



Examining the Contribution of Libya's Hydrocarbon Revenues to Human Capital Development through Education A Governance-Threshold Literature Review and Conceptual Framework

Farhat Dokali

(Gedik University, Department of Business Administration, Istanbul, Türkiye)

Assist. Prof. Dr. Senem Eivazzadeh İnce

(Gedik University, Department of Business Administration, Istanbul, Türkiye)

Abstract:

Resource-rich states frequently underperform on human development despite ample fiscal potential—an empirical pattern widely described as the "**resource curse**." Libya represents an extreme case of hydrocarbon dependence coupled with post-2011 institutional fragmentation, volatile budgeting, and weak accountability [12]. This paper develops a comprehensive research framework derived from a systematic literature review, synthesizing resource-curse theory, institutional economics, and human capital development scholarship. We investigate why hydrocarbon revenues often fail to translate into effective education investment in fragile contexts. The review identifies four recurring mechanisms: **Dutch Disease**, **rent-seeking**, **fiscal volatility**, and **skills mismatch**. Building on institutional conditionality arguments, the paper advances a **governance-threshold model** in which resource revenues yield positive education returns only when governance quality exceeds a minimum institutional threshold. We propose testable propositions and an implementation-oriented education-finance pipeline to locate critical control points, concluding with governance-first implications for sequencing reforms in resourcedependent states.

Keywords— Resource curse; Libya; hydrocarbon revenues; education finance; governance threshold; human capital development; institutional fragmentation.

Introduction

Hydrocarbon revenues can provide a powerful financing base for education, skills, and longrun economic diversification. Yet crossnational evidence repeatedly shows that many resource-rich developing countries exhibit weaker human development outcomes than resource-poor comparators [1], [2]. This paradox is central to the resource-curse thesis, which argues that resource abundance can generate macroeconomic distortions and governance weaknesses.

In the context of education, the paradox appears as volatile or inefficient spending, weak service delivery, and a persistent mismatch between graduate skills and labor market demand. Libya is a salient case for theory-building because it combines high

Core Economic Distortions

Dutch Disease describes how resource booms appreciate the real exchange rate and crowd out tradable sectors [4]. This weakens demand for diversified skills and reduces the political payoff of quality-focused education investment.

Rent-seeking generates incentives for elite competition over revenue. In low-integrity environments, leakage and payroll inflation divert education spending away from classrooms. Furthermore, **Fiscal Volatility** transmits commodity price shocks directly into government budgets, disrupting multi-year planning and maintenance [12].

Human capital theory frames education as an investment that raises productivity [6], [3]. However, in resource-dependent fragile states, spending levels alone are insufficient; institutional resource dependence with a fragile institutional landscape. In such settings, fiscal resources alone are insufficient; the decisive factor is the integrity of the institutional "vessel" through which revenues are translated into services [4].

This study asks: **Under what governance conditions do hydrocarbon revenues contribute positively to education outcomes?** We contribute by synthesizing the education channel in resource-curse research and articulating a governance-threshold conceptual model suited to post-conflict contexts.

Literature Review and Mechanisms

Institutional Conditionality

The resource curse was first consolidated as a thesis highlighting how mineral economies can resist diversification [1]. Political-economy accounts show that reliance on oil rents can weaken democratic accountability and bias spending toward patronage [2]. A key advancement is **institutional conditionality**: the effect of resources depends on whether institutions are "producer-friendly" or "grabberfriendly" [3]. capacity determines whether expenditure translates into learning gains.

Key Research Paradox

"Libya's challenge is not the volume of oil wealth, but the institutional integrity required to convert that wealth into human capital."

Core Resource-Curse Mechanisms and Education Symptoms

The following table summarizes the theoretical mechanisms and their specific impact on the education sector.

Mechanism	Core Idea	Typical Education Symptoms	Implementation Risks
Dutch Disease	Non-oil tradables erode; enclave economy	Weak demand for diversified skills;	Curriculum becomes credentialfocused
		limited privatesector absorption	
Rent-seeking	Rents fuel patronage and leakage	Payroll inflation; procurement irregularities	"Money on paper" not delivered
Fiscal Volatility	Budget follows commodity cycles	Pro-cyclical cuts; delayed maintenance	Stop-start reforms; disrupted planning
Skills Mismatch	Output misaligned with labor demand	High graduate unemployment; low employability	Low returns to education spending

Evidence Synthesis and Visual Analysis

To illustrate the education investment gap, we present empirical patterns comparing Libya with regional and global comparators.

