An Introductory Study on the Status, Challenges and Prospects of the Libyan Economy

Part I of a Baseline Study for the Libya Socioeconomic Dialogue Project

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Part I of a Baseline Study for the Libya Socioeconomic Dialogue Project

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Abbreviations

ACA	Administrative Control Authority
AIA	Army Investment Authority
BBC	British Broadcasting Corporation
BOT	Build operate transfer
BTI	Bertelsmann Stiftung's Transformation Index
CBL	Central Bank of Libya
EIU	Economic Intelligence Unit
ESCWA	Economic and Social Commission for International Cooperation
ETF	European training Foundation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	German Agency for international cooperation
GNA	Government of National Accord
GOL	Government of Libya
GRP	Gross Rating Point
HDI	Human Development Index
HIB	Housing and Infrastructure Board
HOR	House of Representatives
ICT	Information and Communication Technology
IDPs	Internally Displaced persons
ILO	International Labor Organization
IMF	International Monetary Fund
IOM	International Organization for Migrations
LCs	Letters of Credit
LNG	Liquefied natural gas
LOOPs	Libyan Organization of Policies & Strategies
LD	Libyan Dinar
NGOs	Non-Governmental Organizations
NOC	National oil Corporation

OECD	Organization for Economic Cooperation and Development
PHC	Primary Health care
PPP	Public Private partnership
SMEs	Small and Medium Enterprises
TEVT	Technical and Vocational Education Training
ToR	Terms of Reference
UN	United Nations
UNCIF	United Nations International Children's Emergency Fund
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNSF	United Nations Strategic Framework
UNSMIL	United Nations Support Mission in Libya
USAID	United States Agency for International Development
USD	United States Dollar
WHO	World Health Organization

Executive summary

The aim of this report is to prepare an initial study that identifies the most prominent challenges facing the current Libyan economy and the extent of their impact on business development and on political and economic stability, before suggesting some thematic issues for discussion at the national level to elaborate a national strategy.

The Libyan state has been largely affected by various changes since 2011. With the fall of Gadhafi regime, it had to face major economic, security, social and political challenges. Oil exports were suspended in 2013 by the President of the Guard of Facilities (Ibrahim Jedran), resulting in a -6 per cent deficit-financed national budget compared to 2010. When the results of elections to the House of Representatives were challenged by members from the National Assembly, two separate governments were formed in Tripoli and Beida. The executive and legislative institutions were affected most while the judiciary registered a low level of performance. Furthermore, public service salaries and wages had the largest expense budget line item against only 7.5 per cent for development.

The country's economy and public institutions fell under the control of militias while public officials, businessmen and members of armed groups perpetrated crime especially in the banking sector, where they benefited from Letters of credit and hard currency sold over 500 per cent of its buying rate. The exchange rate in parallel markets reached LD 12 (upon deeds purchase) against only LD 1.4 at the central bank. The smuggled subsidized goods and fuel to neighboring countries were sold twice the buying price. Public institutions estimated that more than LD 3 billion of subsidized fuel are smuggled annually outside Libya out of nearly LD 4.2 billion annual state subsidies to the sector. Furthermore, subsidized fuel and commodities which account for 28 per cent of public spending have significantly contributed to criminal operations and smuggling.

After the fall of Qaddafi regime in 2011, Libya turned into a battlefield with a succession of wars and conflicts before the Operation Odyssey Dawn in the West, the Operation Dignity against terrorism in the East, the war against ISIS in Sirte, and finally the Battle for control of Tripoli. As a result, the infrastructure in cities and regions across Libya were severely damaged. Besides, billions of dinars were spent on weapons, supplies and equipment to the armies. Thus, reconstruction does not sound to be an easy task. There is an urgent need to secure funds, identify priorities to restoring stability and provide the basic infrastructure for a decent living. The State is currently unable to achieve this goal especially with the extensive spending on non-developmental sectors, including war supplies, salaries and other expenses. This situation is combined with the internally and externally displaced persons who are unable to return to their destroyed hometowns, let alone to a decent life.

One of the major ongoing challenges the Libyan economy has been facing is the large numbers of civil servants estimated at 85 per cent of the total workforce and whose salaries and wages drain over half the annual national budget. Another challenge is double employment, child labor and clientelism. Furthermore, the private sector, which employs 15 per cent of the Libyan workforce, has not been able to reduce an unemployment rate of nearly 19 per cent. Additionally, the informal sector is dominated by skilled migrant workers as a result of poor education and training centers which failed to meet market requirements.

To address the overall challenges, attempts have been made since 2006 to devise national strategies and visions, including the National Economic Strategy proposed by the Monitor Group for raising the global competitiveness of the Libyan economy, Libya's Vision 2040 prepared by the National Planning Council and the 2019-2020 Vision of the United Nations Support Mission for Libya. However, instead of trying to address the Libyan socio-economic situation, focus was put on specific areas or limited to some sectors. Therefore, to overcome shortcomings, it is essential to put in place a new vision and a strategy to move away from oil dependence and to develop service and production sectors. Libya has the required assets for adopting a national strategy including its geographical location, a rich historical heritage, archeological cities, a small population, a high percentage of youth, availability of financial resources and natural reserves of energy and minerals.

A social dialogue and priority setting are needed to surmount major challenges, including fighting banking crimes and the smuggling of persons, goods and fuel, by deterring criminals, drying up the funding of mercenaries and setting up mechanisms and solutions for exchange rate differences. In addition to resolving sensitive issues which assumingly triggered conflicts and wars, including rampant corruption within public institutions and monopoly of the State's resources. There is an urgent need for equitable distribution of wealth, good management of natural resources, public expenditures reduction, downsizing public employment, lifting restrictions on the economy and spending positively on development.

Introduction

This paper is aimed at conducting a preliminary study of Libya's socio-economic dialogue project. The objective of the project is to provide a platform for a broad and comprehensive range of Libyan experts and stakeholders to guide them in the formulation of a long-term vision for Libya's social and economic development and in developing policy options enabling Libyan decision-makers to achieve this vision following a national dialogue.

The study serves as a guide for the overall dialogue process which is a summary of the economic situation in Libya and a preliminary study for setting the scope by conducting a critical survey of the proposed research related to the Libyan economy and identifying the challenges and opportunities for selected economic issues. This report proposes many feasible issues that can be critical for the future stability and development in Libya.

In addition to publications by international bodies, including those of the World Bank, the United Nations, its affiliated organizations and the European Union, the data contained in this paper were collected from documents and research available in government publications including the publications of the Central Bank of Libya and the Statistics and Census Bureau as well as the reports of regulatory and governmental bodies where priority was given to national data. However, some of the available national data are marred by some questions about accuracy, especially that the last national survey by the Statistics and Census Bureau – for example – was in 2006. In addition, it is a challenge to obtain accurate data (apart from the reports of the Administrative Control Authority and the Central Bank of Libya) considering the institutional division and the current political conflict.

This report is divided into three main parts. The first part is an overview of the Libyan economy inclusive of previous and current gaps, practices resulting from political instability and war economy such as smuggling, kidnapping, illegal trading in foreign currency, immigration etc. It also depicts the current situation of the infrastructure and other economic issues in Libya. The second part presents the proposed visions since 2006 and summary of challenges (previous and current) to be addressed and that prevented the adoption of these visions. The third part explores a variety of themes to be discussed at the national dialogue level and that would have a positive impact on the Libyan economy.

Part I: Current Libyan economy

1. An overview of Libya

Libya is a large country with a population of 6.3 million, 90 per cent of whom live in 10 per cent of the coastal land area. The population density is around 50 people per kilometer (130 square miles/ mile) in the northern regions of Tripoli and Barqa, falling to less than one person per kilometer (2.6 square miles) elsewhere. About 88 per cent of the population lives in cities, most of them are concentrated in the four main cities of Tripoli, Benghazi, Misrata and Beida. (Statistics and Census Bureau, International Organization for Migration, 2018).

Population growth declined from an annual growth of 2.17 per cent in 2007 to 1.06 per cent in 2018. This is explained by several reasons including reluctance to marry due to high cost of living, low wages and salaries, high marriage expenses and lack of housing. The loss of life in the wars since 2011 is another reason. Most of those missing in wars are youth, which is also expected to influence the population growth in the future.

2. Features of the Libyan economy (current situation)

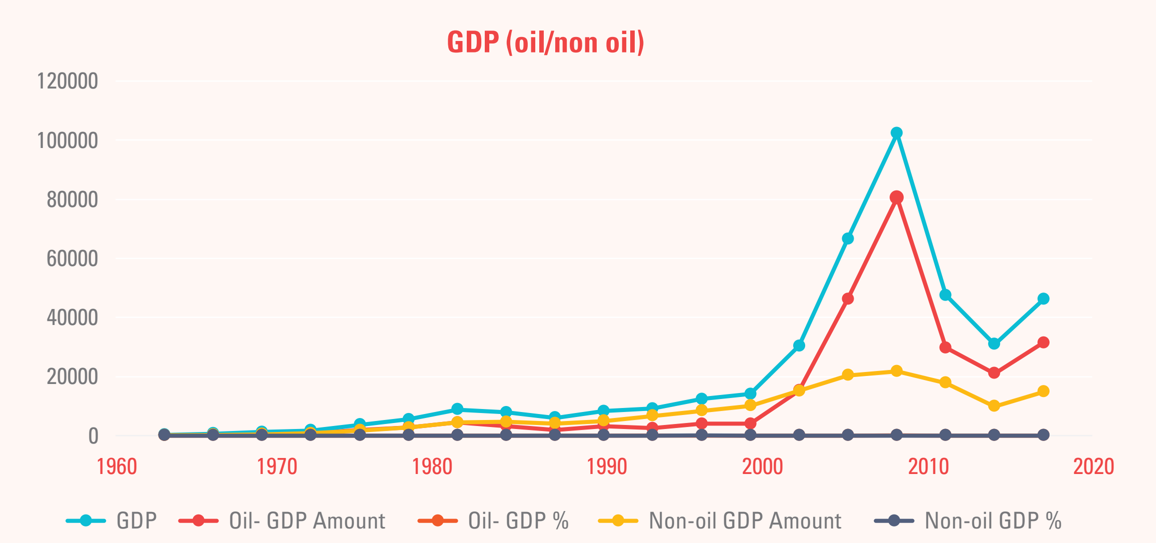
2.1 Economic growth

Libya is one of the highest average income countries, with the highest GDP per capita in Africa as a result of oil resources. The average annual growth in GDP was 7.99 per cent in the period from 2000 to 2012 against 122 per cent in December 2012 after a 60 per cent decline in December 2011 (Central Bank of Libya, 2012). In 2013, the annual economic growth fell again to -6 per cent due to the suspension of oil exports by the Chairman of the Guard of Petroleum Facilities in the Eastern Region (Ibrahim Al-Jadran), resulting in record levels of production cuts estimated at 190 thousand barrels against 1.5 barrels per day in 2010. As a result, Libya lost two-thirds of its reserves between 2013 and 2016, i.e. $75 billion. In 2017, after a sharp contraction since 2014, the Libyan economy recorded a significant improvement in macroeconomic performance as a result of increased oil production and exports, thanks to the national army who took back the control of oil fields. Real GDP growth was estimated at 28.3 per cent in 2017 against -8.4 per cent in 2016. It is expected to reach 7.4 per cent in 2018, and real GDP is expected to follow the same trend (National Oil Corporation, Libya Bank Central, World Bank, 2018).

