

The future of Libya may be found in Alaska

BY RICHARD GRECO

Whoever takes power in Tripoli will inevitably control the country's enormous oil resources. In order to ensure that all Libyan citizens benefit from the wealth, a fair and viable model for wealth distribution is needed. The Alaska Permanent Fund is one such model.

Two hundred thirty-five years after the American Revolution, one hundred sixty-three years after the European Revolutions of 1848, sixty-six years after the defeat of authoritarianism in Italy and Germany, and twenty-two years after the disintegration of the Soviet Empire, freedom and self-determination may finally be supplanting autocracy and submission in the Arab world. Perhaps encouraged by a functioning democracy in Iraq, perhaps powerfully moved by the poignant self-immolation of a frustrated fruit vendor in Tunisia, or perhaps responding to an innate yearning, average Arabs have called for despotic leaders to step down and have demanded their voices be heard.

In Iraq, a dictator was removed through a deliberate military intervention led by the United States, and a representative government was installed. In Tunisia and Egypt dictators fell not with outside help but through relatively bloodless mass demonstrations; and new governments are forming. Whereas in Libya, NATO weakened Muammar Gaddafi's power base and provided the necessary military advantage to rebels who proceeded to overthrow him. The National Transitional Council (NTC) of Libya – the interim government – is now meeting to establish roots and rules of democracy and free enterprise in this long-oppressed nation.

Every new democracy – especially where pluralism includes strong identities of tribe, religion, and ethnicity – must allow all groups to participate in a legitimate process and feel fairly represented. But, they must also implement safeguards to prevent any one group from dominating or even subverting the process. One genuine fear for nascent Arab democracies is that Islamists (or other Western antagonists) gain power legitimately and then perpetuate their power by dismantling the democratic process. Self-determination that sows the seeds of its own destruction – or seeks the destruction of others – is no self-determination at all.

The West must do all it can to help the NTC – comprised of Marxists, Socialists, Arab Nationalists, liberals, and Islamists – look beyond tribal, religious, or ideological agendas and promote a singular vision of a secular government and a diversified economy that steadily lessens its dependence on oil, which now contributes between 75% and 90% of all government revenue. We have our greatest leverage to encourage long-lasting transformational democratic and economic frameworks now, and we must seize the moment and offer innovative ideas.

Politically, we should encourage the NTC to enshrine secularism in the new Libyan constitution. There would be no greater signal to the international community and to one's own citizens than to swear allegiance to a constitution that expressly states the country is committed to a secular government that will not tolerate terrorism, jihad, or even sharia law as the principal inspiration for legislation. Such a signal would also demonstrate a commitment to international integration. It would enhance predictability and encourage much needed capital investment and technology transfer from the West. Economically, we should encourage the NTC to adopt policies that truly underpin freedom and promote free enterprise. Successful private enterprise will incentivize people to perpetuate a stable political system, and a virtuous cycle can begin.

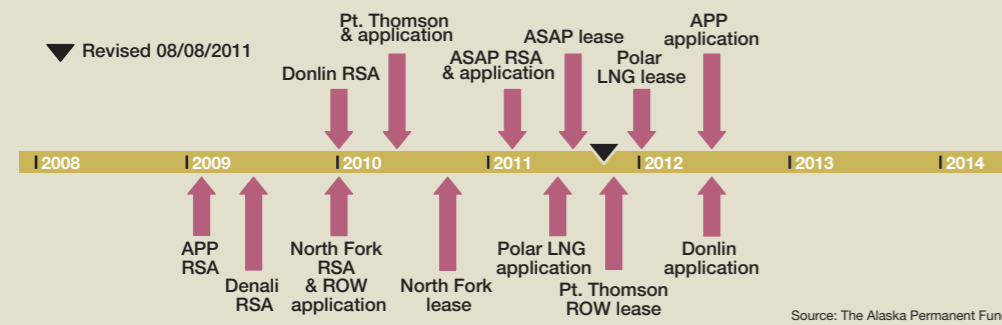
Libya has the ingredients for successful private enterprise and a diversified economy. Firstly, it is already rich, holding the largest proved oil reserves in Africa. According to the 2008 BP Statistical Energy Survey, Libya had proved oil reserves of 41.5 billion barrels at the end of 2007 or 3.34% of the world's reserves. Libya is also Africa's major oil producer and one of Europe's biggest North African oil suppliers, accounting for 2.2%