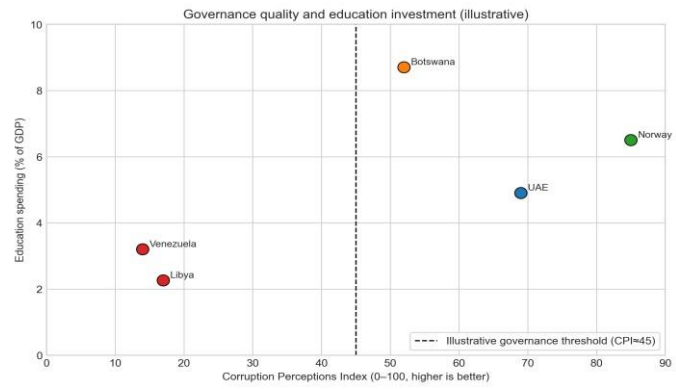
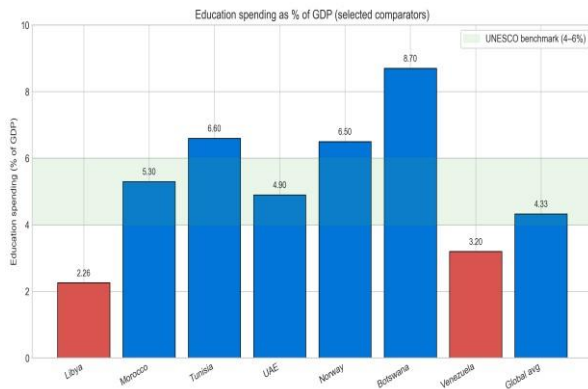


Fig. 1. Education spending as a percentage of GDP Fig. 2. Scatter plot of Governance Quality (CPI) vs. Education across selected comparators, showing Libya significantly Investment, highlighting an illustrative governance threshold at below the UNESCO 4-6% benchmark band. Data sourced CPI~45. Sourced from Transparency International [7].

from UNESCO [31].

Fig. 2 demonstrates the correlation between **Fig. 1** illustrates that Libya's education governance and spending. Countries above the expenditure (~2.26% of GDP) is substantially illustrative threshold (e.g., Norway, Botswana) tend lower than regional neighbors like Morocco to achieve more effective education investment, (5.30%) and Tunisia (6.60%), and falls well whereas Libya and Venezuela remain in the lowshort of the global average (4.33%). This governance/low-investment quadrant. highlights a chronic underinvestment relative to fiscal potential.

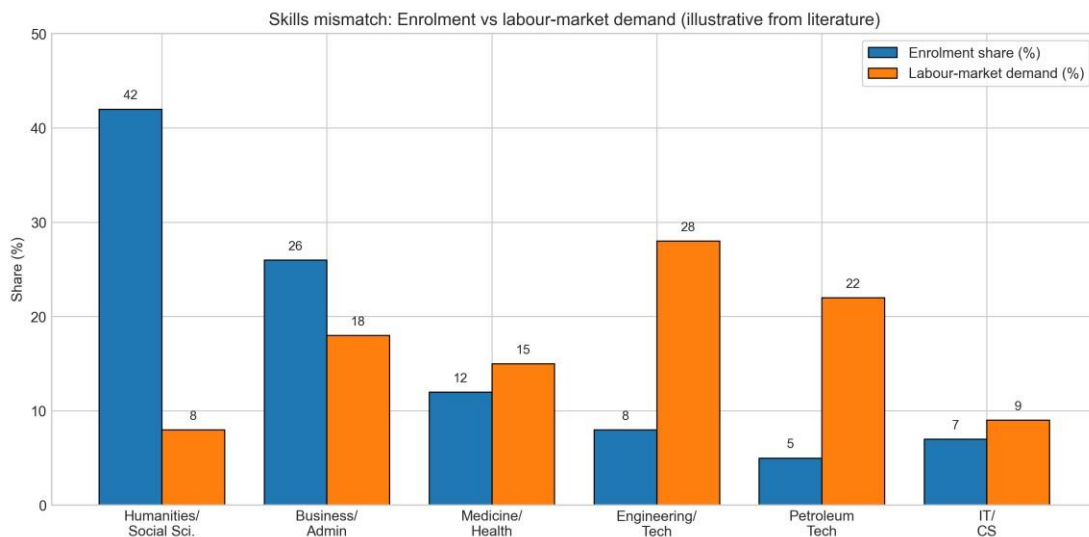


Fig. 3. Skills Mismatch: Comparison of academic enrolment share versus actual labor-market demand. Discrepancies are highest in Humanities and Engineering sectors. Sourced from Any & Yildiz [2].

As shown in **Fig. 3**, there is a severe misalignment between university output and market needs. Humanities and Social Sciences account for 42% of enrolment but only 8% of demand, while Engineering and IT sectors face significant labor shortages, reducing the overall productivity of the education system.

The Governance-Threshold Model

The **Governance-Threshold Model** proposes that hydrocarbon revenues only yield positive human capital outcomes when institutional integrity surpasses a critical level. Below this threshold, additional revenue is diverted toward rent-seeking or lost through fiscal volatility.

