Libya

2012

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Libya

- Libya's civil war hugely disrupted the economy by cutting oil output, the primary source of revenue, to virtually zero. As a result, the economy contracted 41.8% in 2011 but as oil production recovers, it should expand 20.1% in 2012 as reconstruction takes holds, followed by a gain of 9.5% in 2013.
- Libya has a record of high social inequality, high rates of youth unemployment and regional economic disparities, not to mention years of poor governance and corruption. Libya's future depends on the ability of the interim government, headed by the National Transitional Council (NTC), to guarantee political stability and encourage thorough reform of the economy.
- Youth unemployment was among the main grievances that led to the Libyan uprising of 2011. The interim government inherits a labour environment of private sector rigidity, inadequate youth skills and a youth preference for public sector employment. Initiatives to encourage self-employment have been hampered by the difficult business climate. The difficulties will be compounded, in the short term, by the aftermath of the war but the political changes underway are an opportunity for the country to address these challenges.

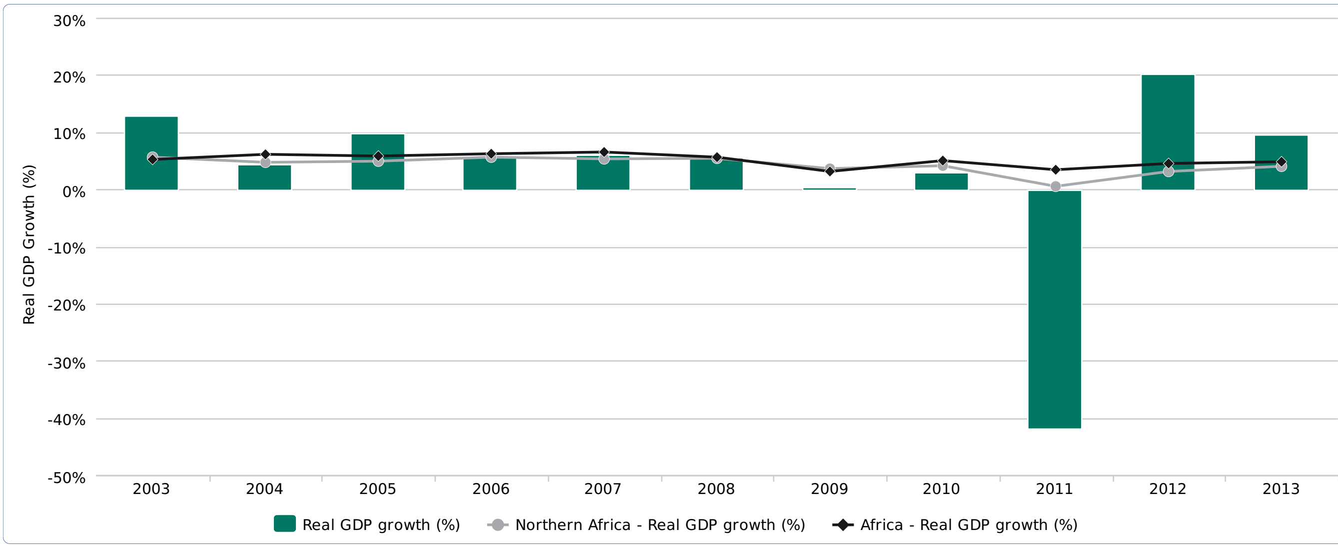
Overview

By any measure, 2011 was a momentous year for Libya. The fall of the Gaddafi government created, for the first time, an opportunity for the country to pursue the types of economic and social reforms that vested interests had previously prevented. Although the change is certainly an opportunity, the manner in which the revolution came about has had serious economic implications and created numerous challenges. Most importantly, Libya temporarily stopped producing and exporting oil, the country's main revenue source, while the freezing of the country's assets by the international community created significant obstacles. The conflict effectively brought the formal economy to a halt, resulting in an estimated 41.8% contraction in real GDP in 2011. Nevertheless, Libya's economy is expected to pick up as the political situation stabilises, with growth projected at 20.1% in 2012 and 9.5% in 2013. The speedy return of foreign oil companies alongside the strong international support the country has received bodes well for Libya's post conflict recovery.

