The Impacts of Investment Climate on FDIs in the Libyan Economy: Firm-Level Evidence

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Abstract

This study tests the impacts of investment climate factors on increasing FDI inflows in Libya over the period 2000-2015. The study investigated these impacts through four variables: human resources, natural resources, the quality of infrastructure, and the administrative and legal procedures (institutional and regulatory environment) were used to measure the investment climate and its effect on FDI inflows. In this paper, a questionnaire survey method was employed to collect the primary data. The survey was conducted with the foreign companies operating in Libya. The questionnaire sought to examine the foreign investors' opinions and perceptions of the main issues facing Libyan investment climate. The results obtained were as follows. All investment factors were relevant to Libya. The country is rich in oil and non-oil natural resources. Libya has initiated and even progressed with many reforms and policies. But they failed to increase FDI inflows. This is due to inadequacies of proper governance and implementation and existence of corruption. These were reflected in the administrative and legal dealings. Poor service quality affected utility of improved infrastructure. There is need to bring political and economic stability. Policies to promote non-oil sector with low key promotion of oil sector, utilisation of low cost labour to attract foreign firms and making administrative processes rapid and transparent can improve the current negative FDI situation.

Keywords: Foreign Direct Investment, Libyan economy, Investment climate

1. Introduction

According to the latest World Bank data (WorldBank, Ease of doing business index (1=most business-friendly regulations), 2015), Libya remained at 188th rank out of 189 countries for ease of doing business both in 2014 and 2015. The first five ranks were held by Singapore, New Zealand, Denmark, Korean Republic and Hong Kong in that order. The almost lowest rank of Libya is a matter of serious concern as it affects foreign investments into the country so vital for diversification from oil-based economy. After Gadhafi regime was replaced in 2011, internal conflicts with militias and Islamic terrorists are giving serious security concerns. Ongoing political turmoil has deteriorated the quality of published data about Libya's economic development. The overall index of economic freedom estimated in 2012 as 35.9 has not been revised. Political stability and establishment of rule of law and effective governance remain the major challenges of the new government.

These are the pre-requisites for economic development. Some of the indices published in this respect by (HeritageFoundation, 2015) are reproduced here to show the seriousness of the problems. Business freedom index was 20 in 2012, which increased substantially to 30.1 in 2014, but declined to 46.8 and Libya was ranked zero throughout from 1996 to 2015. Trade freedom showed more respectable performance improving from 39.6 in 2008 to 85-90 ranges from 2009-2013. After a peak of 30 in 2009, investment freedom declined sharply to 10 in 2010 and continued to be around that level till 2013 and again declined sharply to 5 in 2014 and 2015. Financial freedom remained at 20 since 2007. Property freedom also remained around 10 throughout 1996 to 2015.

Freedom from corruption remained in the range of 15-20 throughout 1996 to 2015. Government spending was comparable to other countries at around 60% during 1996 to 2000 and 2002 to 2004 and 2008 to 2010, but declined sharply since then to an all-time low of 17.9 in 2012. These index values place the country at the bottom level in the regional and global rankings. Although rules and regulations are in place shortage of qualified professionals make implementation difficult. Although income tax and corporate taxes are at low levels, tax administration is difficult due to conflicts. Oil revenue accounts for 96% of total revenue. Overall tax collection is less than 1% of GDP while expenditures are 45.7% of GDP. Due to lack of transparency, business environment is fragile and poor. State interference and control, political instability and uncertainty have made labour market very poor. Although tariff rate averages almost zero, regulatory interference with trade and dominance of state-owned enterprises and political instability shy away foreign investors. High level of oil economy with low population (high per capita GDP) has placed Libya in the middle income category of countries. The economic status is given in Table 1.

Table 1: Recent GDP trends in Libya

YEAR	GDP (on PPP basis) Billion US$ on 2014 basis	GDP per capita US$ on 2014 basis	GDP real growth rate (%)
2012	149.1	24,200	104.5
2013	128.9	20,900	-13.6
2014	97.94	15,900	-24.0

The financial health of Libya is alarming as from a rosy start in 2012 of 104.5%, GDP growth rate increasingly fell to negative figures to -24 in 2014. According to the 2014 budget, the estimated revenues revenue was 19.55 billion USD and expenditure was 35.47 billion USD, which works out to a deficit of 38.7% of GDP. However, inflation rate is only about 2.7%. Libya has proven oil reserves of 48.36 billion bbl which ranks 9th globally. Although good communication facilities have been established, their poor service makes them ineffective. There are reasonable levels of transportation facilities, although majority of airport runways and about half of the roads are paved narrow or unpaved. These data prove that Libya has good resources, but their efficient use for economic development is hindered by political problems and lack of institutions and poor governance. The pattern of FDI in Libya had been highly erratic as the following data reveal. According to World Bank statistics (WorldBank, Foreign direct investment, net inflows (BoP, current US$), 2015), FDI in Libya was negative till 1984, but with progressive improvement. It became positive in 1985. The negative trend was back for the next two years and again became positive till 1993 only to become negative again from 1994 to 1999. The positive trend was regained in 2000, but became negative again in 2001 and then positive till 2013, the latest year for which the data are given.