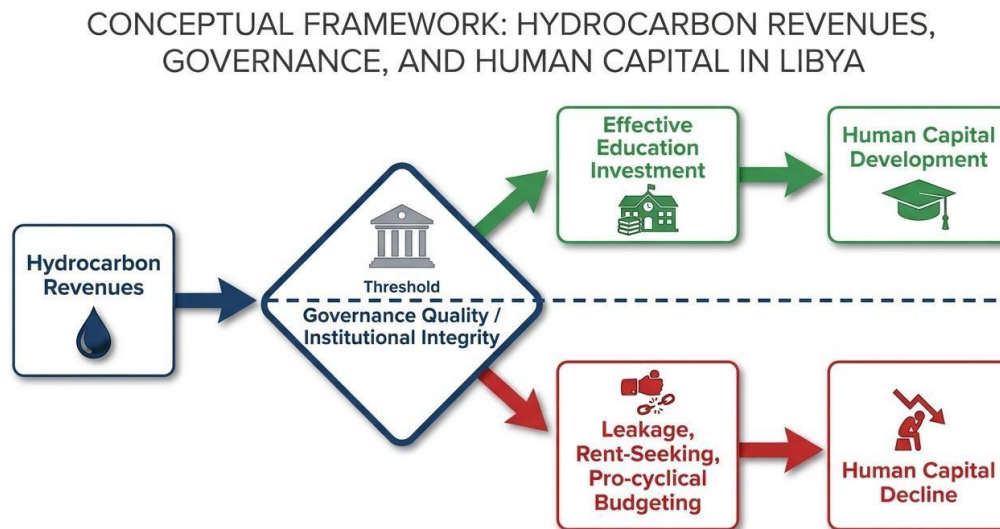


Fig. 4. Conceptual framework mapping the conditional path of hydrocarbon revenues through governance thresholds to final human capital outcomes.

TABLE II: Propositions for Future Empirical Testing

ID	Proposition	Expected Sign
P1	Hydrocarbon revenue contributes to education outcomes only above a governance threshold.	Conditional (+)
P2	In low-governance settings, oil-price volatility increases education spending volatility.	(+)
P3	Spending effectiveness is mediated by payroll integrity and procurement controls.	(+)
P4	Skills mismatch reinforces a low investment equilibrium and lowers economic returns.	(+)

Education-Finance Pipeline and Conclusion

To bridge the gap between theory and implementation, we map the **Education Finance Pipeline**, identifying where fiscal resources are most vulnerable to leakage and institutional failure.

Education finance pipeline in resource-dependent states

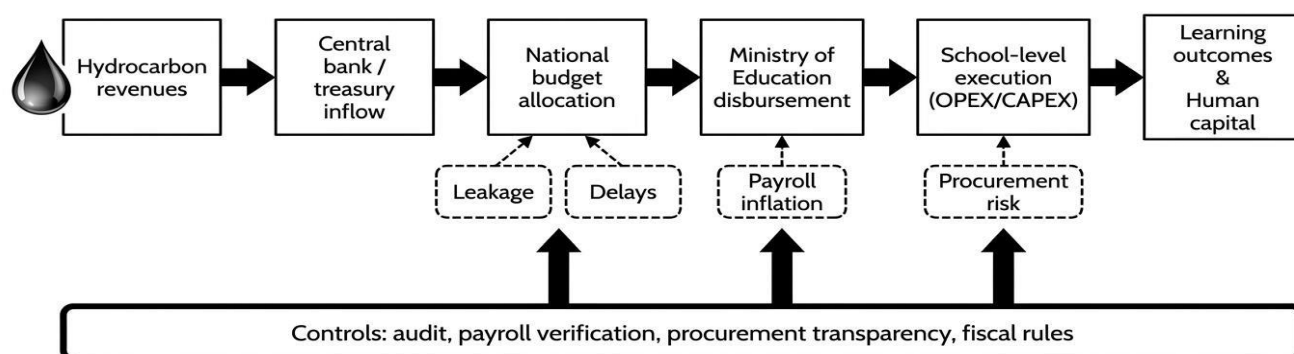


Fig. 5. The Education Finance Pipeline, illustrating critical control points (Audit, Payroll, Procurement) necessary to protect spending integrity.

Control Point Analysis

Reform Sequencing

- **Budget Unity:** Prevention of parallel 1. Establishment of fiscal stabilization administrations and fragmented rules to smooth education spending. spending [12].
- **Payroll Verification:** Biometric (Audit & Procurement). systems to eliminate "ghost workers" 2. Implementation of integrity reforms address and payroll inflation. skills mismatch.
- **Procurement Transparency:** Protecting capital investments in school infrastructure from graft. 3. Curriculum realignment to

Discussion and Conclusion

The evidence converges on a governance-first interpretation: the binding constraint for Libya's education sector is not the volume of revenue but institutional integrity. Without surpassing the **governance threshold**, additional funding may actually exacerbate rent-seeking behaviors.

This paper concludes that hydrocarbon revenues can only be successfully leveraged for human capital development through a sequenced approach that prioritizes integrity

reforms and fiscal stabilization. The proposed framework provides a roadmap for empirical testing and policy reform in fragile, resource-dependent states.

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