A number of trends are evident. The interim government has taken necessary measures to build on the oil industry's strengths while mitigating the former government's mismanagement of the resource. Overall, the NTC intends to reform the economy as part of a comprehensive approach to the country's reconstruction. Government spending faces major pressures as subsidies and other forms of wealth transfers are channelled to those most affected by the conflict. As a result, the budget is expected to show a deficit equal to 17.1% of GDP in 2011, compared with a surplus of 8.7% in 2010, but this is expected to improve by 2012 with a positive balance of 13.6%. Despite the many challenges Libya faces in such areas as economic management, structural policies, social inclusion and governance, it is expected that the country will be able to make important strides in its reconstruction efforts if the interim government is able to maintain stability.

Libya will also have to confront the growing challenge of youth unemployment, an obstacle that has been aggravated by the economic difficulties created by the civil war. Libya has traditionally relied on the public sector to create employment, a measure that has proved unsustainable. At the same time, the country's inefficient private sector has been unable to compensate for the lack of jobs. Despite the government's efforts to reform the private sector and create opportunities by supporting entrepreneurs and small businesses, the inefficiencies of Libya's economy stand in the way of tangible improvements in the business environment. At the same time, Libya's education system inadequately prepares students to meet the demands of the labour market, resulting in a negative return on education.

Figure 1: Real GDP growth (Northern)



Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	2.9	-41.8	20.1	9.5
Real GDP per capita growth	1.4	-42.8	19.4	8.9
CPI inflation	2.5	11.4	6	5.1
Budget balance % GDP	8.7	-17.1	13.6	12.2
Current account % GDP	11.4	-6	15.8	13.1

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2006	2010
Agriculture, forestry, fishing & hunting	2.1	2.2
Agriculture, livestock, forestry and fisheries	-	-
of which agriculture	-	-
Mining and quarrying	68.3	64
of which oil	-	-
Manufacturing	4.6	5
Electricity, gas and water	1.2	1.8
Electricity, water and sewerage	-	-
Construction	4	5.7
Wholesale and retail trade, hotels and restaurants	3.6	3.9
of which hotels and restaurants	-	-
Transport, storage and communication	3.4	3.9
Transport and storage, information and communication	-	-
Finance, real estate and business services	6.2	6.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	6.2	6.7
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	0.4	0.4
Gross domestic product at basic prices / factor cost	100	100
Wholesale and retail trade, hotels and restaurants	-	-

Figures for 2010 are estimates; for 2011 and later are projections.

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Libya's economy, previously known for impressive levels of growth driven by its oil and gas industry, was seriously disrupted by the 2011 civil war. In addition to the impact that the freezing of the country's assets had on liquidity, the economy was disrupted by the shutdown in oil production and exports, as well as the decline of productivity resulting from the loss of human capital and the destruction of infrastructure.

Oil production and exports account for the majority of Libya's GDP, approximately 70%. However, during the crisis, as foreign oil companies evacuated staff and facilities were attacked by the warring parties, production and exports came to a complete standstill between April and August 2011. As a result, Libya's economy contracted 41.8% in 2011 compared to growth of 2.9% in 2010.

Nevertheless, as the security situation improves and reconstruction takes hold, the revival of the oil sector and of the economy as a whole seems increasingly promising. Real GDP growth is projected at 20.1% for 2012 and 9.5% for 2013.

OPEC has maintained Libya's official oil production quota at 1.47 million barrels per day and foreign oil companies have begun to return to the country. These include France's Total, Italy's ENI, Spain's Repsol and Occidental of the United States. Reflecting the commitment of foreign companies to return to pre-crisis levels of production, the Arabian Gulf Oil Company (Agoco) has ramped up output at the Sarir filed to 160 000 b/d and has begun pumping oil to the Tobruk terminal. ENI has committed USD 35 billion to double its Libyan oil and gas production by 2021.

Following the return of these companies, oil output reached 840,000 b/d in November 2011, leading the National Oil Corporation to claim that pre-crisis production levels could be reached by the end of 2012.

Though OPEC's estimates have been equally positive, it should be noted that Libya's oil output had been stagnating prior to the conflict, suggesting that the pace of recovery in the industry could face setbacks. According to a number of oil industry analysts, Libya's fields are old and production from some wells may not be possible due to the damage done to the facilities by the shutdown between April and August.

Prior to the overthrow of the Gaddafi government, attempts had been made on numerous occasions to overhaul the economy. These efforts however always met with opposition from those whose interests would be compromised by the reforms. The transitional government has recognised the importance of creating conditions that are more transparent and which support the integration of the economy into the global market. Given Libya's consistently poor performance on business environment surveys, the ability of the government to pursue genuine reform will determine the rate at which foreign investment returns.

