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HUMAN RESOURCES IN RELATION OF FDI AN EMPIRICAL STUDY ON LIBYAN BUSINESS ENVIRONMENT

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Abstract

The availability of human resources both in terms of quantity and quality is a prerequisite for the success of any investment programme. An increase in the population will lead to the expansion of the market which should lead to more investment or the expansion of the already existing investment programmes. In addition, improvements in skill levels will lead to the improvement of the quality and quantity of production. The paper aims to examine whether or not human resources in Libya is appropriate to attract foreign companies, particularly in the non-hydrocarbon sectors. Paper method used is based on qualitative research through two methods of data collection. A survey which was conducted by using a questionnaire with representatives of the foreign and joint companies in order to discover their opinions in relation to human resources in Libya. A structured interview technique was also used to gauge the opinions of the senior Libyan officials, whose jobs were related to Foreign Direct Investment (FDI) operations, with the objective of establishing the most important challenges facing the public administration in order to improve the business environment. The study reveals that despite the numerous obstacles and shortcomings associated with human resources in Libya, it is relatively favourable for attracting FDI to the non-oil sectors. It also shows that the majority of the companies' representatives appear to be satisfied with the quality of human resources in terms of technical know-how, language and team-work. Furthermore, it discovered that foreign and joint companies face difficulties associated with employment particularly in relation to the laws which curtail the import of foreign labour, which is necessary as the supply of local skilled labour is inadequate.

Keywords: Human Resources; Libyan Business Environment, Foreign Direct Investment (FDI).

1. Introduction

Libya, in common with many low-population, oil-producing countries, the population of Libya has increased gradually from 1,088,889 in 1954 to 5,670,688 in 2006 (Public Authority for Information and Documentation, 2006:24), with the rate of increase ranging from 1.8% to 4.5% in the periods 1974-84 and 1995-2006 respectively. Libya, in common with many low-population, oil-producing countries, has one of the highest rates of population growth in the world. The rapid increase in population could be due to two demographic factors: natural factors and migration (Public Authority for Information and Documentation, 2007; 1973).

The natural increase in the population of Libya during the period 1964-1984 can be attributed to a number of factors, the most important of which is the improvement in public services as a result of the oil boom following the start of oil exploration in 1963. By contrast the decrease in population growth rate in recent years can be explained by a number of socio-economic factors. For example, the expansion in education, the rapid migration from rural to urban areas, the deteriorating economic status of families and the subsequent economic hardships, have all resulted in marriage at a relatively older age, the wider use of contraceptives and the subsequent decrease in birth rates (Hweata, 2002). Migration has also boosted population growth rates. After Libya restored its political stability refugees, who left the country during the Italian occupation returned to the country. According to the 1973 census 68,000, an equivalent of 3.0% of the total population, were born outside the country (Public Authority for Information and Documentation, 1973:15).

According to the 2006 census (which is the last census has been held), there were 8% more males than females: the number of males was 2,944,632 while there were 2,726,056 females (Public Authority for Information and Documentation, 2006:25). The average age of the population was around 19 years, indicating the majority of the population was relatively young (Al-Kikhia, 20012:43).

Libya, according to a report compiled by the UNDP, is classified among the countries with higher rates of human development. Libya was ranked at 64 in a list of 185 countries in the 2012 Human Development Report with a human development indicator of 0.769 where the standard indicator is equal to 1 (Human Development Report, 2013:144).

The Libya, as is the case with other developing countries, suffers from numerous financial and economic problems such as a dependency on the oil and gas sector as the main source of the national income. In addition, the limited capacity of its local market given its relatively small population of not more than 5.7 million according to the latest census in 2006 (Population Census, 2006) acts as a constraint on economic growth. However, the huge potential of the hydrocarbon sector, the high levels of financial flows generated from these resources that can provide a reliable source of capital, and the need to develop the country's infrastructure should make Libya a target for foreign direct investment (FDI). Such investment is promising for the simple reason that the use of the associated modern technology provides the ideal investment for the local natural resources.

