

## Reforming Subsidy Program

### A Case Study of Libya

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## إصلاح برنامج الدعم الحكومي

دراسة حالة ليبيا

### المستخلص

أظهرت الدراسة بأن برنامج الإصلاح لا ينصب على مسألة تقليص حجم الدعم على السلع فهناك اسراف فاضح في دعم المحروقات وبعض السلع الأساسية ومن الضروري تقليص الدعم على بعضاً منها ورفعها بالكامل على البعض الآخر، ولكن المسألة الحقيقية التي تناولتها الدراسة هي أي من السلع تقلص وأي منها ترفع بالكامل، ومن ثم ما هو السعر التعادلي الذي يجب أن يحدد والذي يحقق أقصى منفعة اجمالية للمجتمع الليبي.

ناقشت الدراسة إيجابيات تطبيق برنامج استبدال الدعم السلعي بالدعم النقدي وما يحققه البرنامج من زيادة في الدخول النقدية للمواطنين، من خلال ترشيد إنفاقهم بدل من أن يفرض عليهم استهلاك سلع معينة يسرف في استهلاك بعضها ويهرب بعضها الآخر، كما ناقشت الدراسة الإجراءات الاحترازية التي تصاحب تطبيق برنامج الاستبدال لضمان تحقيق ارتفاع حقيقي في دخول المواطنين وليس ارتفاع نقدي.

اختتمت الدراسة بأن برنامج الإصلاح لا يمكن اخذه بمعزل عن المشاكل الاقتصادية الأخرى التي تعاني منها الدولة الليبية، وبالتالي أوصت بضرورة دراسة وتحليل جميع المشاكل المتعلقة بالدعم

الحكومي، ونقص السيولة، وارتفاع أسعار السلع الأساسية، وظهور سوق الموازية لصرف الدينار الليبي قبل تقديم السياسات والتوصيات اللازمة لإصلاح الوضع الاقتصادي الراهن.

الكلمات المفتاحية: إصلاح الدعم: ليبيا.

### **1. Introduction**

The main aim of this study is to analyse reforming subsidy program in Libya. The reasons for focusing on Libya stem from the fact that Libya is surfing from economic and financial crisis. Libya has recently faced the closure of oil terminals by rival groups that has so far resulted to steep decline of the oil exports, the output of Libya's economically crucial oil industry collapsed to a small fraction of its usual level, with most facilities blockaded or damaged.

Furthermore, the decline in oil prices that began in the middle of 2014, presents an opportunity for Libyan government to reform their subsidies program. These subsidies have a host of negative effects on an economy—encouraging wasteful consumption, creating a large fiscal burden on public budgets, disproportionately benefiting wealthier households, and increasing the smuggling fuel and subsidies foods abroad. Therefore, there is one main hypothesis in this study; the reform to these subsidies in this time is important but must apply with reforms package of the other related policies to be good for the Libyan economy, (IMF 2014).

The empirical work of this study examines the above hypothesis, it is descriptive statistics approach to describe and analyse the basic features of the data in the study. The study by above approach

provides simple summaries about the evaluation of the performance of the subsidy program in Libya and its impacts on public budget and highlights the elimination of subsidies, without any offsetting policy actions, would reduce the household welfare at all levels of income distribution.

The data for this study have been drawn from two principal sources: (I) International Agency Reports, the major sources of data for the empirical work are the World Development Indicators (World Bank), International Financial Statistics (IMF). (II) Official Government Publications, including the Central Bank of Libya Economic Bulletin; Libyan Audit Bureau report, and Libyan Administrative Control Authority reports.

The study is organised to five sections: Second section reviews few previous case studies were conducted on countries from mix religions, Third section evaluates the performance of the subsidy program in Libya, Fourth section answers questions in terms of the status of chapter 4 of public budget and the strategy of Ministry of Economy in administering the subsidy; and Fifth section provides recommendations for the preparation of the subsidy reform program.

## **2. The case studies reviewing subsidy reform over the past two decades:**

This section presents country case studies experienced subsidy reform, which are the basis for the reform lessons identified in the paper. The choice of countries for the case studies depends on the availability of previously documented evidence on country-specific reforms and the

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obtainable data (Table 1). The 15 country case studies were also selected to provide cases from various outcomes of subsidy reform.