One of the important reforms that the NTC has taken includes the re-establishment of the oil ministry. The Gaddafi government abolished the oil ministry in 2006 and left the management of the industry to the National Oil Corporation (NOC). The new ministry will be responsible for national oil policy, while the NOC will retain its role in the commercial side of the industry. These efforts should make important strides in reducing the kinds of arbitrary decisions, sudden reversals of policy and lack of transparency that troubled the industry under the former government. Both the new Oil Minister, Abdulrahman Ben Yezza, and the head of the National Oil Corporation, Nouri Berouin, have indicated their intention to facilitate greater openness.

In their efforts to increase transparency, and conscious of the fact that their positions are temporary given the transitional mandate of the government, both the NOC and the new Oil Ministry have agreed that all previous oil contracts will be respected, although those suspected of corrupt activities in the past will be investigated. The NTC has established a committee to investigate corruption in the oil sector with the aim of improving transparency in the industry.

Beyond reform efforts in the oil sector, policy for 2012 will focus on the reconstruction of the economy with the goal of rendering the economic system more business friendly. However, the chairman of the transitional governing body has expressed the aim of creating a more Sharia compliant economy. Although it is unclear to what extent the interim government is willing and able to do this, it is expected that the government will pursue efforts to make the financial services industry more compatible with Islamic banking practices, namely through the abolition of interest rates in favour of other remuneration mechanisms.

As a result of the perceived risks created by the conflict, foreign direct investment is expected to decline for 2011-2012. Yet there is potential for the non-oil sector to grow during the reconstruction of the country. Infrastructure programmes will support the construction, utilities, communication, transport and financial sectors. Lucrative infrastructure projects will likely attract foreign companies. Contracts associated with the reconstruction effort over the next 10 years have been estimated to be worth USD 240 billion which will be financed by the country's oil revenues.

In spite of foreign investment and foreign aid, Libya's reconstruction efforts face one important obstacle that is likely to affect growth in the coming years, namely the ability of the interim and future governments to create functional institutions. Libya's former political system, the Jamahiriya, encouraged a supposedly more participatory governing structure that favoured a multiplicity of profoundly inefficient self-governing local structures, the 'Basic People's Congresses.' Now, the NTC is tasked with building a modern bureaucratic system for the first time since Libya's independence. International financial and technical assistance will contribute to building institutions but it is up to the interim government to take advantage of these opportunities which will be crucial to the country's long term ability to surmount its many economic challenges.

Macroeconomic Policy

Fiscal Policy

The oil industry accounts for over 90% of the government's budget. As a result, in recent years Libya has benefited from the healthy budget surplus that accompanied high oil revenues, as well as the previous government's tendency to not fulfill its spending commitments.

Due to the impact of the 2011 crisis on the economy, Libya's budget turned to deficit, at 17.1% of GDP due to the loss of oil production and exports. Government spending will continue to increase as it covers various infrastructure projects as well as the hike in public sector wages that was implemented in the last days of the Gaddafi government. Although these factors will result in a decrease in the fiscal surplus compared to previous years, it is likely that the majority of these expenditures will be financed through debt secured against state assets and by the use of those assets that have been unfrozen.

Moreover, if the rate of oil production and exports continues to improve, the industry will be able to support the government's fiscal policy and ensure that the current account balance remains positive even as the government increases spending to support the country's post-war reconstruction efforts.

Oil revenues are expected to remain the government's main source of funding. Up until 2010, Libya's tax base was very narrow, with most taxes being collected from external trade. While the government made efforts to simplify the tax code, by introducing a flat rate of 10% for individuals and 20% for corporations, it was never able to implement this policy fully. Overall, like much of Libya's government prior to the revolution, the tax administration was subject to discretionary measures.