In this background, Libya faces many challenges for increasing foreign investments (FDI). First we need to know how the factors of investment operate and identify the limitations in the effectiveness of any factor. Based on the results of such study, policy and strategic decisions can be made to rectify the problems and evaluate their effectiveness in increasing FDI. Monitoring and repeated review for corrective actions will be required. To attract any investments, a favourable investment climate is necessary. For foreign investments, other specific requirements like profit ownership, tax regime, legal and regulatory processes are important. World Bank (World Bank, 2013) has defined the investment climate as “the policy, institutional, and behavioural environment, both present and expected, that affects the returns and risks associated with investment.”Investment climate also means the economic policy, institutional factors, human capital, availability of natural resources and regulatory framework in which foreign companies are operated in the host country. In the Libyan context, FDI began to flow in Libya after discovering oil wealth in 1958. It was limited in the oil sector and Libya started oil production after became a member of the Organization of the Petroleum Exporting Countries (OPEC) in 1962 with other 13 produced countries (Otman & Karlberg, 2007).The oil sector in Libya was the backbone of the Libyan economy; oil revenues contribute approximately 95 per cent of export returns and approximately 70 per cent of government revenue (CIA, 2010). Later, the Libyan government sought to diversifyits local economy by attracting FDI in the non-oil sectors, such as manufacturing, health, trade, education etc. It issued a number of policies to enhance the local investment climate to attract more FDI to overcome the development problems facing the Libyan economy, which include unemployment, lack of technology, weakness in Domestic Investment (DI), commercial downturn and limited income.

The policies adopted to improve the Libyan investment climate can be categorized as economic, financial and monetary (Otman & Karlberg, 2007). How these steps improved certain aspects of investment climate, though not all, is discussed in the next section. The study results reported in this paper is focused on examining the factors of investment climate to increase FDI into the Libyan economy. The factors of investment climate are: availability of natural resources, human capital, institutional and regulatory environment in Libya. This paper is structured as follows. Section 1above provided the background for the work reported in this paper. Section 2 reviews of the literature on the subject. Section 3 explains the research methodology, data collection and develops of hypothesis. Section 4 discusses data analysis and results, while the final section concludes the results of this paper.

2. Literature Review

2.1 Investment Climate and FDI

In the past decades, many empirical studies have sought to shed lights on the most important factors that particularly affected foreign investors' decision to invest in the host countries. FDI has been the significant factor that improves the economic development level in both developed and developing economies. Many of theoretical studies have confirmed that investment climate plays a crucial role in attracting FDI. The studies have shown a marked flow in the host countries that have better investment climate to the satisfaction of investors. Arguably, any improvements in the investment climate have aided to increase FDI across countries of different development levels. Investment promotion has directly contributed to the economic growth through FDI in the last few decades. FDI has probably become the most prominent source of private capital for developing the transition and developing economies around the world (Wells & Wint, 2000).A study was conducted by Bayraktar (2015) for a set of countries over the period 2004-2013 about the importance of investment climate for foreign investments. The results confirmed that more foreign companies invested in countries where it was easier to start a project due to favourable investment climate (indicators of business friendliness).

In a similar study, Kinda (2008) used a firm level data for 77 developing economies. It showed that the investment climate is the most significant factor in increasing FDI inflows. The study also showed the role of investment climate in increasing domestic exports in increasing the revenues in these countries via FDI. Zakari et al (2012) studied the Nigerian case for 15 years from 1981-1995. The findings revealed a strong correlation between making Nigerian investment climate friendly to foreign investors and FDI inflows, which positively influenced economic growth in the country.

Based on the literature, some factors of investment climate to attract FDI can be identified. Works done on these factors are reviewed in the next sub-sub-sections.

2.1.1 Human Capital

Several studies have shown a significant relationship between FDI and human capital, both in developing and in developed countries (Noorbakhsh et al 2001). Human capital mean availability of skilled persons to perform various tasks related to production processes and knowledge of technology. Deliberate policies and efforts are required to develop and train such skilled human resources (Miller, 1996). Majeed and Ahmed (2008, p. 79) stated, "Human resource development (HRD) and foreign direct investment (FDI) are generally considered among the key drivers of economic growth in developed and developing countries. While HRD and FDI individually affect growth they also reinforce each other through complementary effects."They conducted a study of panel data for 23 selected developing countries over the period of 1970-2004. Enhanced human capital in these countries had a positive impact on increasing FDI inflows due to high literacy rate and skilled labour availability. Dutta & Osei-Yeboah (2010) also obtained similar findings a panel data of 76 developing countries.

However, human capital development policies are different in most developing countries. This accounts for varying degrees of human development in these countries. Nevertheless, developing countries have to seize the opportunity provided by the advantage of having skilled cheap labour, which reduces production costs that also attracts foreign investors. The attempt of foreign firms to reduce production costs through cheap labour explains why they are often investing in these economies (Hanson, 1996; Schneider & Frey, 1985).On other hand, the Heritage Foundation and most of literature indicate that human capital development depends on one significant factor to raise the human capacity in countries seeking to attract foreign investments, which is the literacy rate as a proxy for the level of human capital development (Suliman & Mollick, 2009;Quazi, 2007;Castelló-Climent & Doménech, 2014).