The studies including three from sub-Saharan Africa, one in developing Asia, three in the MENA, one in Latin America and two in Central and Eastern Europe. The case studies are organized by energy product, with 13 studies of the reform of fuel subsidies, one study of the reform of both electricity and coal subsidy. The larger number of studies on fuel subsidies reflects the wider availability of data and past studies for these reforms. The 10 case studies cover 15 major reform episodes (Table 1). These involve episodes in which governments attempted to reduce the fiscal burden of subsidies by raising retail energy prices or improving the efficiency of state-owned enterprises in the energy sector. Out of the fifteen reform episodes, three were classified as a success, eight as a partial success, and four as unsuccessful.

Table (1) Summary of Country Energy Subsidy Reform

Country	Energy Product	Reform Episode	Reform Outcome *	IFM – Supported Program
Turkey	Fuel	1998	Successful	Yes
	Electricity	1980s	Successful	Yes
Poland	Coal	1990s	Unsuccessful	Yes
	Coal	1998	Successful	No
Indonesia	Fuel	1997	Unsuccessful	Yes
	Fuel	2003	Unsuccessful	No
	Fuel	2005	Partially Successful	No

	Fuel	2008	Partially Successful	No
Chile	Fuel	Early 1990s	Successful	No
Iran	Fuel	2010	Partially Successful	No
Yemen	Fuel	2005	Partially Successful	No
Mauritania	Fuel	2008	Unsuccessful	Yes
	Fuel	2011	Partially Successful	Yes
Nigeria	Fuel	2011-12	Partially Successful	No
Niger	Fuel	2011	Partially Successful	No
Ghana	Fuel	2005	Partially Successful	No

(\*) Successful: those countries, who achieved a reduction of subsidies for at least a year. Partially successful: those countries, who issued reform policies and subsidies, are remaining. Unsuccessful: subsidy reforms that failed, with price increases or efforts to improve efficiency in the energy sector being rolled back soon after the reform began.

**Source:** Case studies on energy subsidy reforms: lassoes and implementations, IFM, (2013)

Subsidies in the Energy Sector: An Overview", World Bank, (2010).

### **3. The evaluation of the performance of the subsidy program in**

#### **Libya:**

#### **3-1- Food subsidies in Libya:**

#### **3-1-1- The historical development of the food subsidies in Libya:**

The following table summarized the historical development of the food subsidies in Libya from (1971) establishing the National

Corporation for Commodities Supply (NCCS), until 2013, where the financial crisis has obvious influence on the Libyan economy.

Table (2) The developments of the food subsidies through past decades

	<b>The subsidy's forms</b>	<b>Types of subsidized goods</b>
1	From 1971 to 2003, the Libyan government has adopted the food subsidy policy by establishing the National Corporation for Commodities Supply (NCCS), the main purpose of this corporation was to balance the basic goods' prices. The (NCCS) works according to the rules set by the Ministry of Economy and the Ministry of Finance in order to create balance between demand and supply in the basic goods by providing some goods, which its quantities sufficient to meet domestic market demand to avoid increasing in its prices.	Flour, wheat, barley, rice, oil, sugar, tea and salt
2	In 2004, the list of subsidized goods was modified to cover the certain important basic goods.	Pasta, barley coffee, beans, tomatoes, condensed milk, olive oil, wheat.
3	In 2005, the list of subsidized foods was reduced to be restricted to certain most important and higher cost basic foods in the household budget.	Flour, rice, sugar, oil, tea and semolina
4	In 2006, the government decided to subsidize only four types of basic goods.	Flour, rice, semolina, pasta
5	In 2007, the government assigned 500 million LDs to subsidize only three types of basic goods and decided to replace the rest types to cash payment to citizens (pay every Libyan 4 LDs a month).The decision was not implemented for two reasons: - The government was not able to pay to all citizens.	Flour, rice and semolina

	- The most of people complained about the inadequacy of the amount and they saw the replacement program was unfair.	
6	In 2009, the former General People's Committee (GPC) issued decision No. (451), to integrate the (NCCS) in new fund, the fund is called Prices Stabilization Fund (PSF); the (PSF) took all (NCCS) authority and tasks. One year later, the (GPC) made decision No. (208), this decision described how the (PSF) work and operating.	Flour, rice and semolina
7	Until 5 <sup>th</sup> Mar 2011, only four types of basic foods were remained under subsidy programme, while the other subsidized types of foods have been liberalized and became sold in the market according to their commercial prices.	Flour, rice and semolina
8	In the beginning of Mar 2011, the government retrieved all previous subsidized goods; (about twelve types of goods became subsidized). The former regime did that in an attempt to win the satisfaction of the people in the beginning of Feb Revaluation. This situation continues till 2013, where the financial crisis has obvious influence on the Libyan economy.	All subsidized goods in previous periods (+) Baby milk. (-) Wheat, olive oil, beans, coffee.