For a better understanding of the recent years economic growth in Libya, emphasis should be put on non-oil sector growth. Data from the Central Bank of Libya (CBL) showed a weak non-oil sector of 32 per cent of GDP and 7 per cent of total revenue in 2014, against 32 per cent of GDP and 13 per cent of public revenue in 2017 consecutively. This change was largely influenced by the rise in external imports value from duties and taxes on Letters of credit and other documents pending collection (Central bank of Libya, 2017).

Despite recurrent efforts to diversify the Libyan economy, the energy sector continued to have the largest share of GDP, contributing more than 70 per cent of Libyan GDP, 90 per cent of government revenues and more than 95 per cent of exports in 2018, while other sectors accounted for a relatively low share of GDP (Central Bank of Libya, 2018).

Figure 1. Economic growth



Source: CBL, Research and studies center.

Table 1. Gross Domestic Product

Year	Oil- GDP		Non-oil GDP		GDP
	Amount	Percentage	Amount	Percentage	
1963	99.6	42.3	135.7	57.7	235.3
1966	356.1	56.1	278.8	43.9	634.9
1969	754.7	61.7	468.3	38.3	1223
1972	920.6	52.5	831.4	47.5	1752
1975	1961.1	53.3	1713.2	46.7	3674.3
1978	2808.7	51.1	2687.4	48.9	5496.1
1981	4403.3	50	4395.5	50	8798.8
1984	3209.8	41.1	4594.9	58.9	7804.7
1987	1875.4	31.2	4136.2	68.8	6011.6
1990	3243.8	39.3	5003.1	60.7	8246.9
1993	2460.1	26.9	6677.6	73.1	9137.7
1996	3960.3	32.1	8367	76.9	12327.3
1999	3995.9	28.3	10079.3	71.7	14075.2
2002	15209.8	50.1	15120.7	49.9	30330.5
2005	46205.7	69.7	20412.9	30.3	66618.6
2008	80490.7	78.7	21752.2	21.3	102242.9
2011	29761.7	62.6	17787.8	37.4	47549.5
2014	20992.3	68	9878.7	32	30871
2017	31384	68	14769	32	46153

Source: CBL, Research and studies center.

According to data from the Research and Studies Center of the Central Bank of Libya, the table below shows the GDP structure during the period from 1963 to 2017.

The contribution of oil production in most years accounted for over 50 per cent of the GDP. However, in some years, it decreased to 26.9 as in 1993 and continued until 1999 where the oil GDP was estimated at 28.3 per cent and then continued to rise until it reached 78.8 per cent in 2008. This change may have resulted from oil prices decrease globally in those years rather than from non-oil sector production increase (Bosninh, 2018).

2.2 Inflation

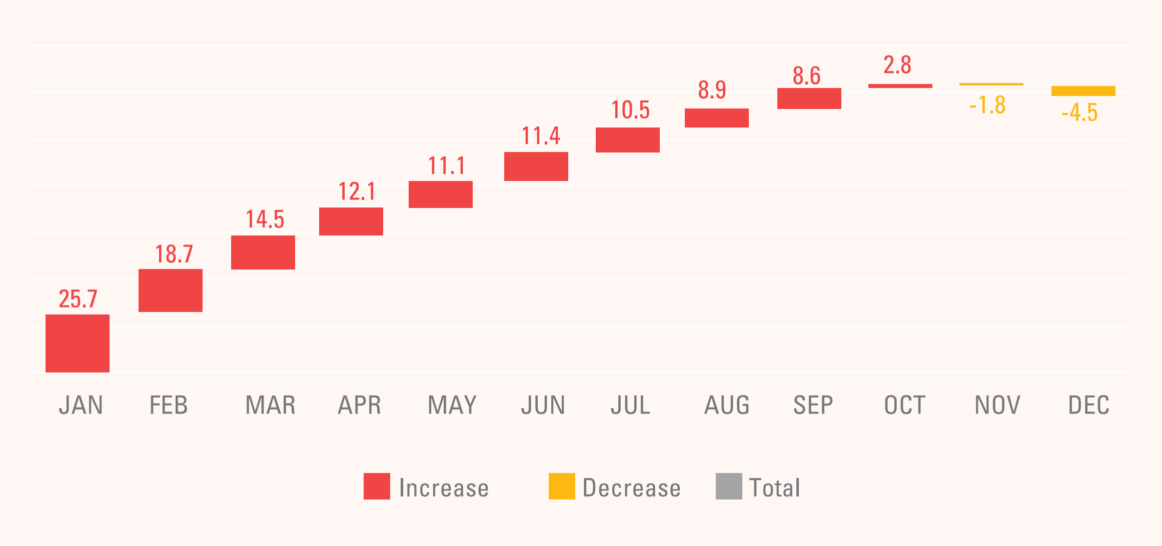
Inflation has increased rapidly in past years. It jumped from 9.8 per cent in 2015 to 25.9 per cent in 2016 reaching an unprecedented peak level estimated at 28 per cent in 2017. This is due to several reasons, including supply chain disruptions, weak local currency and subsidies for fuel and food, which have been directly affected by low oil production and exports. In terms of consumer goods, for example, food prices rose by an average of 10.7 per cent between June and October 2017. (BTI, 2018; African Development Bank, 2018).

Additionally, one reason for inflation was the institutional division and the presence of two finance ministries in two rival governments, which financed their budgets largely through borrowing from one of the competing central banks and to a lesser extent from commercial banks.

2.3 Exchange rate

The parallel market growth was a result of political conflicts in the country. The exchange rates vary between the bank and the black market which has been acting separately from the Central bank until the end of 2018. The local currency rapidly depreciated as of 2014, reaching an unprecedented value of 75 per cent. While the official exchange rate remained at a fixed price of 1.4 LD/$, the parallel market price reached record highs in 2017 with an average estimated price of LD 12.39. The table summarizes the exchange

Figure 2. Inflation in Libya



Source: Tradingeconomices.com, 2018

rate against the dollar during the previous five-year period, including the price of cash and Letters of credit.

In 2018, the Central Bank and the Government of National Accord, with the support of the United Nations Support Mission in Libya, proposed a strategy to reduce the gap between the official exchange rate and the parallel market rate. Additional fees of 183 per cent to the official foreign exchange rate were adopted and deducted through commercial banks, leading to the official value of exchange rate increase to 3.9 LD/$ currently. The Central Bank set a maximum ceiling on hard currencies, allowing a citizen to buy a maximum of $10,000 per year for personal use, $50,000 for medical treatment and the same amount for education purposes abroad.

The plan showed initial positive effects when the customers managed to buy hard currency from any bank operating in Libya through transfers to external accounts or with credit cards. A measure which contributed to a rough 20 per cent exchange rate decrease in the parallel market.

In March 2019, the Central Bank of Libya reduced again the exchange rate fees from 183 per cent to 163 per cent which decreased the rate from a range of 3.6 to 3.95 LD/$ to 4.15 LD/$ down from 7.4 in 2018. The purchase rate of Letters of credit fell to less than 7 per cent.

Exchange rate sustainability is expected to face challenges since such reforms need time to reflect on the economy, especially with the opening and issuing of Letters of credit. External variables such as oil revenues and price volatility remain unpredictable due to recurrent conflicts. In addition to an expected intervention by the government to exempt some companies and selected goods from the proposed exchange rate. There are also concerns that the government is likely to use collected fees (more than LD 21 billion in 2019) for purposes other than the payment of public debt, which may create further inflation and negatively impact these reforms. However, until December 2019, the exchange rate reform policy led to positive results as it forced small speculators to exit the parallel market followed by a decrease in exchange rates.

A permanent intervention by the Central Bank of Libya to reduce the exchange rate may put pressure on the local currency or force the Central Bank to sell at an unfair rate unless mechanisms and practical studies are established to create an appropriate balanced rate that could have a positive economic impact on the citizens and the ability of the Central bank to fulfill its obligations. It is advisable that the Central bank consider the

Table 2. Exchange rate

Exchange rate	2013	2014	2015	2016	2017	2018	2019
Average official rate	1.272	1.272	1.38	1.37	1.37	1.4*	1.4*
Average parallel rate with fees	-	-	-	-	-	3.9*	3.a6*
Parallel average rate	-	1.8*	3.00*	6.5*	*8.85*	4.5*	4.15*
Parallel market rate to letters of credit	-	-	-	9.1*	12.39*	4.7*	4.35*

Source: Financial Bureau, 2017. a Author's estimates.

possibility of liberalizing the official exchange rate and floating the Libyan dinar rate.

2.4 Poverty

It is not possible to accurately calculate the percentage of population living in poverty in Libya. In his study on the role of economy in the national identity, Bosninh stated that most of the average Libyan population is above the international poverty line estimated at $1.25 a day (calculated daily income of LD 7.559 at an exchange rate of 1.4). (Bosninh, 2018). However, the parallel market rate in December 2016 was $6.23 in cash. This makes the value less than the global poverty rate, with the dollar value calculation against Letters of credit exceeding the exchange rate by 40 per cent.