2.1.2 Availability of Natural Resources

In general, availability of natural resources has often attracted foreign companies that are able to bring the capital, technology and knowledge to the host country to use these resources for productive purposes. This is called resource-seeking FDI which is one of the most important types of foreign investments. In a study on 22 Sub-Saharan Africa (SSA) countries, covering the period of1984–2000,Asiedu (2006)confirmed that natural resource endowments is an important factor in making the investment climate more favourable for FDI in SSA countries.
Gonchar & Marek (2013),in a study on samples across regions in Russia that are endowed with natural resources over the period 2000-2009, found that availability of natural resources is a vital determinant for FDI and the importance of this factor grew over the time of the study. The study on African nations by Anyanwu (2012)showed that FDI flows are greatest to countries that have natural resource endowment and exploitation (such as oil), market size, trade openness and the prevalence of the rule of law. Deichmann et al (2003) also obtained similar results from a study conducted on the transition economies of Euro-Asia countries.

2.1.3 Quality of Infrastructure

Infrastructure refers to the basics facilities available in the country. This includes services, transport, power, water, communications, schools, hospitals, communities, libraries, post offices, energy supply etc., (Cambridge, 2010).The quality of infrastructure is a crucial factor in sustaining economic growth, promoting trade and absorbing more FDIs to the host country. The basic infrastructure facilities are important to increase production. According to Asiedu (2002) a quality infrastructure is an important factor in increasing FDI inflows to the developing countries which reflected on enhancing the local production. Coughlin et al (1991) have examined the role of hard infrastructure like highways, railroads and paved roads on FDI in United States during 1981-1983. Their analysis showed that more extensive transportation and infrastructure was associated with increased FDI. Rehman et al (2011) confirmed the finding with respect to Pakistan during 1975 to 2008. Mateev (2009) confirmed through his study that "good infrastructure lowers transaction costs thereby affecting comparative and absolute advantage' (p. 123).
In contrast, there are several studies which argued that basic infrastructure is relatively less importantfor FDI. Kamara (2013) observed that both infrastructure and human capital negatively affected the relationship between FDI and economic growth in 44 SSA countries over the period1981-2010.In another study, Fung et al (2005) noted from their analysis in United States, Japan, Korea, Hong Kong, and Taiwan region of China that government policies, market sizes, human capital, and tax policies are more important and affect positively on FDI rather than basic infrastructure such as roads, highways and etc.

2.1.4 Administrative and Legal Environment

It is widely believed that more favourable regulations were adopted in different countries in order to encourage FDI inflows. Capik (2007) stated that the role of organisational and institutional frameworks is to enhance the business climate for FDI. This could be done through simplifying the process of registration of FDI projects, develop laws to regulate FDI projects and make promotional and advertising techniques efficient. Jiao et al (2015) confirmed through their results of empirical analysis on China that the local legal environment has positive impact on firm's performance in Chinese market. Choi et al (2014) emphasized the importance of good institutional infrastructure for FDI in the host countries from the results of their study on the impact international investments of US firms during 1981–2008. They found that a better general environmental institution of the host country attracted more FDI inflows. From an analysis of panel data on 22 SSA countries over the period of 1984-2000, Asiedu (2006) found that both good institutions and an efficient legal system are important determinants of FDI in these countries. Asiedu also suggested that the institutional and legal variables can be measured via corruption and the rule of law evaluations (enforcement of contracts).

The issue of corruption and its effects on economic growth are important for any country. Corruption is normally conceived as having a negative impact on the economic growth. A negative relationship between corruption and FDI was obtained by Habib & Zurawicki(2002), Wei (2000) and Treisman (2007).Campos et al (2010) surveyed 98 representative samples of firms operating in a large emerging market (Brazil). They found that corruption is ranked as the most important entry barrier for foreign investments in this market. In contrast, some empirical studies have proven the opposite. For example, Cuervo-Cazurra (2014) argued that in transition economies corruption is like a grease to facilitate the transactions and could have a positive influence on levels of FDI inflows.

Henisz (2000) also showed, through an empirical study on US foreign firms that corruption has no negative impact on these firms and in some cases it has positive influence on outward FDI. The same conclusions were obtained by Wheeler and Mody (1992),Hines (1995) Egger & Winner (2005).

Legal environment is important because it protects the investors' rights which can be significant in investors' decision to invest (LaPorta et al 1998). Many studies have shown that foreign investors are attracted to the host countries which have an effective legal system. Foreign investors want to ensure legal protection to save their rights and the invested capital. Thus, the rule of law is an important determinant for FDIs. According to Li et al (2012), rule of law was a key driver for FDI in BRIC (Brazil, Russia, India, China) countries during 1991-2005. Rule of law is like an incentive for the local investor to suppress the foreign partner's unwillingness to share its valuable knowledge assets and at the same time it adjusts to the framework of foreign investors. Lskavyan & Spatareanu (2011) stated that weak legal environment in the host countries discourage inward FDI which lead to negative effect on business climate and deter the economic growth. According to Slaughter & May (2012), there are key characteristics of legal environment governing FDI which become incentives to investor, investor protection rights and compliance of the investor to host country regulations.