### -1-2- The cost of public expenditure to implement the food subsidy program;

The following table illustrates the total public expenditure to subsidize 12 type of basic goods for year 2013:

Table (3) Total public expenditure to subsidize food for year 2013

Type of good	Cost-kg	Selling kg-price	Difference between the cost and the selling price	Annual per capita	Value of annual subsidy	Proportion to the total subsidy
1   Flour 10 kg	1.058	0.100	0.985	18.000	17.239	3.1

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	Flour 25 kg	1.007	0.080	0.927	18.000	16.693	3.0
	Flour 50 kg	0.959	0.037	0.922	144.000	132.826	24.0
2	Rice 25 kg	1.559	0.140	1.419	30.000	42.564	7.7
3	Sugar 50 kg	1.318	0.250	1.068	24.000	25.622	4.6
4	Vegetable oil 12 kg	3.402	0.600	2.802	18.000	50.439	9.1
5	Tomato paste 12 kg	2.141	0.600	1.541	12.000	18.497	3.3
6	Red tea 10 kg	5.860	1.500	4.360	1.200	5.232	0.9
7	Green tea 10 kg	4.334	1.500	2.834	1.200	3.401	0.6
8	Yeast to baker 25 kg	5.345	1.350	3.995	0.720	2.876	0.5
9	Baby milk 9.6 kg	12.250	7.500	4.750	15.200	182.400	33.0
10	Condensed milk 19.68 kg	2.622	0.976	1.646	14.760	24.300	4.4
11	Semolina 25 kg	0.911	0.080	0.831	12.000	9.970	1.8
12	Pasta 10 kg	1.394	0.200	1.194	18.000	21.499	3.9
	Value of annual subsidy for every person (DL)				327.08	553.558	100
	Total value of annual subsidy for Libyan population (million DL)					3526.995	
	The total value of subsidy ratio of the total public expenditure					%5.6	

**Source:** Prices Stability Fun – Ministry of Economy of Libya, (2015)

### 3-1-3- The mechanism of the implementation of the food subsidy policy:

The Prices Stability Fund (PSF) are responsible for implementing the subsidy policy, this responsibility is given by the decision of General



People's Committee (GPC) No (208) 2010. There are three steps conducted by (PSF) to implement the programme:

- The first step: the (PSF) specifies the targeted goods and services that need to balance their prices, through conducting studies and preparing the list of priorities.
- The second step: the (PSF) presents the priorities list to the Ministry of Economy for authentication.
- The third step: the (PSF) selects the appropriate method for intervention in balancing the prices of listed goods, by supporting the price differences between the selling price and the cost price, or by supplying the market with new quantity of goods comes from (PSF) warehouse (good stocks).

### **3-1-4- The financial and administrative problems of Prices Stability Fund (PSF);**

According to the annual reports of Libyan Audit Bureau (LAB) and Administrative Control Authority (ACA), the (PSF) suffered from many financial and administrative problems:

Table (4) Summary of ACA & LAB notifications about PSF performance

No	(LAB)	(ACA)
1	The (PSF) are responsible for making the state bears full cost of imports goods and creating a heavy financial burden on the state, it led to the failure of subsidy program	The (PSF) lacks a system for data food commodities to link with its branches that resulted in the failure to identify accurately the quantities of needed goods and sufficient time of the storage.
2	The (PSF) is practicing the role of a monopolist, when became	Failure to get the number of the real shareholders in consumer