In terms of the quality of the budget and general financial management, prior to the conflict, Libya implemented a number of reforms through the unification of the current and investment budgets, along with some improvements in budget classification and the streamlining of government entities' bank accounts. Even with these changes however, the framework governing the state budget remained cumbersome. Libya's new government has yet to create a public budget, although given its intention to break with the former government's policies it is expected that they will focus on improving the accountability and performance of government management, including public financial management.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	49	62.4	61.5	65.6	60.7	62	38	63.8	72.3
Tax revenue	2.1	2.5	2.7	3	5.4	4.8	5.5	4.3	4.5
Oil revenue	44.8	57.5	55.7	62.3	55	56.9	32.1	59.1	67.4
Grants	-	-	-	-	-	-	-	-	-
Total expenditure and net lending (a)	39.5	31	34.8	39.6	55.3	53.4	55.1	50.2	60.1
Current expenditure	31.1	13.4	13.2	16.2	26.8	25.9	45.5	40.6	44.6
Excluding interest	31.1	13.4	13.2	16.2	26.8	25.9	45.5	40.6	44.6
Wages and salaries	8.3	6.6	7.8	6.7	11	10.3	17.4	15.2	15.8
Interest	0	0	0	0	0	0	0	0	0
Primary balance	9.5	31.4	26.7	25.9	5.4	8.7	-17.1	13.6	12.2
Overall balance	9.5	31.4	26.7	25.9	5.4	8.7	-17.1	13.6	12.2

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Libya's crisis drove inflation sharply higher, to 11.4% in 2011 from 2.5% in 2010. Given that the country imports the majority of its food – perhaps as much as 75% according to some estimates -- the upturn in prices can be attributed in part to the rise in food costs. Food shortages during the conflict combined with price increases in the international market in 2011 greatly contributed to the increase in inflation. Inflation is expected to ease but ongoing pressures will keep it at 6% in 2012 and 5.1% in 2013. It is likely that government subsidies will be maintained or even increased, thus ensuring that prices for many staple goods remain stable.

It is unlikely that there will be any significant changes to the exchange rate, since the currency is pegged to the IMF's special drawing rights (SDR) which restricts monetary policy flexibility. However, as stability returns to the country, and sanctions are gradually lifted while oil revenue recovers, Libya will regain access to billions of dollars of foreign reserves that will provide ample support to the currency.

The conflict affected monetary policy primarily through its impact on Central Bank liquidity. The net foreign assets of the Central Bank of Libya and the Libyan Investment Authority (LIA) were estimated at USD 150 billion at end-2010, equal to about 160% of the country's GDP. Once the conflict began, Libya faced liquidity problems due to the freezing of assets overseas. Importantly, however, the Central Bank governor has confirmed that none of the Central Bank's assets were stolen during the conflict. Under the former government, the Central Bank sold 20% of its gold reserves in April 2011 to cover the increase in public sector salaries introduced that month.

As of December 2011, Libya's interim government had been given access to USD 120 billion in frozen assets by the UN Security Council since the Central Bank was taken off the sanctions list and the transitional government had begun talks to ensure the timely release of the remaining frozen assets. As a result of these measures, it is estimated that the liquidity problems faced by the Central Bank will not continue to be an issue.

Economic Cooperation, Regional Integration & Trade

As a signatory to the Greater Arab Free Trade Area (GAFTA) and the Arab Maghreb Union (AMU), with ties to the community of Sahel-Saharan states (CEN-SAD) and the common market for Eastern and Southern Africa (COMESA), Libya has a strong framework in place to pursue regional integration through trade. Additionally, Libya has bilateral agreements with Morocco and Jordan. In 2008, Libya began negotiating a free trade agreement with the EU, its main trading partner.

Beginning in 2003, and as a part of the former government's overall economic reform efforts, Libya undertook progressive attempts to harmonise tariffs, streamline clearance procedures and generally facilitate business activity. For example, Libya undertook a number of trade reforms, began negotiations for WTO accession in 2004 and engaged with a number of its most important trading partners in order to develop bilateral and multilateral free trade agreements. As part of these reform efforts, the government reduced subsidies and the number of state importing monopolies while limiting the number of import bans, abolishing import tariffs and replacing them with a flat port tax, as well as reducing the list of goods subject to import licenses. In 2010, the government also took measures to clarify the types of businesses that could be established in the country and simplified customs law.

In spite of these efforts, discriminatory internal taxes continued to be used as a trade policy tool. Tariff rates were adjusted frequently with no transparency and exceptions were frequently given to specific firms. The interim government has not been in a position to improve these policies but its commitment to make Libya more competitive in the global economy suggests the NTC will take steps to improve the country's economic cooperation policies.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	13.7	49.6	39.2	35.4	20.4	19.6	9.5	27.8	23.7
Exports of goods (f.o.b.)	43.2	71.3	63	53.3	50.3	48.4	32.3	50.5	56.3
Imports of goods (f.o.b.)	29.5	21.7	23.8	17.9	29.9	28.8	22.9	22.7	32.6
Services	-3.1	-3.4	-2.6	-3.2	-6.3	-5	-8.8	-9.5	-9.1
Factor income	0.9	2	1.1	0.6	0.8	-1.3	0.1	1.1	1.6
Current transfers	-4.9	-0.2	-0.3	-0.9	-2.1	-1.9	-6.8	-3.6	-3.1
Current account balance	6.6	48	37.5	31.8	12.7	11.4	-6	15.8	13.1

Figures for 2010 are estimates; for 2011 and later are projections.