3. Improvements In Certain Aspects Of Investment Climate In Libya As A Result Of Policy Initiatives

In the introductory section, the factors which contributed to low FDI into Libya and challenge to improve the situation were discussed in detail. Some favourable aspects related to the four factors of investment climate are discussed below.

1) Human capital index rising to 0.76 in 2013 (data till 2010 presented in Table 2) is a good indication of potential availability of required skills, although skill development through education and training are still to be developed.

Table 2: HDI Trends in Libya from 1980 to 2010

Years	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP$)[1]	HDI value
1980	64.2	12.5	2.2	44,124	0.641
1985	66.6	13.1	2.9	27,903	0.654
1990	68.5	14.0	3.8	24,922	0.684
1995	70.2	14.9	4.7	24,134	0.715
2000	71.9	15.8	5.6	23,969	0.745
2005	73.5	16.1	6.4	27,159	0.772
2010	74.7	16.1	7.5	31,218	0.799

Source: Human Development Report 2014

*1= Gross National Income (GNI) per capita expressed in constant 2011 international dollars converted using purchasing power parity (PPP) rates.

2) Libya is classified as a country rich in natural resources that include oil and gas, iron, cement, animal and marine resources. Libya has a wealth of mineral resources, such as iron, gypsum, limestone, cement rock, salt, building stone, sulphur, clay, dolomite, nitrogen, marble and soda ash to meet domestic demand and to export overseas (Oxford, 2010). This helps the Libyan economy attain significant growth and enables it to be a favourable business environment (Oxford, 2010). This potential can be realised through FDI. Additionally, presence of some ancient relics, historical cities, deserts, beaches, seas and mountains makes it an attractive tourist destination. Thus tourism is an attractive investment opportunity (Otman & Karlberg, 2007).
3) The Libyan government also opened its doors to foreign companies to exploit these resources and serve the local economy. This is facilitated by Article No. 3 in Law Nos. 5 and 9 of FDI law promotion in Libya (GPC, 1997, 2010).By these laws and regulations, the Libyan government allowed foreign investors to invest in oil and non-oil sectors such as infrastructure, non-oil mining, agriculture, tourism, education, banking and health sectors. Law No. 5 of 1997 and its executive regulation were issued by the Libyan government which were amended by Law No. 7 of 2003. In addition, Law No. 9 was issued in 2010 with regard to non-oil sectors. On the other hand, the Libyan government has issued just one law (Law No. 25 of 1955) for the oil sector (Otman & Karlberg, 2007).

These laws granted some exemptions and privileges, such as tax and tariff exemptions, for all investment projects in the country, but do not exempt some other taxes on companies such as income tax. It also provides some guarantees to foreign investors like investor rights protection, no nationalisation of their projects and immediate and fair compensation for investors.

4) With regard to the administrative dealings, the Libyan government released articles in FDI laws that particularly meant to regulate institutions responsible for governing FDI projects. For example with regard to non-oil sectors, Article No. 5 of FDI Law No. 5 for 1997 provides for the establishment of a responsible body exclusively for FDI operation called the Privatisation and Investment Board (PIB). PIB body has an independent legal role and is affiliated to the Ministry of Economy, Trade and Investment. This body has responsibilities for the national and foreign investments activities, the supervision of all its tools and the creation of an appropriate climate for technology transfer and diversification of income sources (GPC, 1997).It is also responsible for investment plans and their executive programmes, supervision on implementing legislation in the areas of investment in Libya, receiving investment requests of foreign and national investors and determining whether these requests satisfy the legal requirements in the country. With regard to the oil sector, there was the Libyan General Petroleum Corporation (Lipetco) in order to manage the oil and gas sector and its projects and it was established under Law No. 13 for 1968. Lipetco was replaced by the National Oil Corporation (NOC) under Law No. 24 for 1970.The NOC is assigned the responsibility of managing the petroleum engineering and geological exploration, receiving requests from foreign investors to invest in this sector, managing drillings, exploration, prospecting, production and other related works, conducting negotiations between foreign investors and the Libyan government and granting exploration licences and oil and gas production (NOC, 2012).
5) Libya had plans to expand its road networks in 1999 to reach approximately 83,200 kilometres of roads. Libya had plans for a 3,170 km national rail network (Otman & Karlberg, 2007). Other development plans include improvements to the airports, seaports and a metro that connects major cities to the existing international airport as a part of the wider rail network project. But these plans have not been fully implemented for various reasons.

Although these reforms should have resulted in increased flow of FDI into Libya that has not happened. Ahmouda & Siddiqui, (2015), based a survey of 111 foreign firms operating in Libya, concluded that out of 11 factors determining FDI in Libya, six factors- economic condition, market condition, skilled labour, unskilled labour, tax concessions and natural resources were favourable for FDI in Libya. The remaining five factors did not have any effect. The six favourable factors were related with profitability and operational efficiency.