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	almost the only supplier with a commodity such as flour, where that action is contrary to the reasons of its establishment. The (PSF) are transferred from the regulatory body to the commercial company.	cooperative societies, which has increased the burden of commodity subsidies on the public budget.
3	The (PSF) lacks the planned and organized work, where it is failing to form a strategic food stockpile to be as food security of the state.	Failure to follow-up registered inspection companies in terms of issue the issuance certificates as well as completion the registration documents' requirements.
4	The (PSF) does not differentiate between commodity and consumer products, for example, the Fund concerned with the supply of canned goods and flour, on the contrary, it was unconcerned with the supply of wheat.	Since 2011, the (PSF) keeps goods in its stores not matching the Libyan standard specifications and the Fund has not taken action against them. There were detected cases of sale goods that were unfit for human consumption in violation of the regulation of administrative contracts.
5	There is clear conflict in the (PSF) responsibility with the millers unions and import companies that conflict restricts the Fund's capability over the provision of goods independently and neutrally, the (PSF) is considered as responsible for achieving food security of the state.	Failure to maintain some of the warehouses and the delay in the implementation of the suspended contracts.
6	Emerge the kind of alliances to monopolize the provision of basic goods to the (PSF) and dominates the market, that alliances put pressure on the (PSF) to be the sole negotiator for the provision of the good.	Neglect to take prerequisite procedures to account the shipments of the supplied goods and match them with warehouses' record-books according to what was paid for the domestic and overseas supplies for (2011, 2012, and 2013)

**Source:** Annual Report of Libyan Audit Bureau, (2015)  
Annual Report of Libyan Administrative Control Authority, (2015)

### 3-2- Energy subsidies in Libya

#### 3-2-1- Amount of Libya's energy subsidies for period 2013-2015

The following table illustrates the allocated public expenditure to subsidize five type of energy and its percentages of GDP and total public expenditure for period financial years 2013-2015:

Table (5) Public expenditure to subsidize energy for period FY 2013-2015

Fiscal year	2013	2014	2015	Total
Diesel	3,438,854	4,141,847	3,252,970	10,833,671
Heavy oil	25,358	391,173	307,880	724,411
Gasoline	3,203,769	3,269,580	3,251,361	9,724,710
LPG	138,986	227,236	223,021	589,243
Jet fuel	13,679	82,325	(0)*	96,004
GDP (LD billion)	65,994.5	30,871.0	----	----
Budget (LD billion)	65,283.5	43,814.2	43,178.9	152,276.60
Subsidies (LD billion)**	8,754.3	9,291.2	6,194.0	24,239.50

(\* )The value of jet fuel equal to zero because the needs of the fuel were provided by local refineries at a cost LD 48,780,074.

(\*\* ) These figures include local production.

**Source:** Annual Report of Libyan Audit Bureau, (2014-2015).  
Central Bank of Libya, Economic Bulletin, (2015d).

Energy subsidies represent a substantial drain on Libya's budget. The official statistics show that energy subsidies increased from 5.5 billion of Libyan Dinar (LD) (equivalent to about US\$ 4.28 billion) in 2012 fiscal year (FY) to LD 9.29 billion (equivalent to US\$ 7.15 billion) in the 2014 FY. The above estimate of energy subsidies significantly understates the real economic cost of subsidies, since it records only

financial subsidies. If energy subsidies are calculated on the basis of full economic cost the resulting percentage will be 30 % of GDP in the 2014 FY.

As shown in Table (5), most of energy subsidies are attributable to Diesel and Gasoline products, while very small percentages are accounted for Heavy oil and LPG about 4.37% and 3.17% respectively. Energy subsidies amount to about 75% of all subsidies and approximately 14.5% of the country's budget. In addition to the high budgetary cost associated with the energy subsidies, artificially low energy prices result in excessive energy consumption with the closure of oil terminals which caused a steep decline of the oil exports that has resulted in Libya's switch from oil exporting to an oil importing country.

The switch has made the economic cost of energy more important. Indeed this importance has brought the need to reduce energy subsidies to government priority like many oil countries most of which have launched recently energy subsidy reform programs in response to the sharp decrease in the international oil prices (World Bank 2016b).

### **3-3- The impact of subsidy policy on the Libyan economy and society:**

The following table summarized the positive and negative effects of subsidy policy on the Libyan economy and society

Table (6) The impact of subsidy policy on the Libyan economy and society

	Positive Impacts	Negative Impacts
<b>1</b>	Create stability to basic good's prices at proper	Leakage to non-targeted people, such as fake shareholders, and through

	level consist with all Libyan people incomes.	bakeries for foreign residents, as well as the smuggling abroad.
2	Contribute to enhance live of poor people	The subsidy programme depends on large potential of administration, which needs to the high costs of employees, warehouses and distribution points as well as transportation costs.
3	Raise the standard of living of low-income people	Overestimate the ration of per capita goods compared to other per capita in many countries
4	The subsidy programme generates a feeling among people that they are covering by welfare state	Although the programme targeted to support low-income people, its application implemented on all people without distinction between low or high income.
5		The programme causes prices distortion because it is exploiting the resources of the state inefficiently.