However, according to the African Bank, poverty estimates in Libya are high, as about a third of Libyans live below the national poverty line. This is explained by the reliance of government expenditures on public services that were affected by the instability of oil revenues and by the inflation resulting from security and political issues (African Economy Report, 2018). Furthermore, while most Libyans work in the public sector and are low-paid, the current inflation affected almost the overall social groups, combined with weak public services, especially medical ones, forcing citizens to use their savings for treatment abroad.

A weak market consumption and low industrial levels are another cause of poverty. A large proportion of foodstuffs (estimated at 80 per cent) are imported and priced at the parallel market exchange rate, which makes it often difficult for Libyans to purchase these commodities. Moreover, the lack of liquidity plays an important role in aggravating the situation.

3. Public finances

According to existing legislation, the national budget is approved by the legislative power. However, due to conflicts over the past five years, spending was being made without such approvals. For example, the interim government kept on spending without the 2016 budget approval due to over a one-year delay by the House of Representatives. The GNA adopted financial arrangements without the consent of the legislative power which decided not to recognize it or even give it a vote of confidence as stated in the constitutional declaration and the Skhirat political agreement.

In 2012, the annual budget was LD 68.5 billion against LD 66.8 billion in 2013. In 2014 and 2015, with the onset of the political conflict, the formation of rival governments and the start of Operation Odyssey Dawn in the west and Operation of the Libyan army in the east, the interim government approved a budget of LD 44 billion by borrowing from commercial banks at 4 per cent interest rate. The total amount borrowed was $1.5 billion. In western Libya, the Government of Salvation is likely to have used the reserves in the accounts of public entities to secure their survival. For that year alone, expenditure is estimated at over LD 16 billion.

In 2015-2016, the GNA approved a budget of LD 37 billion dinars following a budget meeting in London. The Central Bank of Libya (Tripoli) agreed to provide this amount. In 2019, the government made its financial arrangements at a total value of LD 46.8 billion. The interim government received a budget approval by the House of Representatives totaling 42 billion for the year 2019.

3.1 Overview of the General Budget (Expenditure and Income) – GNA

Governments in Libya adopted a spending cut policy resulting in expenditures falling from 145 percent of GDP in 2016 to 90 percent of GDP in 2017. The CBL's expenditures in Tripoli amounted to LD 42.5 billion, with an actual spending of 40.5 billion in 2018. This decrease is attributed to measures by the Central Bank of Libya -Tripoli to reduce the disbursement of allocations to ministries and public entities combined with the positive impact of reducing employment duplication and expenses in the public sector.

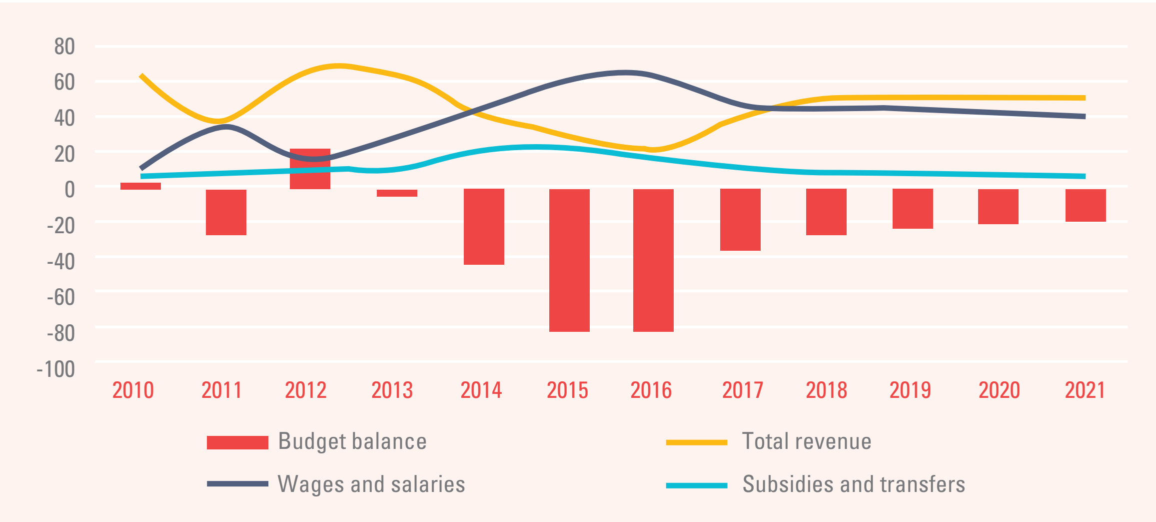
However, the largest part of total expenditures is still allocated to public salaries (63.5 per cent) and subsidies (21 per cent) while the share of development compared to public expenditure has not exceeded an average of 7.5 per cent over the last three years.

In 2016, total expenditures amounted to LD 30 billion of which 65 per cent was spent on salaries at a total value of LD 19 billion while the spending on development amounted to LD 1.5 billion. In 2017, total expenditures amounted to LD 32 billion of which LD 20 billion covered salaries and wages (almost an additional one billion from the previous year). Operational expenses amounted to 10.7 billion against LD 1.9 billion for development expenses. Out of LD 6.3 billion spent on subsidies (an estimated 20 per cent of total spending), 50 per cent was spent on fuel imports. In comparison to LD 1.9 billion spent on development in 2017, i.e. 6 per cent, the actual figures of operational expenditures (salaries, expenses and subsidies) are estimated at LD 30.7 billion. Similarly, in 2018, salaries and wages amounted to 66 per cent of expenditures, with only LD 3.4 billion spent on development projects, while 7.8 billion were spent on public subsidies (Central Bank of Libya, 2018; Audit Bureau Report, 2017).

In 2019, according to the Central Bank of Libya -Tripoli, total expenditures until 30 November 2019 amounted to LD 40.17 billion of which 54 per cent went to salaries and wages, 20 per cent to operational spending, 17 per cent to subsidies and only 9 per cent to development (Central Bank of Libya, 2019).

Public revenue amounted to LD 22.33 billion in 2017. In 2018, upon the decision of the Presidential Council of financial arrangements for 2019, the total revenue was LD 46.8 billion of which 26.4 billion coming from oil resources, 31 billion from other revenues and LD 15.8 billion from the currency fees of 138 per cent. In 2019, until end of November, the total revenue was LD 30.66 billion of which LD 21 billion from currency fees. The table below shows the actual revenues and expenditures until 2017.

Figure 3. Public finances



Source: World bank report, 2018.

Table 3. Revenues and expenditures

Year	Income	Expenses	Deficit/Surplus
2012	70	49	21
2013	55	65	(10)
2014	22	44	(22)
2015	11	36	(25)
2016	9	30	(21)
2017	22	32	(10)
2018	35.9	40.5	(4.6)
2019 (Foreign currency fees not included)	33.9	45.8	(12)

Source: Audit Bureau, 2017; Central bank of Libya, 2019.

3.2 Overview of the General Budget (Expenditure and Income) – Interim Government

The Interim government had no revenues per se insofar as they were limited to collections made by institutions or entities under its control, like for instance tax offices. Tax revenues from the branches and offices of the interim government Tax Authority amounted to a total of LD 202 million in 2018. Instead of injecting it into public revenues, it was directly transferred to institutions, entities and municipalities located in the Interim government's regions in violation of the legislation. The Interim government financed its budget by borrowing from commercial banks and from the Central Bank in Al-Bayda in the form of treasury bonds. Indeed, in 2018, LD 9.7 billion were transferred from the Central Bank of Libya – Beida to the Ministry of Finance in treasury bonds at an interest rate of 3 per cent (Administrative Control Authority, 2018).

The expenditures of the Interim government and the Central bank in Beida were less than in Tripoli where the actual Interim government expenditures amounted to 6.4 billion, of which approximately 70 per cent were spent on salaries and wages, 8 per cent on management expenditures, 15 per cent on development, and 7 per cent on subsidies which amounted to a total of 480 million spent on the Public Electricity Authority (39 per cent) and on the Price-balancing Fund (41 per cent) (Administrative Control Authority, 2017).

In 2018, total expenditures amounted to LD 10.7 billion of which 6.3 billion were spent on salaries and wages against 1.3 billion LD on operational expenditures, 888 million dinars on the Price-balancing Fund upon the decisions of the Council of Ministers, and 2.1 billion LD on development (Administrative Control Authority, 2018).

It is obvious that the Libyan government, before 2011 until now, always managed the State's affairs by giving priority to consumption expenditures rather than development as shown in the two governments' financial statements. This approach is a clear violation of the laws in force, including Law No. 13 of 2000 which states that operational budget (salaries, expenses and subsidies) should not exceed 30 per cent of oil revenues against 70 per cent on development. Operational expenses are estimated at 85 per cent against 7.5 per cent for development.

3.3 The share of oil and non-oil products in public revenue

Oil and hydrocarbon sales always had the largest share of public revenues (since before 2011) against a relatively small percentage from other sovereign revenues such as taxes, customs, telecommunications and other fees. In 2017, for example, the hydrocarbon sector generated LD 22 billion against a total of LD 3.3 billion from sovereign revenues, of which 38 per cent from taxes (less than 0.05 per cent of total revenues) 7.4 per cent from customs (less than 0.01 per cent) and 18.2 per cent from telecommunications. In 2019 (until 30 November) Taxes contributed 2.7 per cent (LD 842 million) customs 0.08 per cent (LD 257 million), and telecommunications 0.06 per cent (LD 201 million) (Central bank of Libya, 2019).

The share of non-oil sovereign revenues in the total revenue compared to other countries is very weak, which emphasizes the need for reforms to develop the collection and management of sovereign revenues through the development of the tax system, tax collection mechanisms, and diversification of sources of revenue.

3.4 Budget deficit and public debt

Over the past years, successive national budget deficits were being largely financed through borrowings from the Central Bank and commercial banks. Budget deficit has resulted from a combination of uncontrolled public spending, low revenues due to political turmoil, fighting over oil resources, corruption and mismanagement of funds. Since 2013, budgets have been financed with a deficit of LD 10 billion for 2013 and LD 25 billion for 2015 before falling to LD 10 billion of budget deficit in 2017. In Tripoli, borrowings by the Ministry of Finance led to a public debt increase of LD 74 billion in 2017 from 56 billion in 2016 and LD 20 billion in 2014. The Central Bank of Libya in Beida adopted the same borrowing system by lending to the government a total amount estimated at LD 34 billion Libyan since 2014. Additionally, the Interim government borrowed from the Central Bank of Libya – Beida LD 9.7 billion in treasury bonds at 3 per cent annual interest rate (Administrative Control authority, 2017).