Foreign investment, particularly FDI, is not a new phenomenon in Libya. The first law in relation to FDI came into force in Libya on 30 January 1958. This was followed by Law No. 37 of 1968, which was amended by Law No. 5 of 1997 with regard to the encouragement of the foreign capital, and which came to force on 29 May 1997, sometime before the enforcement of its executive regulations. A further limited amendment was implemented by Law No. 7 of 2003, which made it possible for local business using capital in Libyan Dinars (LD) to participate in joint ventures with the foreign companies. This law is mainly concerned at encouraging foreign capital, particularly in relation to projects which benefit from the introduction of new technology, training of local staff, diversification of income, the development of local products to meet international standards or otherwise contributing to local development (Article One of Law No. 7). Moreover, the idea of attracting the FDI into the Libyan economy is not new as it started as early as the 1950s. Thereafter FDI played a major role in the discovery of the huge oil and gas reserves which has contributed to increasing the foreign earnings for the state. These earnings

have made it possible for the state to push ahead with its programmes of social and economic development across the economy for almost half a century.

However, despite the aforementioned advantages FDI in areas other than the hydrocarbon sector has rarely been attracted to Libya. Furthermore, FDI has made little contribution towards increasing the rate of capital accumulation in the Libyan economy. FDI has not exceeded 1.99% of total investment in the 1980s and 1990s. In other words that ratio would indicate that only US$199 would become available for every US$10,000 of the total investment required for economic development in Libya. But as yet most of the FDI in Libya has been directed towards the oil and gas sector (Abdulla, 2013).

The Privatization and Investment Board (PIB) was established at the end of 1998 at a time when the business environment was particularly weak. A result, FDI inflows in its early years were slow. However, with the positive political developments in the Libyan-Western relationships since the suspension of UN sanctions in 1999 and the government's policy to improve the business environment FDI flows into the non-oil sector started from mid-2003.

2. Literature Review

The various theories in relation to FDI and economic development discussed previously focused on the pivotal role of the rapid accumulation of capital and other elements (Rosenstein-Rodan, 1943; Lewis, 1954; Rostow, 1960; Leibenstein, 1957; Nurkse, 1943; Bruton, 2001). However, despite the achievement of modern economic growth, these theories have been criticised as they focus on capital investment in cash or in kind (Sin, 1999). Thus while capital investment is an essential factor for economic growth, it is not the only prerequisite. In this regard economic development, unlike economic growth, cannot be defined only by factors of a material nature such as natural resources and capital, but also by human resources. In other words the concept of capital should be extended beyond material capital to include human capital. For example, productive thinking is part and parcel of the human element, thus a combination of capital and knowledge should always favour productivity and increasing revenues. Furthermore, ideas can always be reinvested to increase productivity and profits. These are not subject to the rule of decreasing returns, on the contrary they tend to generate increasing returns in favour of economic growth. Interestingly, this theory has helped economic planners to understand the transformation from economic practice based on resources alone to economic practice based on knowledge and resources. This confirms the fact that developing and using information remains a decisive factor in the generation of wealth for the benefit of society and the nation at large (Jones, 1988). It should be noted that this understanding led to the development of endogenous growth theories.

Therefore, the factors that define economic development are dependent on investment in human capital and the advancement of technological knowledge, so that any failure to accommodate advanced technology is likely reduce the chances for achieving sustainable economic growth. Therefore, it can be concluded that to increasing growth rates, knowledge, particularly technological knowledge, needs to be continuously improved, and savings need to be encouraged in order that they can be transferred into capital investment which in turn will lead to further technological advancement and a virtuous cycle of economic growth (Majeed,M and Ahmed,E, 2008; Khan, 2007; Craigwell, 2006; Barro & Sala-Imartin, 1995; Grossman & Heipman, 1994).

On the other hand, considering the importance of FDI on human resource development and economic development, this study attempted to establish the opinions of the foreign and the joint companies' representatives in relation to Libyan human resources, and if they are satisfied with these resources.

3. Methodology

The paper methods used in this study are based on qualitative research techniques, and consist of two modes of data collection. The first was a questionnaire through which primary data from the representatives of the foreign and joint companies were assembled with the objective of establishing their attitudes towards Libyan business environment. The field research for this study was undertaken in 2010, at 94 foreign and joint companies registered with the PIB and operating in Libya. To ensure that the four relevant aspects—category, status, economic sector, and location—were covered 50% of the research population was taken as a sample.

After selecting the stud sample target by using a stratified random sampling technique, it was discovered that a number of companies had more than one authorisation. As a result the total number of authorised companies was 83, each of which was sent a questionnaire by post. 72 questionnaires were returned, of which 68 were completed and four were rejected as incomplete. Thus, the questionnaire return rate was 81.9% with 0.818 according to Cronbach's Alpha scale.