**Source:** Replacing subsidies for food and fuel with cash payments to citizens- unpublished study conducted by Ministry of Economy (2015)

#### **4. The status of chapter 4 subsidies and the Ministry of Economy's strategy in administering the subsidy:**

##### **4-1- The status of Chapter 4 of public expenditure**

##### **4-1-1- During 2015**

- In 24/05/2015, issued budget law no. (9), for the year 2015, the total estimated value of Chapter 4 amounted to approximately 11 billion LDs.

- The total actual value of Chapter 4 in the last 2015 amounted to approximately 8.22 billion LDs (23 per cent of actual total public expenditure for same period).

- The total actual value of Chapter 4 is detailed as the following table.

Table (7) Total actual value of Chapter 4 of public budget for year 2015

Subsidies type	Actual mount by LD	%of actual total chapter 4	Notes
Fuel	6,194,000,000	75%	Gasoline and petrol subsidies accounted about 63% of the total value of fuel subsidies
Basic goods	4,259,838	0,05%	No allocation was made to this section in estimated budget.
Cash payment	--	--	In accordance with article '25' of the budget Law no. '9' 2015, the good's subsidy will continue till approval budget-2015 and after two months of the approval will be replaced to cash payment to citizens, that is why, did not allocate amount for this section in estimated expenditure. However, the decision was not implemented. Spending is largely controlled by the central bank, and it is trying to stay out of the conflict between the two governments and parliaments.
Water, sanitation and public services	1,420,806,365	17,2%	Actually, these amounts are mostly used to cover employees' salaries of companies that

(street lights and cleanness)			responsible for these services.
Medicines & medical supply	550,000,000	6,7%	

**Source:** Annual Report of Libyan Audit Bureau, (2015)

#### **4-1-2- During 2016**

In the beginning of 2016, The Central Bank of Libya (CBL) stopped issuing letters of credit to importers. These reactive acts of limiting spending from the US \$ reserves, in one hand it reduced temporarily the depletion of the \$ reserves, while in the other hand it triggered a heated hunt (hoard) for the US \$ dollars in the black market that rapidly increased its prices to over 5 LD for a Dollars from only about 1.4 LD.

The high exchange rate in the black market led to significant increase in the general prices level, in instance for twice and sometimes more, this new economic situation compelled the decision makers to replace the subsidy strategy from direct subsidy to indirect subsidy.

#### **What is the indirect subsidy strategy?**

The CBL has become using the official exchange rate as a subsidized price to import basic goods through import budget, to ensure the provision of basic goods at low prices in the market, (the official exchange rate does not reflect the breakeven price of demand and supply foreign exchange). This sort of the subsidy goods is called implicit-subsidy, because the support was conducted on the cost of the import goods, (1.5 DL for US\$ Dollar is considered as subsidized

price not real price, the later equal to 5 DL for US\$ Dollar). According to official letter was sent by Libyan Audit Bureau, (21 Jul 2016) to Presidential Council of GNA, the total import budget amounted to 1,173 billion US\$, until 29 Jun 2016.

#### **4-2- The Ministry of Economy's strategy in administering the Chapter 4 subsidies**

##### **4-2-1- Lifting subsidies in order to reduce public expenditure and to diminish the figure of waste:**

The reducing value of government subsidies program must base on extensive studies accounting the impacts of three benefits when we are moving to reduce the subsidies. For example, setting a new price for gasoline (petrol), we balance between the following benefits:

1) The financial revenues that are earned through the devaluation of the gasoline subsidy, which is used uneconomically, these revenues will give to the government opportunity to re-spend them rationally (positive impact).