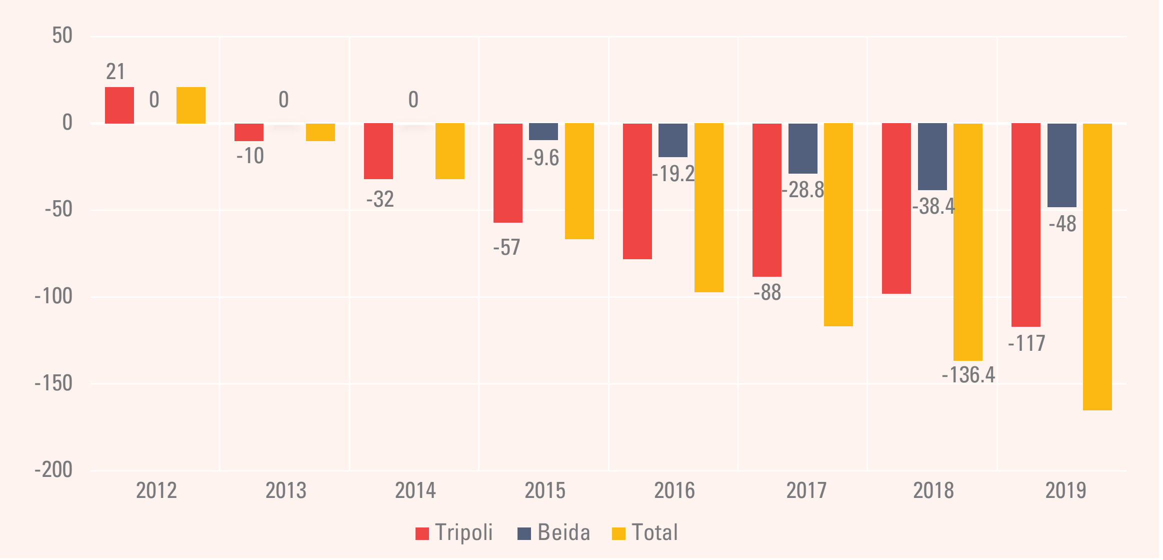
However, the budget deficit narrowed down in 2019 after it was reduced to LD 4.6 billion in 2018 down from LD 10.6 billion in 2017. It is expected that fiscal arrangements for 2019 would be financed without deficit if revenues from the exchange rate reform, increased production and higher oil prices are considered.

The overall debt in Libya is not reflected in the declared public debt as it abides by obligations resulting from decisions and laws in force, including Cabinet Decision No. 641 of 2013 on public administration salaries increase and Decision No. 642 of the same year on oil workers, laws on family allowances, salary increase for police forces, higher education, etc. with an estimated value of approximately LD 100 billion until 2019 against annual due payments estimated at about LD 12 billion. The State has the obligation to comply with laws and Decisions, which would increase the public debt value. Therefore, the Ministry of Finance and the Central Bank should limit the amounts due by developing a plan to address the issue. Furthermore, judicial and arbitration rulings of billions of dollars against Libya in favor of companies seeking to seize the State’s assets and properties abroad are preventing it from fulfilling its contractual obligations, which increases the value of the public debt. Al Khurafi case is an example (Kuwaiti company won an arbitration for $950 million).

4. Shadow economy and war economy

As a result of exchange rate volatitly in parallel markets and liquidity crises after 2011, an institutionalized shadow economy associated with an informal economy of billions of dollars flourished outside the banking system. The transactions totaled LD 34.9 billion, including currencies distributed by the Central Bank of Libya in Beida and Tripoli until the end of 2017. War economy became the main engine of the shadow economy and is not expected to come to an end before settling the political conflict. The Libyan war economy has various challenges which are hard to control by the competent authorities. Therefore, dynamics and possible solutions need

Figure 4. Budget deficit



Source: Administrative Control Authority, 2018.

to be analyzed and evaluated. Some activities of the war economy can be summarized as follows.

4.1 Kidnapping and protection services

One of the main activities of war economy is kidnapping that is used by armed groups as a source of funding or is the outcome of political and tribal conflicts. The banking sector is particularly affected by this phenomenon due to the huge transactions and profits generated from foreign currency related activities, such as Letters of credit and bank cards which became money generating mechanisms (Johnson and others, 2016; Eaton, 2018). Most of the kidnapping cases happened in the west where the Central Bank – Tripoli unilaterally issued Letters of credit and where hard currencies are available. However, some kidnapping acts against banks staff were reported in the east part of the country for liquidity purposes or for settling banking procedures.

These activities generated a demand for guard services in the Libyan market. For example, commercial banks pay monthly fees to armed groups in exchange for guard service to avoid theft and kidnapping. The presence and involvement of armed groups in the banking sector (such as cash distribution assistance) created another source of income, enabling them to take advantage of the abundance of cash in banks and sell it at up to 40 per cent exchange rate on cash transfers. With such services and profits, armed groups managed to establish an informal business partnership with bank staff. The substantial revenue generated from currency exchange in black market and Letters of credit became more sophisticated and raised important questions regarding the complicity of public officials.

Protection services also became institutionalized in the business sector where armed groups collect funds from local markets or companies in return for protection services provided. Local businessmen also contracted armed groups to protect themselves and their businesses. In some cases, armed groups provided protection services to formerly kidnapped businessmen for ransom (sometimes by the same group) so the latter would not be abducted by other groups.

In some areas of Tripoli, in violation of laws and regulations, traders as well as security and protection services companies had to pay fees to a local municipality. However, protection services created a feeling of safety and security among traders, which contributed to market sustainability including the flow of goods and services. The Karamya market is another example where each market trader pays for security and guarding services from an armed group a monthly amount of LD 100. Annual revenues were estimated at LD 750 thousand (Johnson and others, 2016).

Due to a deteriorating security situation and the increasing infiltration of armed groups into public institutions, protection services have become common practice. Public institutions, including office towers in Tripoli and the National Oil Corporation, are protected by armed groups from the area. Even smugglers are operating with special protection in tribal areas. The protection market is thus creating great opportunities and sustainability for armed groups.

Kidnapping, smuggling and protection constitute a challenge to building a sound economy, including criminal activities that are generating funds outside the formal system.

4.2 Human smuggling

Libya has long been a gateway to smuggling people into Europe. However, with the Arab spring revolutions it turned into a regular route and a major starting point for immigrants and refugees from the Syrian Arab Republic and sub-Saharan Africa. In 2012, around 15,000 migrants transited in Libya on their way to other countries. By 2016, numbers increased to 163,000. While this figure is significant, it still represents a relatively small proportion of the total number of migrants in Libya, estimated by the International Organization for Migration between 700,000 and 1 million, of whom 20,000 are in detention centers controlled by the government (IOM, 2018; Eaton, 2018).

Revenue from human trafficking in Libya is estimated at $978 million in 2016, according to international research and studies. The estimate is based on two components: land travel fees estimated at $726.3 million against an estimate of $251.4 million from Mediterranean transit (Eaton, 2018; IOM, 2018).

Local communities involved in human smuggling related activities provide local services at every location, including food and accommodation. Transport services and trip arrangements to Europe are also provided by locals. Migrants are exposed to labor exploitation and sometimes to trafficking. It is noteworthy that the operations of the Libyan Army in the south initiated in February 2019 against terrorism and smuggling, are expected to contribute significantly to securing the border and reducing the number of migrants, especially from sub-Saharan countries. The flow of migrants notably declined with the outbreak of war in Tripoli in April 2019 which is likely to have diverted the attention of armed groups formerly involved in smuggling operations.

Migration creates serious challenges for the country, as it encourages citizens to engage in criminal activities like smuggling which is a source of revenue especially in the absence of strong security and police forces. Migration brought unknown diseases and epidemics along with prostitution, witchcraft and other immoral acts that are likely to have a negative impact on the Libyan society. From a humanitarian point of view, migrants' exploitation, trafficking and smuggling encourage smugglers to make every effort to carry on unlawful acts against the noble, deep-rooted and well-known values of the Libyan society. Furthermore, the large number of migrants who are not willing to return to their homeland is a great challenge for Libya. It is not unlikely that the international community put pressure on the government to have them settle and obtain the citizenship. Some groups will take advantage of the widespread corruption to get the Libyan nationality.

4.3 Smuggling subsidized goods

In Libya, consumption products were subsidized for years before the establishment by the Ministry of Economy, the authority responsible for the importing and selling of subsidized food, of "The National Corporation for Supply Commodities", a governmental body which was renamed "The Price-balancing Fund". The foodstuff subsidy program, designed to help low-income groups before extending it to all Libyan citizens, was suspended after 2014. However, in 2015, when the House of Representatives decided to restore it and activate the role of the Price-balancing Fund, the Interim government supplied the market with commodities distributed to citizens through cooperatives. The allocated total annual amount is estimated at around LD 500 million. In 2016, the GNA entrusted the Price-balancing Fund to allocate LD 1.2 billion for providing 11 basic commodities at the official exchange rate in addition to Letters of credit at the official price upon approval by the Ministry of Economy and the Central Bank of Libya. The Central Bank of Libya – Beida which was also involved in importing subsidized foodstuff, purchased goods from traders at the parallel market price before selling them to citizens at subsidized prices through cooperatives. In 2018, the Interim government allocated LD 800 million to the Fund upon the two Cabinet Decisions No. 17 and No. 33 of 2018.

Most imported goods with Letters of credit do not reach citizens and are often sold at the parallel market price or smuggled to other countries. In other cases, credits are sold at a much higher price than the official one; containers turn out to be empty when reaching citizens or distribution points. The inflation rate, which was 2.4 per cent in 2014, rose to 9.8 per cent in 2015 then to 25.3 per cent in the period from January to June 2016. As for the price-balancing Fund, imported goods are sometimes sold in wholesale markets or are resold illegally to suppliers before repackaging and selling them again to the Fund at higher prices.

A deep gap between foreign exchange rates and the margin of return on goods and commodities supply has created such a tight cartel of commodity traders that subsidies are rather serving suppliers than citizens. A large proportion of imported goods are smuggled into the neighboring countries or used by foreigners living in Libya. Therefore, decision-makers should introduce new mechanisms to address the existing subsidies system by canceling or replacing it with cash going directly to citizens, which would cut off the livelihoods of criminal networks and eventually reduce the rate of crime and smuggling.

