitute “veto actors” as such. But the fact that the revolutionary leadership must consider these positions in policy-making prolongs the reform process. Despite dissenting voices, however, much of the public is genuinely committed to reform.

There are two irreconcilable positions taken by would-be veto actors in the political arena. The first is in the religious sphere, where Islamic groups label Qadhafi a heretic. Since the end of the 1980s, they have demanded that Shari’ah law be adopted, replacing secular governmental structures. While there is no doubt that the secular governmental model will remain, the revolutionary leadership has reacted to this position with widespread repression, branding Islamic groups as heretics or the “new charlatans.” The second point of contention relates to democratic transformation and is found between the revolutionary leadership, which supports the existing system, and the opposition, which demands basic freedoms such as the right to form parties and freedom of speech. Here, too, the opposition has been forced to give in and has either withdrawn into exile or been neutralized by repression.

There exists hardly any civil society and therefore no participation of civil society in the political process.

One indication of a turn away from previous policies came at the end of 2004 when Qadhafi directed the General People’s Congress to establish a committee to settle existing disputes with elements of the opposition living in exile in order to facilitate the opposition’s return to Libya. However, despite movement with respect to the freeing of political prisoners, the abolition of the People’s Court and the opening of prisons to outside inspection, a more general liberalization of the right to assembly remains unlikely.

17 | International Cooperation

External advice in general is considered as undesired political interference. Libya is very skeptical of integrating international assistance into the domestic agenda of reforms, but is quite aware of the advantage of international know-how and seeks out analyses of its domestic issues that have been conducted externally. Due to Libya’s excellent financial situation, it is not dependent on international donors. The government does not refuse advice in instances where it considers this necessary. As a result, Libya cooperates with the World Bank and the Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ).

Anti-democratic veto actors

Cleavage / conflict management

Civil society participation

Reconciliation

Effective use of support

In the mid-1990s, the revolutionary leadership initially concentrated international cooperation efforts with sub-Saharan African countries and Libya's immediate neighbors. Following the suspension of U.N. sanctions in April 1999, Libya formed a general policy of reconciliation with foreign powers with the objective of regaining full diplomatic authority in dealing with foreign nations. These measures resulted not only in the restoration of full diplomatic relations with the EU member states (including state visits during 2003 and 2004 by the prime ministers of Italy, Spain and Britain, as well as by the German chancellor and the French president), but also with the United States, including the resumption of diplomatic relations in 2004 and the lifting of the U.S. sanctions in 2004. In 2006, the United States finally removed Libya from its list of state sponsors of terrorism. For its part, the United States expressed appreciation for Libya's support in its so-called "war on terror." In any event, the trend of moderation of Libyan foreign policy is unmistakable and has opened the door to increased international economic cooperation.

Credibility

Although lifted U.N. sanctions in September 2003 provided some relief, continued U.S. sanctions limited Libya's ability to reform its economic policies. Crude oil production suffered in particular. To overcome sanctions, the Libyan revolutionary leadership took steps at the end of 2003 to end Libya's isolation vis-à-vis the United States and other Western countries. These steps included the cessation of activities aimed at acquiring weapons of mass destruction (WMD), exposing a network engaged in smuggling nuclear materials, a declaration of integration into the Barcelona Process, good neighbor policies (many of which were already in force) such as conflict management in Darfur and the Côte d'Ivoire, participating in CEN-SAD's development activities, settling disputes with Germany arising out of the LaBelle attack, with France in relation to the UTA attack, and paying compensations in connection with the Lockerbie dispute.

Regional cooperation

Strategic Outlook

Democratic transformation has seen a brief and asymmetrical evolution since the end of U.N. sanctions in 1999 and the resumption of reform efforts. So far, little has changed in the political arena and, as in the past, the revolutionary leadership stands in the way of any true freedom of expression, civil society development, or political participation. Libya has taken its first steps toward liberalizing its economy and implementing market economy mechanisms, but the revolutionary leadership will determine whether and how this trend will continue based on political and security considerations and assessments of its ability to retain power. In both the political and economic spheres, the existing powers are so strong that even the revolutionary leadership must take them into account. As such, it could not initiate radical changes even if it wanted to do so. No progress will be made toward democratic transformation in Libya as long as the dual structure of revolutionary and governmental sectors remains in place, with the revolutionary sector dominant and not subject to any formal checks and balances. Furthermore, Libya will be able to meet performance criteria only when political institutions with democratic instead of revolutionary legitimacy are created and the government is consistently responsible to voters. Until that time, only rudimentary reforms in the areas of rule of law, balance of power, and implementation of a private enterprise system can be expected. The possibility that this transformation will come from within is currently small, as the necessary actors are not in place, and high revenues from crude oil and the welfare state's ability to buffer economic problems also reduce the pressure to operate efficiently. The means available at present for promoting the process of democratic transformation from abroad are limited. Since U.N. sanctions were lifted in 2003 and the prospects for greater economic cooperation between Libya and Western business (including the return of U.S. oil companies) have improved, neither the United States nor Europe possesses the suitable means of applying political pressure. To the contrary, following its return to the international community in 2003 – 2004, Libya is now seen as a guarantor of stability, especially given the difficult circumstances in the broader Middle East region. There is also little reason to expect that the Libyan opposition living in exile will be able to exercise any influence, as it is fragmented and enjoys little support inside Libya itself. It has also lost support among Western third-party entities that have resumed contact with the Libyan government, including the United States and the European Union.