2) The social utility that is lost through the reduction of the citizens' satisfaction (negative impact), that because:

✓ They believe that they have the right to enjoy with cheap fuel prices, their country top oil exporter, (Luong; et al 2006),

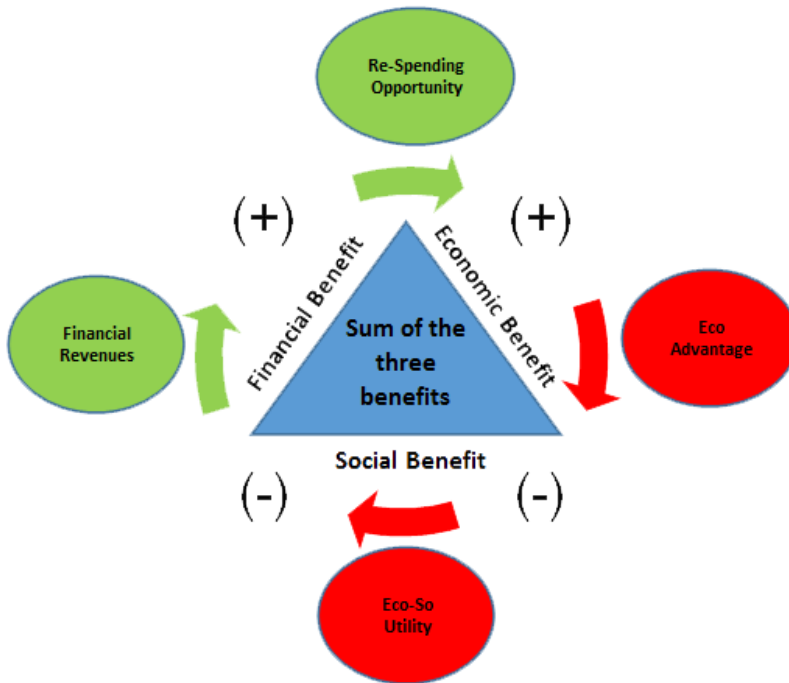
✓ Their living level will be decreased cause of the implicit decline in his income as result of the high fuel price.

3) The economic advantage that is lost, because the competition of some domestic immature industries is lost as a result of raising the cost of transportation and production costs, (especially that industries rely many on consumption of fuel), principally the local market full of



imported and dumped goods coming from neighbour countries (negative impact).

The government continues to raise the price of subsidized goods as long as the sum of the three benefits are bigger and fixed on the breakeven price, which achieves biggest total benefit, (the below figure shows that).



**Figure (1) Three benefits of replacement program**

**Source:** Developed by researchers

The issue is not the reduction of subsidies; obviously, there are scandalous waste in fuel and some goods subsidies. According to Annual Reports of Libyan Audit Bureau, (2014/2015), a (1/3) or more

of public spending goes to subsidies guaranteeing Libyans artificially low prices for fuel and basic food items, much of which is smuggled abroad. It is necessary to reduce the subsidies on some of goods and to lift entirely on others. However, the real issue raised by the questions!! Which subsidized goods need to reduction or lifting, and then what is the breakeven price that achieves maximum total benefit as discussed above, it is not to determine the random price as stated by Budget Law No. (9) 2015 (specifies haphazardly pay every Libyan 50 LDs a month).

**4-2-2- Replacing subsidies for food and fuel with cash payments to citizens in order to rationalize public expenditure:**

The government faces particular obstacles to reforming their subsidy policies; it is low institutional capacity (Victor 2009; Cheon et al 2013). The government is able to implement an effective set of economic policies that support find less expensive alternatives for fuel subsidies to meet its stated social welfare objectives. Instead of subsidizing fuel through reducing its prices, the government can make direct cash payment to citizens. The government can prevent the distorting effects of subsidies, while continuing to give visible advantages to citizens, if it is able to put the cash transfer in place.

On the other hand, the government should be warned when undertake that program, it must guarantees a real increase in citizens' income not monetary increase (banknotes), because this replacement process would create an imbalance in the commodities market. According to accounting perception, the process being balanced, it is taking the value-oriented subsidies and gives it as cash to the citizens, however,

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economic perception is deferent, the process will cause a real imbalance in goods and services market, if the process was not accompanied by appropriate economic policies.

Empirical evidence from a sample of countries has pointed out that hikes in food prices have higher second-round effects on inflation than hikes in fuel prices. This difference may reflect the large weight of food products in the consumer basket, resulting in higher impact on real household incomes and therefore stronger wage pressures. (Gregorio and Jose, 2012).