4.4 Smuggling of illegal goods

Unexpectedly, Libya is still an uncontrolled market and transit country for the smuggling of drugs and weapons according to international reports, especially that weapons originated from Libya were found in Syria, the State of Palestine and other African countries. Available studies indicate that Libya is a solid transit market for hashish, a transit point for heroin and cocaine, and increasingly a market and transit area for methamphetamine. For example, in November 2017, more than 18 million tablets of tramadol were seized in Benghazi port (Correspondent, 2017).

4.5 Fuel smuggling

Most of the smuggled fuel is routed to Tunisia in small amounts (official price – $0.75) or to other countries while the rest is sold at parallel market, especially in the south. Larger quantities of fuel are being smuggled by sea to Malta and Italy. The fuel and gas crisis committee reported that smugglers were selling for LD 100,000 every 40,000 liters of fuel. The National Oil Corporation (NOC) commission in charge of inspecting fuel stations reported that 87 out of 105 stations receiving fuel are non-functional. The General Attorney issued a list of fuel station owners suspected of being involved in smuggling activities in February 2019 (NOC, 2018).

Fuel smuggling costs the state billions of dollars. Fuel supply to the domestic market in 2017 amounted to LD 3 billion, while fuel subsidies in the same year amounted to LD 4.2 billion of which 30 per cent were smuggled. The State received only 15 per cent of the income expected from the period between January and November 2017 (Audit Bureau, 2017).

In 2017, fighting war economy made some progress, especially with the decreasing number of boats in the Mediterranean by more than 30 per cent compared to 2016. In addition, with the end of the liberation war of the south in 2019, petrol stations reopened and became operational while the flow of fuel became steady and regular. Some trucks meant for fuel smuggling were confiscated.

The war economy is hurting Libya's future for several reasons. First, it provides an enabling environment for armed groups, criminal networks, corrupt public servants, businessmen and political elites to continue illicit and harmful activities. The war economy gives incentives to those who benefit from a dysfunctional state; it has a disastrous effect on Libya's formal economy and undermines what remains of its institutions (Eaton, 2018; Lashir and Idrisi, 2018).

Taking serious decisions and actions to fight the war economy is more urgent than ever. Drying up the funds of these groups is the only way to stop criminal acts. Therefore, it is necessary to set scenarios, solutions and plans to address these issues (alternative solutions to subsidies and allowances programs; possible floating of the exchange rate) while considering the impact of such measures on the citizens' needs in the short, medium and long term, such as ensuring the availability and affordability of commodities and goods. It is recommended to learn from experiences in other countries where alternatives to subsidies programs were found after a seriously challenging implementation phase.

5. Human resources, education, employment and unemployment

5.1 Building human resources

Libya ranked 102 out of 188 countries on the human development index (HDI) of 0.75 in 2015. Libya's performance has deteriorated since 2014 (when it recorded 0.7196) and from the pre-revolutionary level (0.756 in 2010). Yet, it is still relatively high in terms of HDI measurement which is based on three main areas: education, health and living standards. Some Libyan regions are heavily hit by insecurity and political instability in addition to a fluctuating oil sector performance which dictates public revenue and spending on human capacity building. In 2018, UNDP showed that Libya's HDI was 0.706 in 2017, which ranked it 108 out of 189 countries. It is placed into a high category with a 4.2 increase from the previous value (HDI Report – UNDP, 2019).

5.2 Education and training

Libya has a low-quality education system which is unable to prepare graduates to adhere to local and international labor markets. The higher education sector counts at least 17 universities and more than 100 technical and vocational institutions. Nearly 90 per cent of university-level students are enrolled in public universities that strive to meet demand. Government scholarships are also available to Libyan students. Around 20.000 students funded by the Libyan government are studying abroad, namely in the United Kingdom, the United States, Canada, Egypt and Malaysia. However, disbursements are very sporadic due to the challenging political situation, which has an impact on students who chose not to return home and to work abroad (British Council, 2018).

Libyan universities had to struggle with several challenges after 2014 mostly at the security level. Damaged records and archives combined with weak institutional capacity had a negative impact on several universities. Human resources suffered from the conflict especially in some regions where violence led to a shortage of faculty members who often refused to report to work or chose to resign.

At the private education level, there are several private universities and institutes addressing most disciplines. However, they are being blamed for their weak educational level, for not aligning their own curricula to public universities' and for only seeking profits. Some universities managed to build a good reputation and succeeded in imposing their presence in the market, such as the International University of Medical Studies in Benghazi.

Furthermore, Libya has established a TVET to help Libyan workers meet the market demand. However, vocational and technical training is currently taking place in a relative isolation from the labor market which created a gap between skilled and unskilled workers. There is a mismatch between the competencies required by the private labor market and skills available among workers who constantly complain, who are not responsible or who are excessively guided. The gap between the educational system and the market demand created opportunities for migrant workers who fill the vacuum (ETF, 2014).

5.3 Employment and unemployment

Libya has one of the globally highest unemployment rates especially if compared with high employment rates. According to ILO, employment rates remain high compared to other countries in the region. The unemployment rate in Libya has been steady, about 19 per cent since 2012 and is expected to remain at roughly the same rate in 2018. Youth unemployment rate was 47.7 per cent in 2015 (ILO, 2019).

There is a significant difference in participation rates by gender, with 73.7 per cent male and 26.3 per cent female. The UNDP Human Development Index for 2018 indicates that 16 per cent of parliamentary seats are occupied by women and 69 per cent of adult women have at least secondary education.

5.4. Employment in public service

Public service employment continues to attract job seekers. The government employs up to 85 per cent of all Libyans in the labor market of 1.8 million. Statistics of the Ministry of Finance in May 2013 show that the government paid salaries to 1.486 million public employees in April 2013. In 2017, 1,568,748 employees according to the report of the Audit Bureau 2017. The education sector accounted for 36.8 per cent, the security and military sector 26.3 per cent and health 11 per cent. While the oil sector employed 2.5 per cent and Labor 5.5 per cent. In other sectors, agriculture accounted for 3.2 per cent and tourism 0.5 per cent (Audit Bureau, 2017; MOF, 2013).

The total salaries of public sector employees amounted to LD 20.3 billion in 2017, down 14 per cent from the value of salaries and wages in 2014 which amounted to 23.6 billion. This decline is due to duplication and to children employment (Ghost employees). However, according to the GNA financial arrangements for 2019, salaries and wages were estimated at a total of 25.3 billion, which represents an increase in spending on salaries and wages by 7 per cent compared to 2014. In addition, the Interim government paid 6.3 billion for salaries in 2018 alone, and it is expected to increase with new employment decisions (Administrative Control Authority, 2018). It is worth noting that it was impossible to have access to the number of employees within the Interim government, including Army members whose annual salaries account for LD 6 billion.

5.5 Employees not engaged in work (ghosts)

The public service is heavily burdened by non-existent employment (ghost employees or duplication), where salaries are paid to employees who do not join the workforce nor provide productivity at the workplace. According to government officials, at least LD 5 billion are annually spent from the state budget on false paychecks since March 2015. More than 100,000 duplicate national IDs were identified while some individuals receive salaries for 2 to 8 different jobs at the same time. Besides, 1,732 salaries meant for minors between 10 and 18 years were suspended. In 2016, more than 15,000 retirees who were still being paid had their salaries suspended (ETF, 2014; Administrative Control Authority, 2017).

5.6 Formal and informal employment in the private sector

There is a significant difference between the public and private sector social security benefits. Data show that only 46 per cent of the private sector employees are covered compared to 98 per cent in the public sector, which increases the waiting list for public sector jobs. Some international reports estimate that only 4 per cent of the labor force works in the private sector while 120,000 Libyans are self-employed. However, if the Libyan workforce is presumably estimated at 1.8 million employees according to the Minister of Labor's statement and that the total number of civil servants according to data issued by the Ministry of Finance is estimated at 1.56 million, the private sector would count 15 per cent of the workforce, i.e. 240,000 employees.

Informal employment is another challenge for the private sector. According to the African Development Bank (2011), informal employment is estimated at 40-60 per cent of total employment in Libya. The ETF estimates that 1.2 to 1.6 million more are working informally, particularly in the agriculture, construction and retail sectors. Informal employment provides easy access to work and reduces paperwork and procedures. This employment has negatively affected state revenues (these workers do not pay obligated fees such as taxes or social security) (African development Bank, 2011; ETF, 2014).

5.7 Migrant workers

The estimated total number of foreigners living in Libya before the crisis was 2.5 million, including one million Egyptians, 80,000 Pakistanis, 59,000 Sudanese and large numbers of Sahrawi Africans mainly from Niger Chad, Mali, Nigeria and Ghana. However, more than 372,768 migrants left as a result of the fighting in Libya in 2011 (IOM, 2011).

Highly qualified migrant workers in the private sector are mostly managers, engineers, economists, and technology consultants from Western and Eastern Europe; middle-class workers are from India, Pakistan, Egypt, Jordan, the Syrian Arab Republic and Tunisia; unskilled workers are from Bangladesh, Nepal, Niger, Chad and the Sudan. Currently, most of the 800,000 migrants – who are waiting in Libya on their journey to the European Union – are working informally in the local market.

Private sector employees are not so different than those in the public sector in terms of low experience, poor education and scientific capabilities that do not meet the market requirements, which is reflected in the weak salaries paid by the private sector where employment preference is given to foreign labor. Therefore, the State must take the necessary measures to address the challenges of employment and unemployment in Libya while supporting the efforts by the Administrative Control Authority and the Central Bank of Libya – Tripoli to reduce the number of ghost workers in public service; to elaborate a national strategy to put an end to job surplus and create equivalent job opportunities in the private sector; to develop and prepare national manpower to keep pace with the needs of the market by developing specialized training programs; to set strategies for replacing foreign labor. The unrestricted and large presence of unregistered migrant workers is a source of security and economic challenges as they compete with national labor by accepting low wages in return for a better experience. They also benefit either directly or indirectly from subsidies available to citizens (on electricity, fuel and goods) with no additional fees. Most migrant workers have no work permits which spares them paying sovereign fees to the Libyan State (such as taxes and social security contributions).