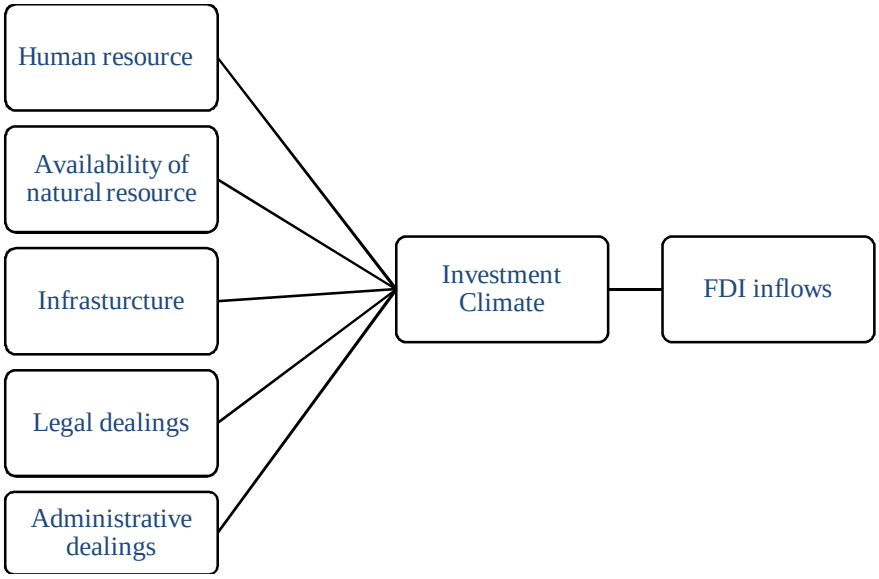
The political problems, internal conflicts and poor governance continue to be the weak areas in giving confidence to foreign investors. The study reported here analyses the extent to which the variables of investment climate have given confidence to investors in relation to FDI inflows. The methodology adopted for collection of data and their analyses are outlined in the next section.

4. Research Methodology and Data

4.1 Conceptual Model

The theoretical framework of this study explaining the relationship of factors of investment climate with FDI inflows is given in Fig 1. But Libya is unable to attract sufficient FDI inflows into its local economy. There is gap in our knowledge regarding which investment factor acts as the limiting factor. Identification of the factor/s which negatively or insufficiently supports FDI will help to mitigate the problem and facilitate increased FDI inflows. The proposed conceptual model fills this gap in the identity of limiting factor by testing the relationship between investment climate factors.

Fig 1: The Theoretical model



To facilitate the study, based on previous literature discussed above, a hypothesis and its alternative are developed as follows:

H1: The investment climate factors have positive impacts on FDIs in Libya.
H2: The investment climate factors have negative impacts on FDIs in Libya.

4.2 Sampling and Data Collection

In this study, a questionnaire survey method was employed to collect the primary data. The survey was conducted with the foreign companies operating in Libya. Primary data were collected using a mailed questionnaire that included open-ended and closed-ended questions to foreign investors in Libya. The questionnaire sought to examine the foreign investors' opinions and perceptions of the main issues facing Libyan investment climate. Two hundred questionnaires were distributed to foreign firms located in 16 cities of Libya including Tripoli, Zawia, Musratah, Benghazi etc. Ninety-one questionnaires were completed and returned. The questionnaire surveys were analysed using SPSS Version 21.

4.3 Data Analysis

The methods employed were categorical, exploratory and qualitative in nature. As stated by Norris & Ortega (2006),the qualitative data can be analysed as quantitative data through three main methods: firstly, by integrating the findings of one work over time; secondly, by integrating the results of studies across both time and researchers; and finally, by transforming qualitative data into counts and frequencies. In this study, the qualitative data were coded to numbers to apply the appropriate statistical procedure. The response rates were converted into frequencies and their percentages to report in the form of summarised charts as below.

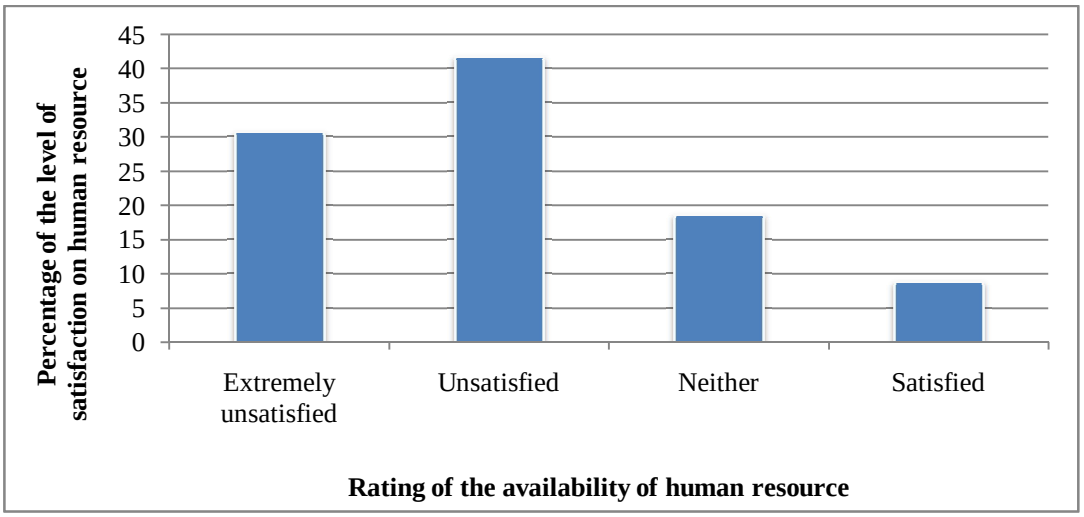
5. Results of Survey Responses

The survey responses for the variables of investment climate are presented graphically in Fig 2 to Fig 8 and described below.