To ensure the government implements the replacement program successfully, and to avoid the citizen being a victim of high prices, which will eat the amount of the increase his income, because of the replacement program, the CBL must stop subsidizing national currency. The CBL has to modify the LD exchange rate and stabilize it at the exchange rate cures the external macroeconomic imbalance that the Libyan economy suffering from. The exchange rate is one of the important instruments of monetary policy, which plays a key role in international trade.

In order to contribute in forming immediate solutions for subsidy replacement program, the Ministry recognizes a need to depreciate the LD exchange rate, preferably lower than the current black market price. The Ministry recommends that should consider a start new exchange rate with gradual lowering that rate till stabilizing at moderate rate. The stability of exchange rate would definitely assist to implement the subsidy replacement program successfully.

#### **4-2-3- The role of Ministry of Economy after the implementation of replacement program:**

After replaced good subsidy to cash payment to citizens, the role of the Ministry of Economy will be limited in following tasks:

- ✓ Identifying families or community categories that are entitled to cash subsidy and determine the percentage of annual subsidy.
- ✓ Identifying the value of the cash subsidy to include it in annual estimated public expenditure.
- ✓ Supervising on the strategic food stocks, and providing all needed contracts and follow up its implementation.
- ✓ Providing proposal lists of goods and services that are targeted to rationalize their prices, according to Ministry of Economy rules coordinated with the Minister of Finance.

#### **The strategic food stocks**

The Ministry of Economy aims to keep strategic food stocks in the contactors' (suppliers) warehouses not in the public warehouses, there are many of mechanisms, which has been suggested to reach to above aim, one of applicable mechanisms suggests that the Ministry signs conditional contracts with importers to import strategic foods evaluated by current prices.

#### **What are the conditional contracts?**

The condition is that the quantity of foods will be under demand; the importers are obligated to provide the Ministry needed food in time of demand, and the Ministry is obligated to pay 5% of total amount of the contract per year in case of non-demand the contracted volume of foods.

## 5. Conclusions and Recommendations

The subsidies are known to: (a) result in inefficient use of money resources and distortion in good markets; (b) impose a heavy burden on the public budget and jeopardize fiscal sustainability; and (c) benefit the rich who get the same subsidies that are directed to poor people and consume the major share of the subsidized energy. Therefore, the interest in subsidy reform relates to efficiency, fair in wealth distribution.

The subsidy reform is timely for Libya because the international oil price is no longer being high while also facing an unsustainable fiscal deficit. Libya has made many studies a rather attempt in the past to reform subsidies. However, a fiscal impact of such a reform pose a big challenge due to political, economic and social considerations. It needs to revisit the design of the program in light of the present economic and political realities. This would need to be based on a comprehensive analysis and consultation. In light of the above assumptions and to the pressing need to streamline the subsidy reform program should be formulated with the following considerations:

The needed unified solutions for the country's economy, the government should handle all economic policies as one package. Therefore, the government should establish a Policies Team. This team is to be composed of specialized staff from the concerned financial and economical government and private agencies. The team is to be headed by a member of the GNA and attached to top

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authority. The team is to call for help and guidance from specialized agencies such as WB, IMF, USAID and others.

This study has a number of limitations, many of which provide opportunities for future research. Future research can be carried out in several ways. First, further research is called for empirically evaluate all current economic policies (fiscal, monetary and commercial). Second, micro-studies can be used to examine the competitive effects between economic policies' tools. Little effort has gone into investigating this topic for reforming subsidy policy. Third, further empirical analysis can be carried out to find package of policies for reforming the structural economic crisis in Libyan economy.

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**Abstract**

This paper attempts to draw a role for the effort to abolish subsidies or to the simplest alternative cash transfer, instead of reducing fuel and basic goods prices through subsidies. The results have showed that although there were few positive elements as a result of the implementation of subsidy program, the negative impacts of this program on Libyan economy were more.

The results have also showed that the government capable of effectively implementing a range of economic policies can find less costly alternatives to fuel subsidies to meet its stated social welfare goals.

However, the results have noted that a thorough political economic analysis would be needed to more completely understand the political and economic constraints in implementing subsidy reform. Therefore, the government should consider reforms, systematic data collection and rigorous analysis can help estimate the magnitude of these costs, and the most effective strategies for implementing reform and for sustaining reforms.

**Keywords:** Subsidies Reform; Libya.