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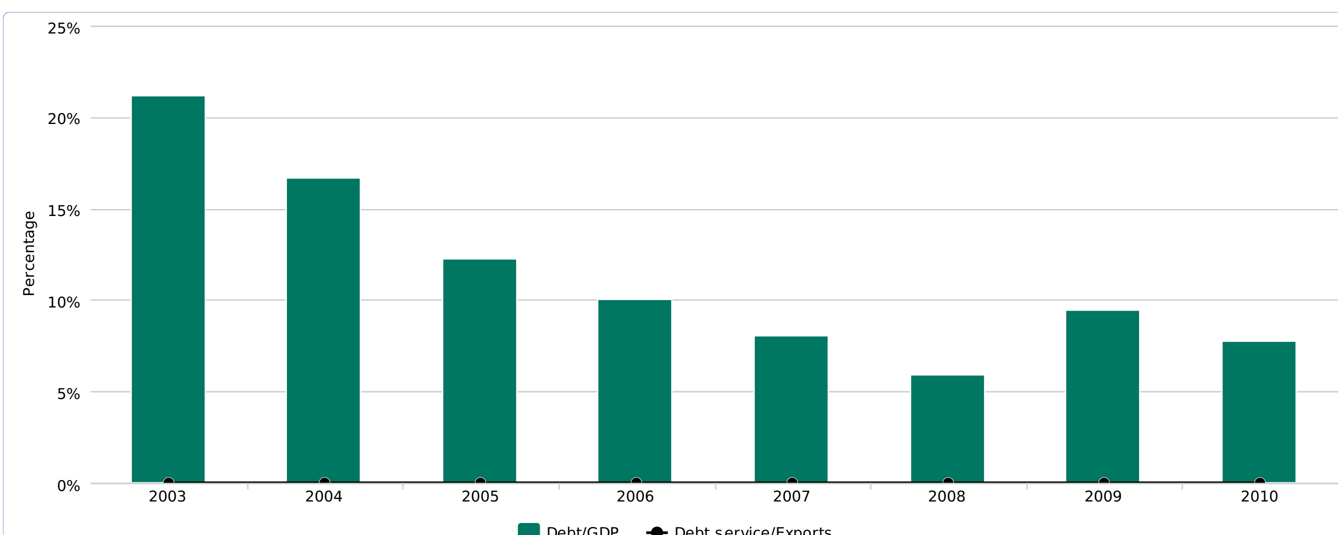
Debt Policy

In 2010, Libya had external debt of some USD 4 billion, negligible when compared with more than USD 150 billion in foreign assets. Although Libya is poised to raise loans to fund reconstruction, the unfreezing of its assets abroad and the resumption of oil production means it is unlikely the country will need to incur any large-scale debt.

The conflict hit Libya's debt ratings. Standard and Poor's downgraded Libya's debt rating in March 2011 to BB/B, 'junk' status, from BBB+/A-2. Ratings were later suspended because of the lack of timely and reliable information available given the heightened political risk, the sharp reduction in economic output and uncertainties stemming from regime change.

However, as the political situation stabilises, the central bank will once again be accountable for managing debt, which will require greater coordination between debt management and other macroeconomic policies.

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



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Economic & Political Governance

Private Sector

The general business climate in Libya suffered greatly as a result of the 2011 conflict, with regulation seriously impaired. These problems should improve as the country stabilises but it is important to note that the business climate under the previous government was already very weak. Even after the government carried out a major overhaul of regulations in 2010, the business environment was still viewed as consistently poor, mainly due to the required use of licences and permits, as well as other compliance mechanisms.

Further, although an ambitious programme to privatise the banks and develop the financial sector was introduced, there remained significant constraints on investment. Banks ended up only partially privatised while interest rates were decontrolled and competition encouraged. However, the financial markets were and remain underdeveloped, playing a very limited role in the economy. There were no markets for government or private debt and the foreign exchange market was small.

Libya also faces a challenge with regards to the large informal sector that accounted for an estimated 30% of the economy in 2010 and which has come to dominate activity in the aftermath of the conflict. As the new government takes shape, it will be important to introduce measures to sustain previous liberalisation efforts in the private sector.