5.1.1 Human Resources

A large percentage of foreign firms were not happy with the human resource factor (Fig 3). Extremely unsatisfied and unsatisfied together constituted 66 out of 91 companies, which is about 72.6%. Only eight firms (8.8%) reported satisfaction.

Fig 2: Frequency percentages of responses on availability of human resources

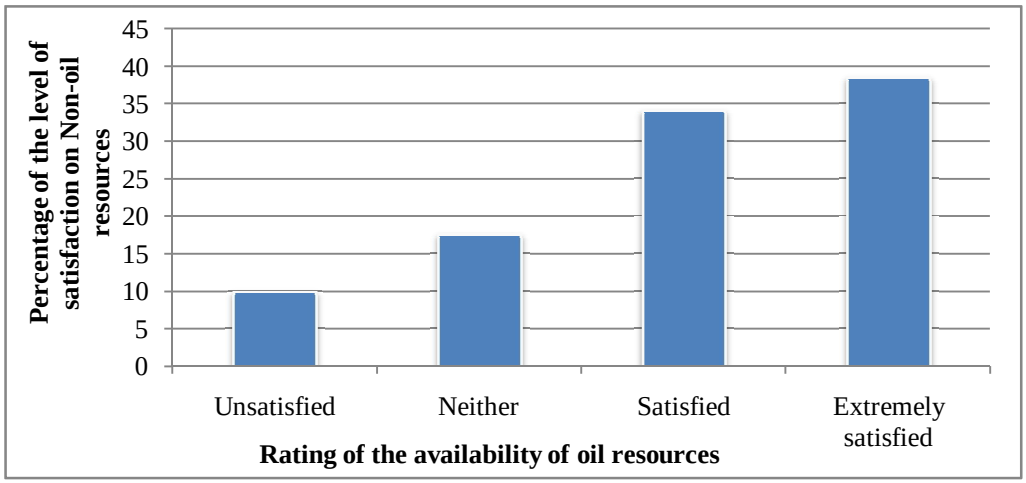


Source: Analysis of survey data collected for this study

5.1.2 Availability of Mining and Natural Resources

The results are given in Fig 4.About 72.6% (66 out of 91 firms) expressed satisfaction over availability of oil mining and natural resources. But there were a good 16 firms (17.6%) who were neutral in response. Nine firms (9.9%) were unsatisfied.

Fig 4: Frequency percentages of responses on availability of oil resources

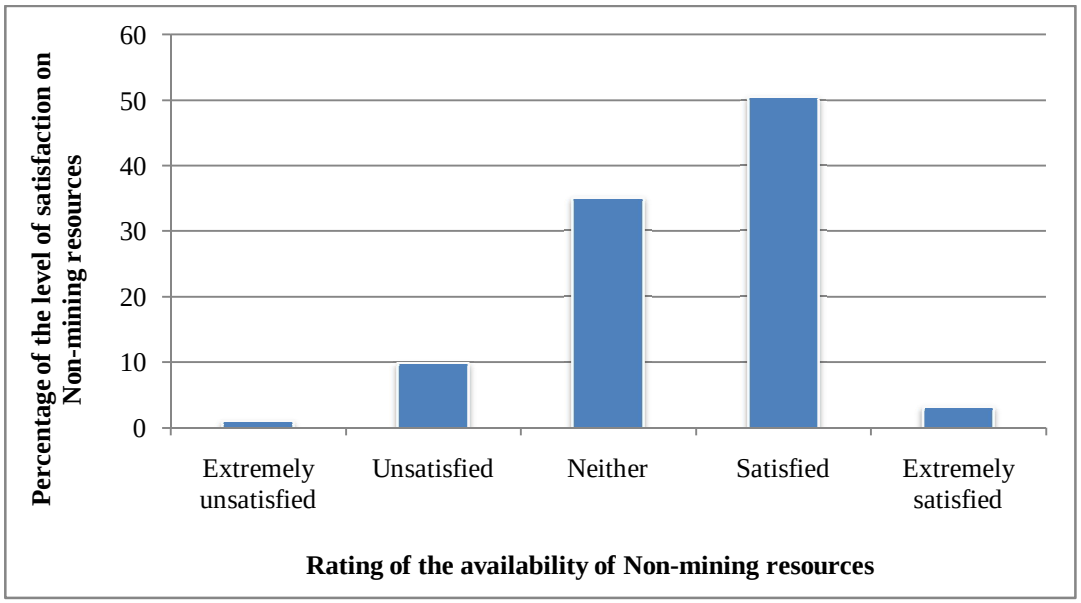


Source: Analysis of survey data collected for this study

5.1.3 Availability of Non-Mining Resources

The response for this item of investment climate is given graphically in Fig 5. About 53.8% firms (49 out of 91 firms) reported satisfaction. However, a large number of 32 firms (35.2%) remained neutral and 10 firms (11%) were dissatisfied.