6. Financial sector (banks and stock exchange)

The state largely controls the Libyan financial sector with an estimated ownership of 85 per cent. Prior to 2011, the state undertook several reforms to liberalize the financial sector, including a partial privatization and involvement of foreign partners in six out of sixteen commercial banks. However, the major financial activities remain under direct or indirect control by the government (IMF, 2012; African Development Bank, 2018).

The Libyan stock market is owned by the Economic and Social Development Fund (ESDF) which represents the State. A few state-owned companies are listed in the market, but speculations are very modest and are not up to the expectations. Libya's stock market immaturity was obvious in 2005 when Libya was ranked last in the countries survey on the development of financial markets and ranked 105 out of 111 countries in terms of access to local stock exchange market. Recent studies showed that Libya is still at a late stage compared to other markets (LEBS, 2005).

Access to capital is largely limited to operating commercial banks and specialized banks such as the Agricultural Bank and public funds. The Agricultural Bank provides agricultural loans to farmers whereas the Transformation Fund to Production gives loans to employees once they resign from the public sector. That was before it was restructured into a Lending Guarantee Fund with different purposes.

Prior to 2011, the financial sector in Libya failed to play a role in financing private projects compared to the size of deposit liabilities in the banks. The reason being that Libyan banks had difficulties assessing loan risks in the absence of reliable standards and information on borrowers' financial situations. For the purpose of mitigating lending risks, the institutions opted for arbitrary conditions such as high collateral requirements reaching up to 125 per cent of the total loan in some cases and the requirement of peremptory land ownership. Incentives for bank staff are also weak in good loan situations, while staff face severe penalties for bad debts. Thus, banks tend to adopt a defensive lending policy while retaining large funds in liquid assets.

After 2014, due to local currency depreciation and limited liquidity in banks, corruption and job misuse in the banking sector were significantly high. According to various reports, the prevalence of corruption and widespread mismanagement (e.g. money-laundering and illegal foreign bank transfers through manipulation of Letters of credit) of the banking sector constituted a threat to the Libyan economy. Recently, in 2019, Libya was blacklisted along with other countries for money laundering and smuggling. This list makes it difficult for international organizations and companies to deal directly with Libyan banks (Audit Bureau Report, 2016).

The institutional division of the Central Bank of Libya posed significant challenges for the banking sector in general, and the local commercial banks which had to deal with two central banks. For example, the Sahara Bank which shows full compliance with the Central Bank's instructions in Tripoli has difficulties dealing with the Central Bank – Beida, while the Trade and Development Bank was severely damaged due to its previous privileged relationship with the Central Bank of Libya – Beida. The competition between the two central banks had a severe impact on liquidity and created banking issues for citizens who sometimes have difficulties issuing certified Letters of credit or even transferring money from their accounts.

Libya's financial sector is in dire need for modernization, otherwise it will keep lagging the fast-changing international banking system. In 2009, the Central Bank developed a program for the banking sector with the aim to linking all banks electronically and providing online services to customers. However, the project was not fully implemented. Therefore, all operating banks have branches which are not linked electronically and operate separately, forcing customers to deal only with the branch where their accounts were opened. Until recently, banks operating in Libya were not relying much on technology, especially electronic services to enable users to access their accounts remotely and use electronic cards in daily operations. Due to lack of liquidity, banks are now introducing electronic services (such as Wathba for the Trade and development bank and MobiCask for Alwahda bank). The current infrastructure, especially telecommunications, is a major challenge for linking branches electronically. Despite a significant progress after 2005, it was partly destroyed during the war. In addition, banking sector personnel need to train and develop in order to provide a satisfactory service to customers and adapt to modern technologies.

6.1 Islamic banking law and implementation challenges

The Islamic Banking Law was introduced in 2013 to replace the traditional banking law. This law has caused commercial banks to lose an important source of income and liquidity. Most banks were not willing to switch to Islamic law. Bank loans and advances granted to the public and private sectors amounted to LD 14 billion a year, i.e. 25 percent of national deposits and 20 percent of national assets (Central Bank of Libya – Economic Bulletin, 2019).

The Central Bank of Libya in the east and west adopted various methods to deal with the Islamic Banking Law. The Central Bank of Libya – Tripoli and the branches of commercial banks in the west adopted the law by canceling interests on deposits and loans from the year 2013 and by substituting them with Islamic Murabaha services. The banks dealing with the Central Bank of Libya – Beida chose to freeze the implementation of the Law upon the HOR decision in August 2015 (which provided for the suspension of the law for five years until the economy is more stable) and to provide funds against bonds at a 4 per cent interest rate per annum to legal entities, in violation of the Islamic Banking Law. Banks in the east kept on applying the Islamic services system.

If the Islamic Banking Law implementation methodology continues to be unclear and if banks fail to create banking products that enable banks to make profits rather than losses due to the implementation of the Law, growth will not take place and will be combined with capital erosion. This will have a negative effect on economic growth insofar as banks would not have the ability to provide services or funding to rebuild the economy.

6.2 Liquidity

Libya's banking system suffers from a liquidity crisis despite recent increases in money supply. Citizens are increasingly holding money. Statistics from the Central Bank of Libya show that one out of LD 42 billion of money supply were traded outside the banking system in 2015. By the end of 2016, this figure stood at LD 26.5 billion (up to 17 percent over the previous year) before reaching LD 34.7 billion at the end of 2018, with an increase in supply of nearly LD one billion from 2017. These figures do not include amounts supplied by the Central Bank of Libya (printed in Russia) estimated at more than LD 4 billion.

On the other hand, time deposits decreased from LD 4 billion in 2013 to LD 1 billion in 2016 (a decrease of 8.5 per cent compared to the previous year). In 2017, time deposits again rose to LD 2.2 billion without however reaching pre-crisis levels (African Economic Outlook, 2018). The continuous demand for liquidity and the choice by some citizens to sell assets at 40 per cent less in exchange for cash had a severe impact on the balances of commercial banks and their deposits at the Central Bank. The fees on currency selling that amounted to LD 15 billion did not radically solve the problem of liquidity but rather affected the balances of commercial banks deposits at the Central Bank. The table below summarizes the changes in the monetary base from 2013 to 2018.

Table 4. Monetary base

Year	Commercial banks reserves	Deposits of financial institutions	Monetary base
2013	21.7	1.7	36.9
2014	19.1	1.8	38.1
2015	16.9	2	42
2016	25.3	2.1	54.6
2017	30.8	1.5	63.2
2018	25	1.6	61.4

Source: Central Bank of Libya, 2018.

The liquidity crisis had a severe socio-economic impact. The increase in market prices, the unavailability of basic goods and services and the devaluation of the LD have severely affected the daily lives of many Libyans. In order to limit cash distribution, the banks restricted cash withdrawals (200 dinars per month in 2016). This shortage created an opportunity for the parallel market to turn deposits into cash against a 40 per cent discount. After the economic reform by the Central Bank and the GNA, this discount dropped to 5 per cent by the end of 2018 and to 7 per cent in 2019 (Mercy Corps, 2018; Lacher and Al-Idrissi, 2018).

6.3 Letters of credit and cards

Commercial banks usually require a pledge of non-cash and cash collateral for issuing letters of credit or collectible documents, including all service charges. The Letters of credit provide access to foreign currencies at the official price of imported goods. From early 2015, the Central Bank re-established the amount of foreign currency available for Letters of credit and tightened its control. Since then, additional administrative tiers were added to the approval process. The Presidential Council (GNA) assigned the Minister of Economy in April 2017 before the establishment of a Credentials Committee to examine the documents for approval though the final word was for the Central Bank. Figures from the Central Bank of Libya indicate that in 2017, Letters of credit of $11.2 billion were issued (Audit Bureau, 2017).

Corruption did not spare Letters of credit operations, where the resulting currency is sold in the parallel market or deposited in external accounts. It happens that containers arrive empty to Libya unlike the indications on falsified customs documents stating that the right quantity of goods was delivered. Sometimes, when items are supplied to the local market the goods are sold at a price closer to the parallel market prices. These actions led to a decline in the State's foreign exchange reserves and further accelerated the collapse of the local currency, making the fraud more lucrative. The staff of commercial banks and the Central Bank are also accused of engaging in corrupt operations of Letters of credit.

By increasing monitoring and investigations related to Letters of credit operations, the Audit Bureau managed to suspend hundreds of credits during 2016 and 2017. More than $570 million of fraudulent letters of credit were identified in the 11-month period from January to November, involving 21 banks and 23 companies (10 Libyan companies and 13 foreign companies) among other expected cases not yet identified (Audit Bureau, 2017).

To put an end to the misuse of Letters of credit, the Audit bureau adopted a "defamation" policy by publishing names of companies involved in the illegal practices of using counterfeit imports to generate foreign currency. As a result, to have access to Letters of credit for fraudulent purposes, an increasing coordination across the various institutions was needed, including criminal networks involving administrative employees, active politicians, influential businessmen and armed groups. Nevertheless, members of the Audit bureau were accused of using this information to blackmail businessmen.

Cards issued by Libyan banks provided opportunities to take advantage of the gap between official prices and parallel market prices by making profit from selling or helping get cash after selling hard currency. Cards are purchased at a lesser price than the parallel market price by up to 10 per cent to be discounted in return for services. For clients who are not able to recharge their cards, black market traders may buy the national number for up to LD 750. The parallel market fixes different prices for the cards used and issued by operating banks while relying on the reputation of the bank in terms of withdrawal from international ATMs, in addition to providing credits and facilitating procedures. Prior to the crisis, each card could be charged $15,000 at the official rate each year. In 2019, the ceiling is only $10,000 per person per year. Family cards may be charged once a year with $1,000 per person at the official rate ($1.4).

In March 2016, the Audit Bureau of Tripoli published a report on corruption associated with bank cards which were reloaded with sums largely exceeding the annual value allowed. In one of the cases, a card was charged 95 times with the allowed amount over a six-month period in 2014 totaling over 1.1 million. Most of these funds remain outside the country and are recycled back into the parallel market, making foreign currencies out of the reach of ordinary citizens through formal legal channels.