The country also faces the problem of the loss of foreign labourers. Migrant labourers accounted for a substantial part of the construction force prior to the conflict and the majority fled the country as violence increased. While some Tunisian migrant workers have returned since hostilities ended, Egyptian labourers are finding it difficult to come back as Libya has altered its immigration policy and now requires them to obtain a working visa. Meanwhile, migrant labourers from Sub-Saharan countries are unlikely to return following repeated incidents of violence against them during the conflict.

Financial Sector

Libya's financial sector was largely resilient to the global financial crisis but proved much less able to cope with the internal conflict which badly damaged the formal sector. Access to financial services, already very limited, deteriorated significantly. With recovery, the financial sector will see improvements but the transitional government must not only make up for the setbacks suffered during the war but also work to remedy the problems in place before the conflict.

Libya's government has for some time been aware of the weaknesses in the financial sector. As a result, the banking system underwent a significant modernisation programme under the former regime to upgrade products and services, to deal with non-performing loans, to establish a functional national payments system and facilitate use of non-cash payment instruments, while setting new standards of accounting and training.

Reforms brought a degree of privatisation and foreign participation in the banking sector but this remains extremely limited. Furthermore, access to private financial services still suffers from fundamental structural issues. This is in large part due to the role that Special Credit Institutions (SCIs) played in Libya and their ability to crowd out commercial bank credit by providing zero-cost financing. Additionally, the culture of "connected lending," whereby loans were often provided based on personal connections, greatly affected the availability of finance. As a result, a very small percentage of the population has access to formal sector financial services. Finally, collateral requirements and other legal and regulatory frameworks are burdensome and constrain access to credit for small borrowers, mainly due to the difficulty of proving ownership title to land.

Libya's transitional government has stated its intention to strengthen the country's financial sector. In order to do so, it will have to ensure that any reforms implemented run deeper than those of the former government. In many cases, this will mean creating institutions from scratch, and especially improving transparency mechanisms to ensure that corruption is tackled.

Public Sector Management, Institutions & Reform

Public sector mismanagement has been a chronic problem in Libya. Prior to 2011, there were no effective checks and balances on executive power, government decision-making was secretive and special interest groups held sway. There was no independent press and the government made it very difficult for any form of independent civil society to exist. Indeed, many of the grievances that led to the 2011 uprising were driven by public sector corruption and lack of participatory mechanisms.

Before the conflict, property and contract rights protection were a major risk factor. Manipulation of property and contract rights was endemic, while laws and regulations were rarely applied or enforced. Favouritism rather than equal treatment pervaded interactions with the state and foreign companies faced problems if they found themselves in conflict with state interests.

Although the interim government aims to break with past policies, its ability to protect private property and support rule-based governance has been weak since the start of the conflict. This has become a problem in areas thought to have supported the former government – in many cases, rebel forces looted these areas freely and told locals not to return to their homes.

It is unclear what impact a new constitution and government will have on the predictability, transparency and impartiality of Libya's legal system. However, it is certain that the new government must tackle a legacy of a corrupt judicial system, a difficult reform. The interim government, although officially in control of the entire country, has struggled to establish ministries thus far, but this should improve in the coming months if future elections are perceived as legitimate.

Natural Resource Management & Environment

Libya faces serious challenges in natural resource management despite the enactment of environmental protection laws in the 1990s and the ratification of numerous conventions. A major concern is the depletion of underground water resources as a result of overuse in agricultural developments, causing salinity and sea-water penetration into coastal aquifers. Recent coastal development is leading to uncontrolled depletion of these coastal aquifers, exceeding their annual replenishment capacity, which allows seawater encroachment. As a result of high salinity levels, some aquifers are now almost unusable.

The low priority given to biodiversity, habitat protection and air pollution will have long-term effects on the country's ecosystem. The main challenges lie in the absence of appropriate policy instruments and weak institutional capacity to address environmental issues and implement effective policies and strategies. Hostilities prevented any major progress in the last 12 months and it is likely that given the other problems the country must deal with, environmental concerns will not be a priority.