Fig 5: Frequency percentages of responses on availability off non-mining resources

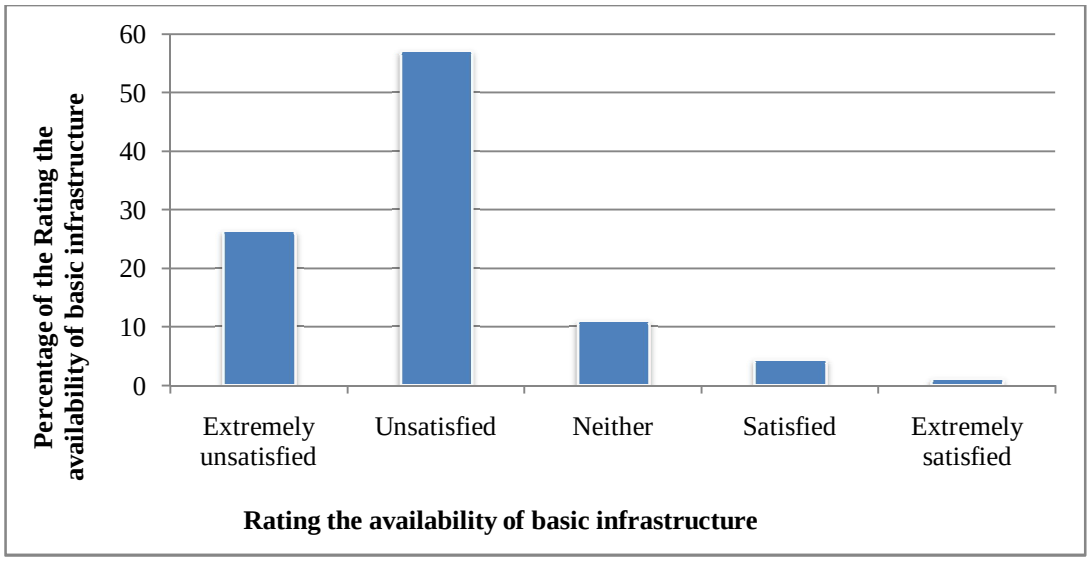


Source: Analysis of survey data collected for this study

5.1.4 *Availability of Basic Infrastructure*

Fig 6 gives the response frequencies for this variable graphically. A big majority of 83.5% (76 out of 91 firms) were not satisfied with the availability of basic infrastructure. Although 10 firms (11%) were neutral, only five firms (5.5%) were satisfied.

Fig 6: Frequency percentages of responses on availability of basic infrastructure

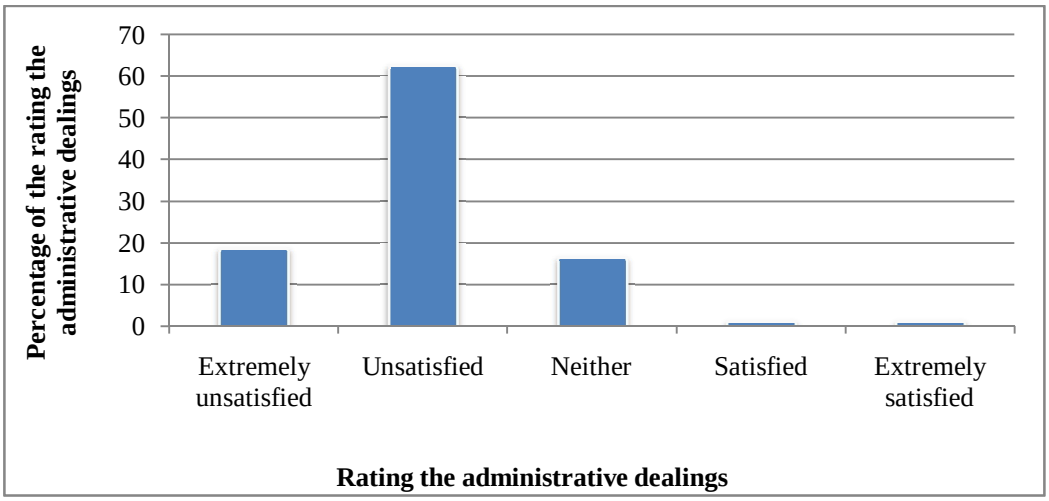


Source: Analysis of survey data collected for this study

5.1.5 *Administrative Dealings*

Fig 7 gives the response frequencies graphically. Only two firms were satisfied. Of the rest, 81.3% (74 out of 91) were dissatisfied and 16.5% (15 firms) were neutral.