Reliability is an important process in research design. This stage measures the level of the constancy of the responses in the survey process. Bell defines reliability as "the extent to which a test or procedure produces similar results under constant condition on all occasions" (1993:64).

There are numbers of devices for checking reliability in scales and tests such as test-retest which is administering the same test a period of time after the first. In this research the reliability was measured by using Cronbach's Alpha which can be written as a function of the number of test variables, and the average inter-correlation between the variables. The formula for the standardised Cronbach's Alpha can be shown as:

$$\alpha = \frac{N.\bar{c}}{\bar{v} + (N-1).\bar{c}}$$

Where N is equal to the number of variables, c-bar is the average inter-item covariance among the variables, and v-bar equals the average variance.

By using the Reliability Statistics in the SPSS programme, the result for Cronbach's Alpha scale for the entire questionnaire was 0.818. As result, this grade of reliability means that the collected responses have a relatively good level and the findings have a good level of constancy.

By using SPSS version 20 system, analytical descriptive and statistical analysis was conducted using frequency, chi-square of goodness of fit and cross-tabulation tools by using economic sector as an independent variable.

The second method of data collection was structured interviews, which were conducted with the senior Libyan officials. The phrase senior officials refer to government officials who hold key supervisory positions at different levels of responsibility from the head of departments up to minister of Libyan economy. Consequently the interview population included 14 individuals, three of whom were from Libyan Ministry of Economy (two were Heads of Department and one was Minister of Libyan economy 1986-1990), and the remaining eleven

were from the PIB. By selecting 50% and using a convenience sample technique the research sample was reduced to seven senior officials, one from Libyan Ministry of Economy, and six from the PIB. Due to the small size of the sample, the data was analysed manually through an interpretative technique.

In terms of members of the sample, there were seven Libyan senior officials, one of whom was Minister of Libyan Economy 1986-1990. Of the six based at the PIB, five were heads of departments and one an assistant secretary of the PIB.

Name	**Position**
Mr. A. Al-Sharoon	Head of Technical Cooperation Department at PIB
Mr. A. Alahrash	Head of Investor's Reception Department at PIB
Mr. G. Al-Aroush	Investment Affairs Department at LIB
Mr. T. Guthoor	Head of Investor's Services Department at PIB
Prof. F. Shernanna	Ex-Minister of Libyan Economy
H. Al-Zawi	Assistant Secretary of the PIB
Mr. N. Al-Gernazi	Head of Investment Affairs Department at PIB

4. Results and Discussion

Chi-square of goodness of fit was employed to determine whether or not the observed frequencies are different from what we would expect to find. In relation to perceptions on local human resources, it is assumed that:

The null hypothesis is: there are approximately equal numbers of cases in each group, and the alternate hypothesis is: there are not equal numbers of cases in each group.

It can be seen from appendix 1 that the chi-square value for the language skill factor is 36.029, for technical knowledge is 46.441, for team work is 27.912 on four degrees of freedom. Furthermore, the chi-square value for difficulties with regard to human sources is 13.294 on three degrees of freedom. The P value for the first three factors is 0.000, and 0.004 for the last factor. Because the observed P value was less than alpha (alpha = 0.05), the results were considered statistically significant for all factors of the local human sources, which should mean that there are not equal numbers of cases in each group, which may require the cells of a contingency table to be interpreted by using cross-tabulation tables.

Generally speaking the results of the survey revealed that the majority of respondents were happy with the level of foreign language skills, technological know-how and team-working skills of the local workforce. However, from appendices 3, 4 and 5, the level of satisfaction with the above skills varied with technological know-how topping the list with 72.1% followed by the language skills and team-work skills with 67.6% and 63.2% respectively. The results also show that the level of satisfaction among company representatives in relation to the language skills of the local workforce ranged between 100.0% for the agricultural sector to 62.2% for the manufacturing sector. In the case of technological know-how the level of satisfaction ranged from 78.4% for the manufacturing sector to 63.3% for the service sector. The level of satisfaction ranged for team-working skills from 100.0% for the agricultural sector to 57.0% for the service sector.