The double-pricing policy and the wide gap between the official and parallel market rates helped make financial savings that resulted in a fierce competition over credits. Therefore, the Central Bank must continue to study and propose solutions to narrow the rate gap. The supervisory and regulatory bodies must take severe measures to combat and reduce criminal operations.
The banking sector, as it stands now, needs to take a set of measures to deal with the existing challenges, most importantly the reunification of Beida and Tripoli Central Banks. This should help get commercial banks on the right track of correctly doing business. Also, in the short term, the Central Bank should keep imposing fees on the selling of foreign currencies to help reach a fair exchange rate. Such policy has achieved positive results in narrowing the exchange rate gap. However, in the medium and long term, permanent measures such as floating the exchange rate must be examined to avoid using hard currency savings of the central bank. As for Letters of credit and bank cards, the availability of these credits to all with fair rate may significantly reduce illegal actions associated with these services.

7. Business sector

7.1 State-owned companies

The Libyan State has always relied on public companies for supporting the economy, providing needs and developing sectors like industry, agriculture and water. The General Company for Iron and Steel, specialized in manufacturing iron for industrial and construction purposes in Misrata and the cement factories in Derna, Benghazi, Zliten and Tripoli are part of the large public companies established by the State. Examples of agricultural projects: Al Sareer project for seeds, Ghot Al Sultan project in Al-Abyar for animal and livestock production, the Man-made River for Agriculture in west Benghazi, the Palm Project in Jallow and the pipes and cables factories in Benghazi.

Public companies enjoy further advantages than private sector companies in terms of having priority over public projects, supplying goods and providing services, while being exempted from several taxes, customs and government fees.

They get the government's financial support if need be. For example, public companies received from 2011 to 2017 around LD 2.2 billion of credits of which 50 per cent by the General Electricity Company. In 2018, the Ministry of Finance in the Interim government disbursed more than LD 116 million to public companies (Administrative Control Authority, 2018).

However, the prevalence of corruption and clientelism within the public sector led to the employment of unskilled workers, to poor, low quality and costly production, lack of technologies, imbalanced administrative structure and dependency.

After 2005, the State seriously considered acting by giving shares to employees following the evaluation and privatization of these companies which, however, never made progress and failed to introduce technological or administrative changes. The State had even to finance the salaries from the Treasury or give companies facilities to open Letters of credit. Another approach was to allow the local and foreign private sector to own the state-owned production units. For example, an Austrian company was given a high percentage of Libyan cement factories in partnership with ESDF, conditioned by the tenure of employees who were given 10 per cent of the shares. It was a successful strategy which helped companies develop and make progress. However, the companies are faced with the challenge of unclear ownership mechanisms including the right to sell shares to workers or even a possible replacement of existing workers by hiring new ones whenever they wish to do so. The 2011 events caused big losses to the infrastructure and assets forcing the companies to get money from the State to cover salaries or to take legal action against the Libyan State for the damages incurred. The presence of uncompetitive and unprofitable public companies undermines any efforts to supporting or developing the private sector. One solution would be to privatize these companies either by selling them or by partnering with international companies and to give the new administration the freedom to get rid of excess labor (on the condition of employing Libyan workers and training them) which would give companies the opportunity to develop production and increase profits, and why not compete outside the local market.

7.2 Private sector

The private sector is currently playing a limited role in the Libyan economy as was the case even before 2011. The private sector consists of a small number of official companies, branches of foreign companies, and probably several micro-small enterprises. According to the OECD's 2016 report, the private sector in Libya accounts for only 5 per cent of GDP and around 14 per cent of employment (4.0 per cent to 6.0 per cent of employed workers and around 8.6 per cent of self-employed). The private sector's share of total value varies significantly, ranging from 90 per cent in the trade sector to 10 per cent in the financial sector.

At around 5 per cent of GDP, wholesale and retail trade is the largest dynamic field in the private sector and has the largest number of companies, mostly small and micro enterprises. Other sectors with private institutions, such as hotels and restaurants, private education and personal services, make a very small contribution to GDP but offer considerable potential for private sector growth in the future.

There are no official data on the number or size of SMEs in Libya. However, the Monitor Group 2006 recognized a total of 180,000 registered private companies and much more in the informal economy. The study showed that the registered companies are small and relatively underdeveloped. 70 per cent of these companies are estimated to have annual sales of less than LD 50,000 and the average number of workers per establishment is less than 5. This means that most companies are small enterprises, even in transformative industries. Current evidence suggests that SMEs in Libya have low levels of productivity, competitiveness and value added. Many Libyan SMEs suffer from a lack of capital and have no ability to develop in marketing management. They suffer from a complexity of production processes, limited customer and marketing orientation, low corporate spending on research and development, insufficient training of staff, lack of access to international markets and insufficient attention to quality and efficiency (OECD, 2016; Monitor Group, 2006).

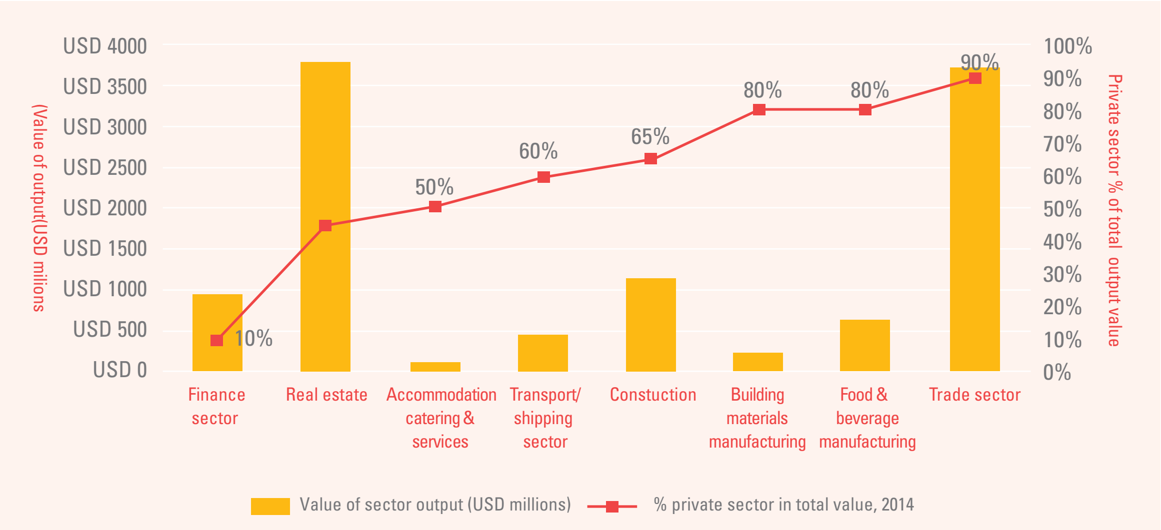
The private sector can help absorb new entrants into the labor market and even play a role in rehabilitating ex-fighters by providing them with work. There is a need for political and institutional reforms. For example, according to the World Bank's 2018 report, the establishment of a company in Libya takes more than 35 days, making Libya rank 167th out of 190. In the overall ranking, Libya was ranked 185th (190th). Therefore, access to finance, financial and banking sectors products to encourage companies and attract foreign direct investment are important requirements (African Development Bank 2018; World Bank Report, 2018).

There are obstacles to private sector development such as bureaucracy, political instability and corruption. One explanation for this is the weak capacity of the business community to contribute to policy formulation as access to information is limited and opportunities for sector involvement in change are minimal. There is no transparent organizational structure and the rule of law is fragile. Insecurity has also led to direct losses in day-to-day operations of companies and uncertainty makes it unlikely that business investors will invest in the long term. Companies and investors will focus on short-term activities and survival instead of focusing on creating solid businesses that can grow and create wealth and employment over time. Infrastructure damages are causing severe corporate limitations. The uneven supply of energy and water affects production and trade. Destroyed roads and bad connections make the distribution of goods much more difficult; companies are constantly facing the risk of damage to their buildings due to violence and fighting. The chart below shows the most important challenges facing the private sector (OECD, 2016).

7.3 Informal private sector

Between 2007 and 2010, the informal sector in Libya accounted for 30 per cent of GDP, which is

Figure 5. Private sector share



Source: Calice and others (2015), Simplified Enterprise Survey and Private Sector Mapping: Libya 2015.
Note: Private sector shares based on World Bank calculations and estimates.

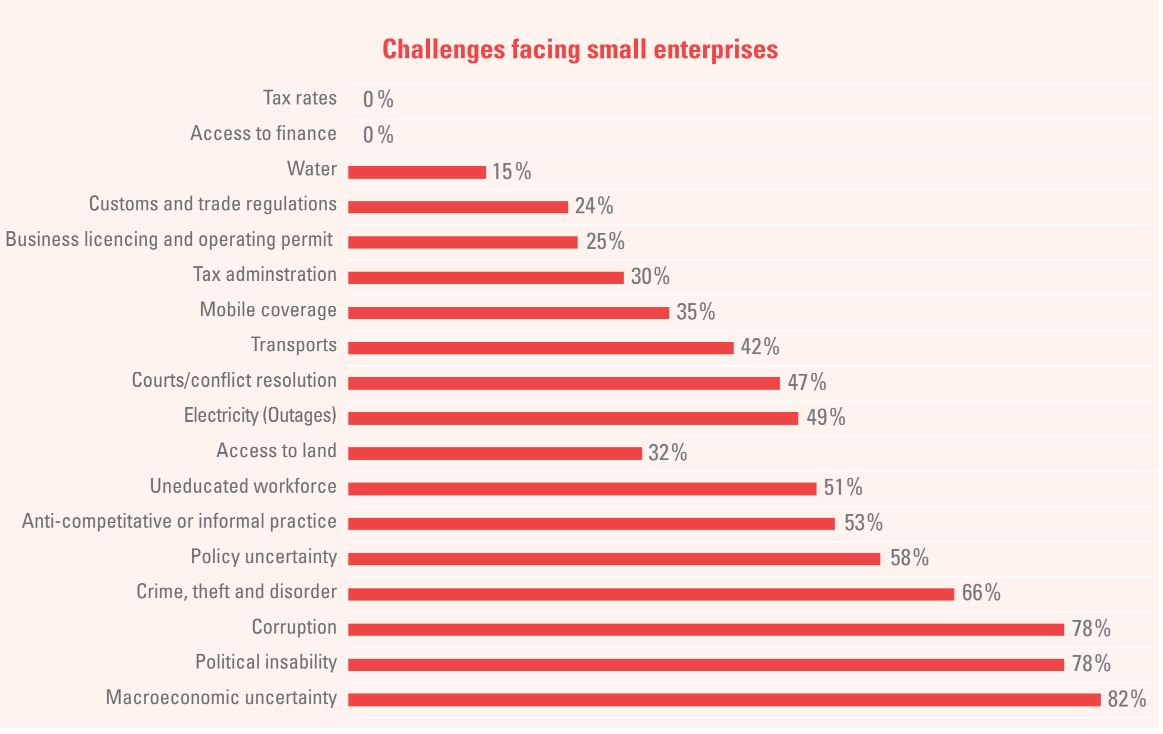
not high compared with other MENA countries (excluding Jordan and Syria, 17.2 per cent and 16.5 per cent, respectively) but much higher than the other countries with an estimated average of 16.6 per cent of GDP. The African Development Bank estimated in 2011 that up to 30-40 per cent of the official GDP of the Libyan state comes from the informal economy. However, after 2011, it is believed that the proportion of the SME sector in the informal economy has increased significantly due to the absence of monitoring, to administrative negligence, and to the absence of financial or legal actions against the informal sector to rectify the situation.