Fig 7: Frequency percentages of responses on administrative dealings

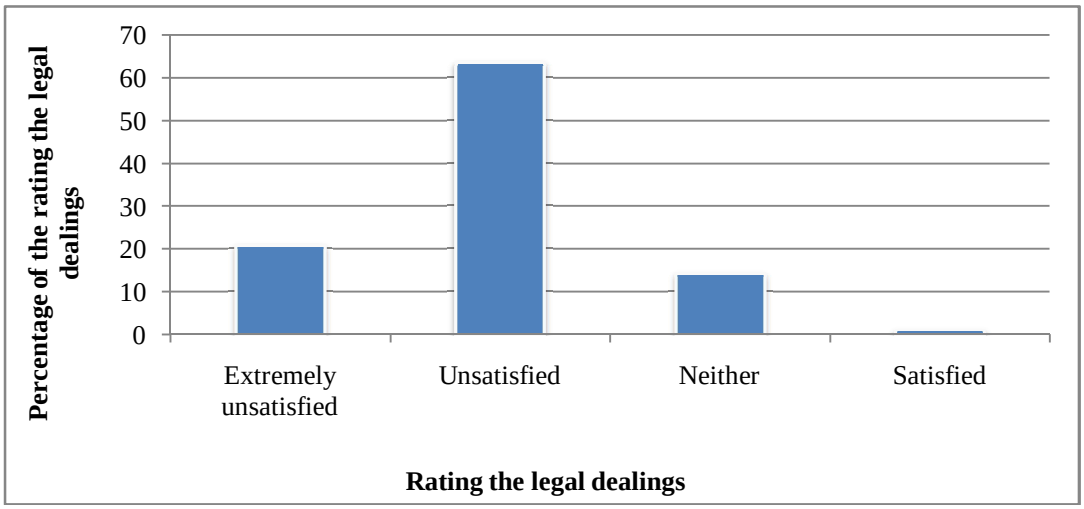


Source: Analysis of survey data collected for this study

5.1.6 Legal Dealings

The response frequencies are presented graphically in Fig 8. Only one firm (1.1%) was satisfied with the legal dealings. Out of the remaining 990 firms, 77 firms (84.6%) were dissatisfied and 13 firms (14.3%) were neutral.

Fig 8: Frequency percentages of responses on legal dealings



Source: Analysis of survey data collected for this study.

Summarising, the overall results obtained will be as given in Table 3.

Table 3:Overall summarised results

INVESTMENT CLIMATE VARIABLE	PER CENT FREQUENCIES		
	TOTAL DISSATISFIED	TOTAL SATISFIED	NEITHER
Human resources	72.6	8.8	18.6
Oil and Mining resources	9.9	72.6	17.5
Non-mining resources	11.0	53.8	35.2
Basic infrastructure	83.5	5.5	11.0
Administrative dealings	81.3	2.2	16.5
Legal dealings	84.6	1.1	14.3

6. Discussions

The questionnaire responses of firm participants confirmed the seriousness implementation problems, even if there is a sufficient legal and policy framework. Weak governance, political interference and corruption created obstacles in the implementation of reforms and policies to attract FDI inflows. Administrative and legal issues are the biggest problems. Financial procedures are tiresome and deter many investors. Along with poor infrastructure and lack of transparency, market weakness, local availability of required skills against the regulatory requirement of compulsory minimum local employment and political and economic instability act as barriers of FDI. Importance of favourable investment climate has been stressed by many authors like Well & Wints (2000), and Kinda (2008). Improvement in investment climate has always resulted in higher FDI inflows. Zakari et al (2010). Libya has recognised this and is on the improvement path.

Among the four factors of investment climate, importance of human capital as cheap labour source in developing countries was pointed out by Hanson, 1996; Schneider & Frey, 1985. Many developing countries like Bangladesh have capitalised on this advantage. Libya has not been able to utilise this low cost labour opportunity to attract foreign firms. This is an area for improvement. Positive effect of natural resources on FDI has been demonstrated by Asiedu (2006), Gonchar & Marek (2013), Anyanwu (2012) and Deichmann et al (2003).Among natural resources, oil is the biggest attractor due to its high profitability. This is favourable for Libya due to its large reserves but unfavourable for diversification. Hence FDI in oil sector need to be on low key.

Asiedu (2002), Coughlin et al (1991) and Rehman et al (2011) showed positive effects of infrastructure on FDI. In Libya, infrastructure has developed to a large extent. But much more need to be done. Survey respondents pointed to the poor service quality. Positive effect of administrative environment on FDI was observed by many authors like Capik (2007), Choi et al (2014) and Asiedu (2006).Corruption as a major deterrent of FDI was stressed by Habib and Zurawicki (2002), Wei (2000), Hines (1995), Treisman (2007) and Campos et al (2010). Favourable legal environment increased FDI in the findings of LaPorta et al(1999), Lskavyan & Spatareanu (2011) and Li et al (2012).

Both administrative and legal issues were rated as serious problems in Libya. This includes corruption. The model proposed from literature review has been verified by the responses of foreign firm participants in the questionnaire survey. It is sufficiently clear that the satisfactory operations of the four factors of investment climate lead to FDI inflows. Mathematical regression for the relationship of these four factors with actual FDI inflows cannot be performed due to high variability of FDI data with many negative values.

7. Conclusions

There is a high degree of satisfaction only with respect to oil and non-oil natural resources. Between the two, satisfaction about non-mining resources, which can attract FDI for diversification into new non-oil sectors, is lower. Very high degree of dissatisfaction exists regarding administrative and legal hurdles and adequacy of basic infrastructure like roads and communication facilities. These observations indicate that Libya has miles to go for any significant achievement. The extent to which the current status of the four factors of investment climate in Libya reflected in its FDI trends is an indirect proof of the proposed framework. Therefore, it can be safely said that the four factors significantly influence FDI inflows, although in varying degrees depending on the country context.

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