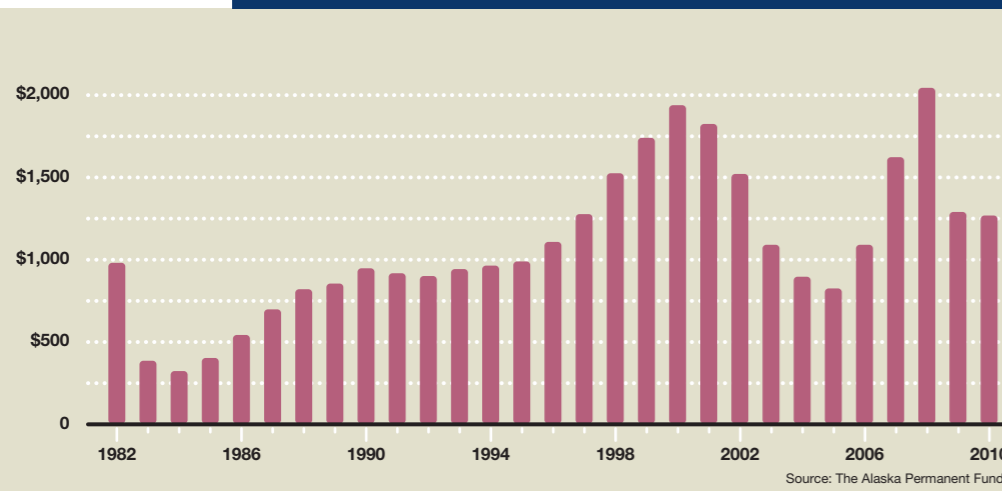
**STATE PIPELINE COORDINATOR'S OFFICE
JURISDICTIONAL PIPELINE PROJECT TIMELINES**

ACTUAL OR ESTIMATED DATES OF REIMBURSABLE SERVICE AGREEMENTS (RSA) AND RIGHT-OF-WAY (ROW) APPLICATIONS AND LEASES

Alaska Pipeline Project: Transcanada & ExxonMobil
Alaska Stand-Alone Pipeline: Alaska Gasline Development Corporation
Denali: The Alaska Gas Pipeline
Donlin: Donlin Gold Mine
North Fork Pipeline: Anchor Point Energy, LLC
Point Thomson: ExxonMobil
Polar LNG: Polar LNG, LLC



**ANNUAL DIVIDEND AMOUNT PER ALASKAN CITIZEN
SINCE PERMANENT FUND INCEPTION**



of the world's total supply. Libya has relatively high education levels, too. Its illiteracy rate of 17.6% is one of the lowest in North Africa, and it has the third highest number of people in higher education of any Arab country after Jordan and the Palestinian territories. Libya also has very low public debt and external debt. The problem is that Libya is a rent-seeking country, where power and wealth has been concentrated in the hands of those who control the source of wealth – oil.

How can Libya leverage its natural resource wealth, high educational levels, and low debt for the benefit of the entire Libyan people while promoting entrepreneurship and political stability all at the same time? A

stability. The Alaska model could help Libya save a portion of the wealth created by the country's oil; allocate a percentage of oil revenues away from government spending by direct deposit into a dedicated fund; and provide an investment base which would generate an income stream that can be distributed to citizens or injected into the economy to promote the non-oil gross domestic product of the country.

The first Executive Director of the Alaska Fund, David A. Rose, outlined in "The Alaska Permanent Fund: An Uncommon Success" the six attributes of the fund that make it ideal for any resource-rich country in transition, such as Libya.

potential answer lies in the establishment of a domestic development investment fund.

Many resource-wealthy countries, including Libya, have established so-called Sovereign Wealth Funds or SWFs to help manage and multiply the country's wealth. But few funds – including the Gaddafi-controlled Libyan Investment Authority – actually have an express mandate to serve the people of the country.

One fund model that has 30 years of success is the Alaska Permanent Fund, started in 1982 as a way to distribute proceeds from Alaska's oil resources to Alaska State citizens and as a way to promote local economic development. Alaska produces about 1.8 million barrels of oil per day, similar to Libya's current 1.6 million barrels a day. The Alaska Permanent Fund currently has a market value of \$40 billion, not an unreasonable objective for Libya in the short to mid-term. Libya's population is about six times the population of Alaska, but Libya's per capita income is less than one-fifth that of the US. Thus, the per capita dividend paid in Alaska could have the same relative positive economic impact in Libya.

The NTC should consider the model of the Alaska Permanent Fund in their own efforts to serve the Libyan people and to promote general prosperity and

1) Savings: A permanent fund allows saving a percentage of oil wealth by converting a non-renewable resource into an asset rich endowment, permitting the generation of income in perpetuity that can be used for the direct benefit, in this case, of the Libyan people.

2) Dividends: A fund provides the payment of an annual dividend from the earnings of the fund each year, paid to every man, woman, and child on an equal basis. Individuals are free to spend the dividend, save it in savings accounts or more diversified investment accounts, or invest it in entrepreneurial opportunities – the choice is theirs.