Political Context

Inspired by the popular uprising against long-time rulers in Tunisia and Egypt, an anti-government protest began in Libya's eastern city of Benghazi on February 15, 2011. Unwilling to acknowledge the claims of protestors, the government responded to the protests with lethal force, leading to an escalation of violence and the creation of an alternative governing body, known as the NTC. As casualties mounted, the UN Security Council adopted resolution No. 1973, authorising "all necessary measures" to protect civilians in Libya and imposing a no-fly zone over the country. With international support, the rebel forces were gradually able to take control of eastern Libya despite their significant lack of military experience. The conflict remained in stalemate until the opposition gained control of Tripoli and its surroundings in August, effectively ending the government's 42 years in power. Two months later, Libya was declared liberated following the fall of the coastal city of Sirte and Gaddafi's death.

The NTC has been working to rebuild the state apparatus amid conflicting demands from the regions. In August, the NTC issued a temporary constitution establishing a democratic and independent state with Tripoli as its capital, Islam its religion, Sharia law as the main source of legislation and Arabic as its official language.

The transitional process in Libya is proving difficult. The interim government suffers a problem of legitimacy with various minorities, tribes and regions who feel they are not given proper representation. Reflecting the pressures and the problem of legitimacy, the prime minister of the interim government has changed several times. Elections are planned for 2013.

Perhaps the most difficult issue is the process of reconciliation that will need to take place between areas of the country that were from the outset fighting against the Gaddafi government and those that fought for it or tried to stand aside. Additionally, the NTC has been unable to effectively demobilise the various rebel groups, although efforts are in place to create an organised army. It is likely that the pervasive presence of weapons alongside disputes over political participation will complicate security matters in the country for years.

Social Context & Human Development

Building Human Resources

Before the 2011 conflict, the majority of Libya's population had access to basic sanitation facilities and essential drugs. In 2009, Libya had the second highest UN Development Program Human Development Index (HDI) on the African continent, rising from 0.741 in 2005 to 0.760 in 2011. The government provided free basic health care through public hospitals and clinics, the main ones being in Benghazi and Tripoli. The government embarked on a variety of institutional reforms but the healthcare system continued to suffer from many deficiencies due to poor capacity, low financial remuneration of healthcare personnel and poorly-equipped facilities. As a result many Libyan nationals sought healthcare abroad, primarily in Tunisia and Egypt, but also in Europe, particularly in the United Kingdom and Switzerland.

The state of public health provision deteriorated significantly during the conflict, with hospitals in contested cities faring particularly badly as staff in some cases were forced to flee the violence. The transitional government is currently addressing the most pressing infrastructure issues in healthcare provision but it is likely that the medical system will remain a challenge for some time to come.

The authorities have paid more attention to HIV/AIDS but a lack of awareness about the disease and the social stigmas associated with it remain important challenges. Libya has about 11 000 people infected with HIV, or a prevalence rate of 0.13 percent. While the prevalence of HIV/AIDS in Libya remains low by global standards, the ignorance and social stigmas surrounding the disease mean that people living with HIV are alienated while the general public is uninformed about the nature of their condition and the medical assistance available to them

In 2007, Libya achieved universal enrollment in primary education while gross secondary enrollment hit 94%. The adult literacy rate rose to 87% -- 94% for men and 78% for women. The curriculum, however, is of poor quality and teachers receive inadequate training. Libya's problems of unemployment and youth unemployment in particular largely result from a miss-match between the skills developed by the education system and those demanded by the labour market. Given the role unemployment played in driving the uprising against the government and its potential for causing social unrest, Libya needs to address this issue in the interest of promoting promote economic and political stability.

Poverty Reduction, Social Protection & Labour

The former government provided large yet often inefficient subsidies to broad segments of the population, including healthcare and education, together with housing and price controls on several basic food products. The unrest in the county suggested these measures failed in their objectives and worse still, contributed to the abuse of public resources by the elite, leading to increased inequality.

In February 2011, the government attempted to quell the growing protests by hiking salaries, cutting food prices and giving all households the equivalent of a USD 400 allowance, costing some USD 480 million in all. It is likely, given the economic hardship Libyans are currently facing, that some of these subsidies will be maintained. There is currently no data available on the specific poverty impact of these expenditures, their focus, or how the new government will move forward on this issue.

Libya's labour market continues to be regulated and its workforce protected. However, many of the country's labour laws have discouraged job creation in the formal sector -- specifically, their provisions on a minimum wage, working hours, night shift regulations, and dismissal procedures and training requirements. Laws governing dismissal are strict, favouring the employee. The 1980 Social Security Law requires employers to pay a severance benefit to laid-off employees equal to 100% of earnings for up to 6 months. It is unclear whether Libya's transitional government will address the deficiencies of the labour market in the near future but its aim to expand the formal sector suggests it will consider addressing labour regulations deemed counterproductive.