Appendix 2 shows the opinions of investors with respect to the difficulties associated with employing skilled labour according to the different economic sectors. In the manufacturing sector 37.8% of the companies' respondents refer to difficulties involving the import of skilled labour

from abroad, while 29.7% do not refer to any difficulties in importing such labour as compared to 21.6% who refer to difficulties associated with the availability of local skilled labour. However, the laws and regulations restricting the numbers to be employed from local labour seem to cause inconvenience to 10.8% of the respondents. As far as the service sector is concerned, it could be concluded that half of the investors from this sector find difficulties in importing foreign labour as required by their investment, whereas a quarter of them find difficulties in obtaining local skilled labour as compared to 17.9% who have not found any difficulties in using the local human resources and 7.1% who are dissatisfied with laws that make it incumbent on them to provide jobs for a specific number from the unemployed local workforce. However, agricultural sector appears that two thirds of the participants from this sector have not faced any difficulties of significant importance with regard to the use of the available human resource. But as yet one third of the participants from this sector have expressed their resentment at the laws and regulations that make the employment of local workforce a compelling duty for them.

Concerning the relative difficulties involved, it is obvious from Appendix 2 that the main concern of the service and manufacturing sectors is the import of foreign labour, as indicated by 50.0% of service sector respondents and 37.8% of manufacturing respondents. The lack of a skilled work force comes in second place, according to one quarter of service sector respondents and 21.6% of manufacturing sector respondents. Legal difficulties come at the bottom of the list, particularly the laws that make it a legal requirement for companies to employ local labour: 10.8% and 7.1% of the respondents from the manufacturing and the service companies respectively. In contrast in the agricultural sector the most severe problems are those associated with the employment of the local workforce; one third of the respondents expressed their dissatisfaction with the laws which make it an obligation to employ a minimum number of local employees.

Furthermore, the agricultural sector suffers the least overall with two-thirds of the agricultural respondents indicating no problems in relation to the use of human resources. The manufacturing sector comes in second place (29.7%) and service sector at the bottom (17.9%).

In general this positive attitude towards the quality of human resources in Libya can be explained by the fact that the human development programmes have been successful to the extent that Libya is now classified as a high performing country according to the 2013 Human Development Report (Human Development Report, 2013).

Importantly, the Labour Law No. 58 of 1970 and the decrees for amending the law and the executive regulations for the law of foreign investment permit the import of foreign labour should the local alternative not be available. In this context Article 9 of the executive regulations of the law of capital investment provides that:

> The foreign investor has a duty to provide employment for the Libyan workforce as well as provide training opportunities for them to acquire the necessary skill and technical experience. The foreign investor has the right to import the appropriate labour force and foreign expertise necessary for operating the project provided that the local alternative is not available (Article 9 of the executive regulations of the law of capital investment).

The difficulties pertaining to the import of foreign labour could be due to the illegal labour force of immigrants, which according to unofficial estimates exceeds two million (Al-Badri, 2012). Other problems include the high level of local unemployment and the inability of

the private sector to create new investment projects to accommodate the increasing number of the unemployed. Such failures have serious implications for the job market by forcing foreign investors to use local labour by restricting the import of foreign labour. A report featuring employment policies in Libya highlighted that it was important to ensure foreign companies in Libya provided budgets in relation to human resources prior to being licensed for investment, and that the projects with high levels of labour requirement should be given priority for licensing.

Accurate statistics on the rates of unemployment rates in Libya are not available, although local economists estimate it at 21.68% in 2010 rising to reach 25.15% by 2015 (Joint Arab Economic Report, 2011). A number of studies place the blame on the failure to establish an economy in which investment is capable of creating job opportunities for the unemployed particularly in the private sector, and the disorganised labour market in which migrant labour has to play a major role. Moreover, the negative outcome of privatisation and the restructuring of the Libyan economy, particularly in education and the civil service, led to the loss of more than one quarter of a million jobs (National Council for Planning, 2008).

As far as Libya is concerned, the conviction of the senior Libyan officials is that "the FDI has created employment opportunities, as more than 7,000 of the local workforce were employed by foreign and joint companies by the end of 2008'' (LIB, 2009). However, this means that the GPCs have a duty to increase efforts towards meeting the needs of foreign and joint companies by providing a skilled and well-trained workforce.