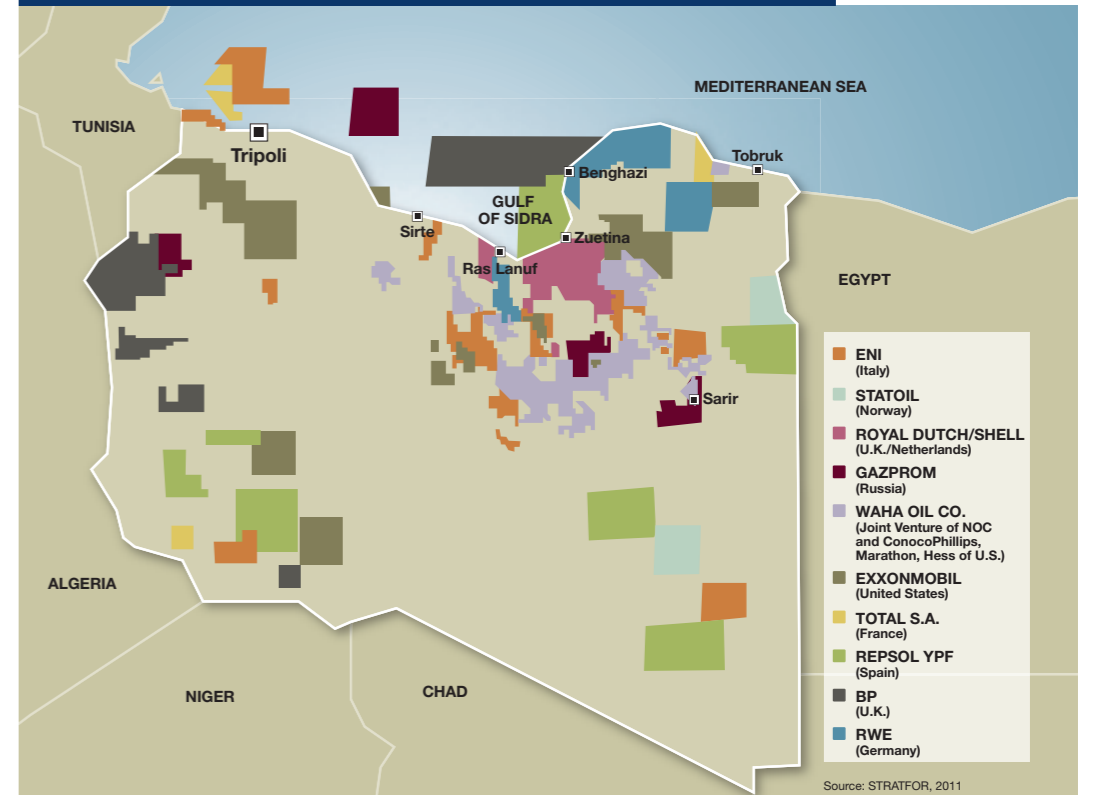
3) Economic Activity: The annual injection of cash throughout the nation can be a catalyst for economic activity which can have a multiplier effect in creating jobs and investment. In the case of Libya, a portion of the annual earnings can go directly to seed non-oil small and medium businesses in order to stimulate diversification of the economy. A diversified economy can help combat rent-seeking behavior, where economic and political power ends up in the hands of the few that control the oil-related economic activities.

4) Accountability: An investment fund that is publicly committed to international accounting and governance standards and reports annually to the people will ultimately be accountable to the people. True accountability to the people lessens the risk of mismanagement or worse, misappropriation. It also inspires citizen involvement.

5) Citizen Involvement: A fund that is accountable to the people inevitably will foster a sense of civic responsibility, as citizens will want to become involved in the political decisions of how the fund is managed. This sense of civic responsibility has been a source of richness and cohesion for Alaskans and can also be for Libyans.

6) Information Flow: Since a dividend would be paid to all citizens, regardless of age, ethnicity, tribe, religion, or political affiliation, the government needs to have a counting of all people as can be obtained through a census. Other information collected through a census, such as educational levels and other demo-

**FOREIGN OWNERSHIP OF ENERGY OPERATIONS BY CONCESSION BLOCS
– BEFORE HOSTILITIES**



graphics may prove useful for the government as it begins to provide new services to its citizens.

The NTC and its Western supporters must act now to help Libya establish political and economic frameworks that promote secular pluralism and economic prosperity and diversity, without which average Libyans are destined to experience the same problems they faced under Gaddafi. The new Libya must avoid old systems and bad habits that rewarded the politically connected class and instead implement a serious, well-funded framework that promotes entrepreneurship and opportunity for all citizens. The Alaskan Permanent Fund is one model that can help the new Libyan government improve economic efficiency, make wealth distribution more equitable, and bring great progress to the country. This, in turn, will underpin a stable political process that is likely to remain pro-Western and well-integrated in the global community of nations.

RICHARD GRECO is the president of Filangieri Capital Partners, a New York-based merchant bank. He served as Assistant Secretary of the Navy and as a White House Fellow from 2002-2006.