Beyond the remit of the labour laws, there are concerns over protection for casual, family and household workers. Migrant workers are particularly vulnerable and suffered during the conflict from accusations that they were supporters of the former government or hired mercenaries. Most of these labourers fled to their home countries or are currently in refugee camps and it is unclear whether they will return to Libya once the political situation stabilises.

Gender Equality

Libya's former government pursued gender sensitive policies but little progress has been made in promoting equal access to resources since social norms and traditions make it difficult for women to get access to finance and land ownership.

The most common form of violence against women in Libya is domestic. However, during the 2011 conflict, both opposition and loyalist forces carried out acts of sexual violence. The Chief Prosecutor for the International Criminal Court has indicated there is evidence that hundreds of women were victims of sexual violence.

Thematic analysis: Promoting Youth Employment

Over the past four decades, Libya has relied on the government and on state enterprises for employment creation. If initially this approach was successful in creating jobs, in the last 10 to 15 years, rapid population growth and a youth ‘bulge’ in particular has made it impossible for the public sector to provide enough jobs to keep the unemployment rate under control. According to the 2006 census, Libya was struggling with an unemployment rate of 20.7%. At the same time, the private sector has not been able to fill the gap given the wider problems business faces in general in Libya. Additionally, corruption and a lack of transparency in both the public and private sectors has hindered competition and lowered efficiency, further complicating the ability of the formal sector to create employment opportunities.

Given the recent instability, as well as the former government’s previous practice of under-reporting unemployment, it is impossible to provide accurate figures on youth employment. Available data shows that the public sector accounted for more than 50% of the country’s employment.

The informal economy accounts for most of the remainder given its flexibility, including the relatively low wages that employers can offer, as well as their ability to avoid labour laws such as working hours’ regulations, severance packages and other benefits.

The rigidity and inefficiency of the private sector is certainly a source of the high level of unemployment in the country but the mismatch between the skills taught by the education system and those demanded in the market place has a large role to play, especially in youth unemployment. Libya has invested a great amount in access to education, as demonstrated by high literacy and enrollment rates, but it has been less successful in improving the quality of education. The training of educators has been limited and in general the system focuses on memorising facts rather than building problem-solving skills. As a result, employers prefer to hire those with work experience rather than those with advanced degrees.

The rise in youth unemployment has also resulted from the tendency of those who are well educated to pursue careers abroad. Such a ‘brain drain’ is a damaging since it creates negative returns on education investment while at the same time decreases the ability of the home country to develop ‘high knowledge’ and productive industries. In addition, many young Libyans are reluctant to take jobs that are not considered “prestigious” or require intense labour. The social stigma associated to labour intensive employment, as well as high salary demands is the result of a general expectation that the public sector will be able to provide young graduates with employment opportunities. Rather than searching for alternatives in the private sector, many young Libyans were, prior to the conflict, willing to remain unemployed until an opportunity in the shrinking public sector became available.

Over the past thirty years, the Libyan government has lacked a comprehensive strategy to promote youth employment. Instead, it relied on an initiative launched by the National Economic Development Board (NEDB) in 2007, which created a Small and Medium Enterprises programme to support young Libyans in starting their own companies. However, the systemic obstacles of Libya’s business climate virtually ruled out the possibility of success for these entrepreneurs. Following the official launch of the program, the NEDB received little to no help from other government agencies and no funding from the government to support the initiative.

Although unemployment was not the only source of the grievances that led to the 2011 uprising, Libya’s chronic youth unemployment problem was a major reason behind the instability that eventually led to the toppling of the Gaddafi government. Recognising the importance of this issue, the interim government has on numerous occasions highlighted its intention to create jobs, reform education and support the private sector to reduce unemployment. In an attempt to remove some of the obstacles, the NTC has created a labour ministry which will contain a department dedicated to training.

While the interim government has taken important initial steps to address the rise in youth unemployment, the country will continue to face a number of challenges in its attempts to create jobs as a result of the economic problems thrown up by last year’s conflict. The oil sector is recovering quickly but the disruption caused will have a longer-term impact on the Libyan economy and its ability to create jobs. The interim government has acknowledged the importance of diversifying the economy. Rather than relying strictly on the public sector or the oil industry to provide the majority of employment opportunities, the NTC is looking to alternatives but such a course is difficult to achieve while the socio-political situation in Libya remains unstable.

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