5. Conclusion

The paper examines whether or not human resources in Libya is appropriate to attract foreign companies, particularly in the non-hydrocarbon sectors. By qualitative techniques of data collection and analysis, this study has correlated the representatives' attitude with the Libyan senior officials' views about the research questions, and attempted to find out if human resources in Libyan businesses environment are appropriate for attracting FDI, particularly to the non-oil sectors.

The paper reveals that despite the numerous obstacles and shortcomings associated with human resources in Libya, it is relatively favourable for attracting FDI to the non-oil sectors. This success can be partially attributed to the positive results which have been achieved in the area of human development, which have made it possible for the country to devise appropriate policies to achieve a specific transformation of the living standards of the citizens making Libya in position of high performing countries in the area of human. In addition, social stability and the potential of young and cheap labour have been instrumental in attracting FDI into the country.

The study showed that the majority of the companies' representatives appear to be satisfied with the quality of human resources in terms of technical know-how, language and team-work. However, the companies face difficulties associated with employment particularly in relation to the laws which curtail the import of foreign labour, which is necessary as the supply of local skilled labour is inadequate.

The paper also indicated that the FDI has to some extent contributed towards reducing the level of unemployment by creating about 7,000 new jobs. Moreover, given the level of technology transfer associated with FDI inflows, it has contributed towards improving human skills not only

in foreign and joint companies but also in local firms. In addition, the use of local natural resources has been improved.

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Appendices

Appendix 1 Chi-Square of Goodness of Fit for Local Human Resource Variables

	Language Skill	Technical Knowledge	Teamwork	Difficulties in Relation to Human Resources
Chi-Square(a,b)	36.029	46.441	27.912	13.294
Df	2	2	2	3
Asymp. Sig.	0.000	0.000	0.000	0.004

a 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.7.
b 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

Appendix 2 Cross Tabulation of Company Sector and Difficulties in relation to Human Resources

			Difficulties with Regard to Human Resources				Total
			None	Importing foreign labour	Legal requirement for local employment	Scarcity of skilled labour	
Sector	**Manufacturing**	Number	11	14	4	8	37
		%	29.7%	37.8%	10.8%	21.6%	100.0%
	Services	Number	5	14	2	7	28
		%	17.9%	50.0%	7.1%	25.0%	100.0%
	Agriculture	Number	2	0	1	0	3
		%	66.7%	0.0%	33.3%	0.0%	100.0%
Total		**Number**	**18**	**28**	**7**	**15**	**68**
		%	**26.5%**	**41.2%**	**10.3%**	**22.1%**	**100.0%**

Appendix 3 Cross Tabulation of Company Sector and Language Skills

			Language Knowledge			
			Satisfied	**Not sure**	**Dissatisfied**	**Total**
Sector	**Manufacturing**	Number	23	5	9	37
		%	62.2%	13.5%	24.3%	100.0%
	Services	Number	20	6	2	28
		%	71.4%	21.4%	7.1%	100.0%
	Agriculture	Number	3	0	0	3
		%	100.0%	0.0%	0.0%	100.0%
Total		**Number**	**46**	**11**	**11**	**68**
		%	**67.6%**	**16.2%**	**16.2%**	**100.0%**

Appendix 4 Cross Tabulation of Company Sector and Technical Knowledge

			Technical Knowledge			
			Satisfied	**Not sure**	**Dissatisfied**	**Total**
Sector	**Manufacturing**	Number	29	2	6	37
		%	78.4%	5.4%	16.2%	100.0%
	Services	Number	18	4	6	28
		%	64.3%	14.3%	21.4%	100.0%
	Agriculture	Number	2	1	0	3
		%	66.7%	33.3%	0.0%	100.0%
Total		**Number**	**49**	**7**	**12**	**68**
		%	**72.1%**	**10.3%**	**17.6%**	**100.0%**

Appendix 5 Cross Tabulation of Company Business Activity and Team Work

			Team Work			
			Satisfied	**Not sure**	**Dissatisfied**	**Total**
Sector	**Manufacturing**	Number	24	5	8	37
		%	64.9%	13.5%	21.6%	100.0%
	Services	Number	16	5	7	28
		%	57.1%	17.9%	25.0%	100.0%
	Agriculture	Number	3	0	0	3
		%	100.0%	0.0%	0.0%	100.0%
Total		**Number**	**43**	**10**	**15**	**68**
		%	**63.2%**	**14.7%**	**22.1%**	**100.0%**