Unlike the formal economy, the informal economy, including small activities and family businesses, has easy access to the market insofar as no administrative or legal procedures are required and neither capital nor equipment is needed. The informal sector is usually focused on Muscular effort and low level of management while providing goods and services at low price. The absence of funds requirements from banks and financial institutions in Libya allowed the informal economy to flourish as there is no real competition from the formal market. In fact, the informal economy makes a lot of savings in comparison to the size of its business values, especially in terms of procedures, fees and taxes. The savings may be reinvested in projects which give businesses a competitive advantage.

8. Investments and public-private partnerships

Since 2011, the government has taken steps to encourage investment and motivate foreign companies. However, due to political instability, it

Figure 6. Challenges facing small enterprises



Source: Calice and others (2015), Simplified Enterprise Survey and private sector mapping.

will take time for market-based competition to take root. The business environment in Libya "does not encourage investment" due to underdeveloped financial markets. Investment is limited to 5 per cent in Libya due to the lack of a transparent and efficient business environment as shown in the chart below (OECD, 2106). The external investment rate dropped to only 0.1 per cent in 2014 compared to 6.9 per cent of the GDP in 2007.

Most of Libya's direct foreign investments are concentrated in the energy sector. For example, in 2004, Libya received $1.3 billion in foreign direct investment (FDI), with its energy sector accounting for about 80 percent. In 2005, foreign companies committed to invest in the tourism sector with a total value of about $3 billion. Companies were established and contracts were signed, but most of them left as soon as they were faced with obstacles, such as administrative bureaucracy, difficulties to get visas, prevalence of corruption in public institutions and the limited funds available as well as other challenges.

The State attempted to encourage and attract investors to the Libyan market through the Investment Promotion Law issued in 2005 before reissuing it under No. 9 in 2010 as amended and improved. The Law gives an opportunity for international companies to work in the Libyan market and to benefit from advantages given to potential investors, including a 5-year income tax exemption extendable to 8 years and the transfer of profits at the official exchange rate. The legislator also tried to address administrative bureaucracy issues and allowed the Investment Promotion Authority responsible for the implementation of the law to establish a one-stop service center that includes representatives from all sectors including taxes, customs and passports. However, the current law needs to be reformed and updated to be in line with international standards, especially in the areas of public-private partnership (PPP) and the Building – operating – Transfer (BOT) approaches.

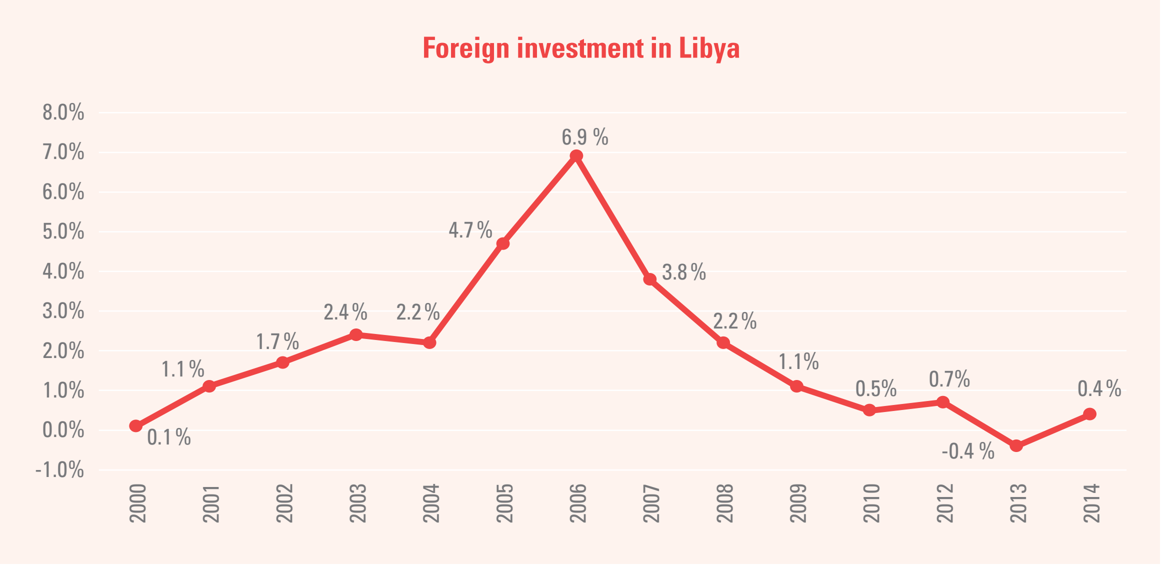
Persistent attempts are being made to develop investment-related legislations. A new draft law on the organization of public-private partnership (PPP) and the expansion of funding to development projects and infrastructure was submitted to the National General Conference. As a result, some institutions have begun to participate in the strategic planning of public-private partnerships. The Libyan Fund for Investment and Local Development started to generate long-term financial outputs and tangible socio-economic benefits through the development of infrastructure in Libya. However, the Law was delayed again in 2016 as the country's competing governments continued to prioritize security issues. In 2018, the Public-Private Partnership Law was referred again to the HOR by the Housing and Infrastructure Board (HIB) which is seeking to complete the country's already underdeveloped infrastructure projects that have been awarded to international contractors before 2011 by giving potential local and international investors the chance to invest in these projects.

The Military Investment Authority of the General Command of the Libyan Army was established in 2017. In 2018, the House of Representatives passed a law to organize the services of the Authority which is currently offering better investment benefits than the Investment Promotion Law No. 9. A ten-year tax exemption after the return on invested capital is the main advantage offered to investors. In addition, the proposed Law provides for investment in broader areas than in Law No. 9, like Oil for example, without the need for government authorities approval.

The Law is expected to encourage investors to deal with the Military Investment Authority rather than the Investment Promotion Authority because of the benefits offered and the procedural facilities. However, this body is expected to create further obstacles and strong competition in the Libyan market on both the economic and administrative levels.

Attracting foreign direct investment can be a tool to raise the level of development of companies operating in the country. Investment contributes to the transfer of knowledge, the development

Figure 7. Foreign investment in Libya



Source: World Development Indicators database, 29 December 2015, World bank.

of management methods, the creation of contact points with global markets, as well as provision of capital. There are indications that several international investors are planning to return to Libya by 2020. A group of American investors signed a concession agreement to build a huge port in Soussa estimated at $1.5 billion to be financed by investors and some local and international financial institutions. The port focuses on transshipment trade and provides more than 2300 jobs.

However, to guarantee the flow of foreign investment, all constraints facing foreign investors must be addressed. It is expected that the need for foreign investment will be urgent in the period of reconstruction, development and diversification of the economy due to the limited ability of the state to meet the expected demand estimated at hundreds of billions.

9. Sovereign funds and their role in providing investment guarantees

There are sovereign funds of billion-dollars assets which can play an important role in partnering with foreign and local investors and provide sovereign guarantees in the Libyan market. These institutions include the Libyan Investment Authority (LIA), the Economic and Social Development (ESDF) Fund and the internal investment fund.

9.1 Libyan Investment Authority (LIA)

LIA was established upon Resolution No. 205 of 2006 by the General People's Committee (Cabinet) as a sovereign fund for future generations. The organizing Law No. 13 was issued in 2010. The LIA is composed of a group of institutions established since 1973 with a total of 550 companies, with 40 per cent investments in the form of funds and investment portfolios belonging to a group of companies, including the Libyan Foreign Investment Company (LAFICO), the Libyan African Investment Portfolio (LAP), the long-term investment portfolio (LTP), the Oilinvest Company and the Libyan Internal Investment Fund (LLIDF). The remaining 60 per cent assets are invested in stock portfolios in giant international companies, corporate bonds, government bonds and investment deposits in different banks. The total assets are valued at approximately $67 billion (LIA, 2019).

Political division is a major challenge for the LIA which will have to deal with more than one board of directors and whose assets are frozen abroad since 2011, despite the relentless attempts to break this freeze; in addition to administrative and technical challenges, including the lack of harmonization of organizational structures, the non-conformity of subsidiaries accounts and their closure, fraud and manipulation of Libyan assets, corruption and others.

However, the sovereign fund can play an important role in contributing to restoring stability and construction, providing guarantees for foreign investments in Libya and concluding partnership agreements between foreign investors and Libya.

9.2 Economic and Social Development Fund (ESDF)

The Economic and Social Development Fund was established in 2006 (Resolution No. 18 of 2006 and 429 of 2008) as an investment fund with independent financial liability that aims to invest the funds of the beneficiaries of the wealth distribution program (portfolio owners). The Fund owns a group of companies (more 165 companies) and investment portfolios.

The Fund invested $2 billion in 2007 in several international institutions distributed among 13 portfolios in the form of equity and bonds with a five-year investment period. The portfolios were liquidated and only $800 million were left. The Fund contributed to various companies namely Libyana and Madar telecommunication companies, with a total value of LD 1 billion i.e. 25 per cent of both companies' capital. The Fund also owns a group of holdings and affiliated companies, including Al-Inma Holding for Financial Investments and Al-Inma Holding for Industrial and Service Investment in addition to a group of over 140 companies, including 28 existing ailing companies that the Fund has acquired such as tobacco and pipeline companies. The total value of ESDF assets is estimated at over LD 18 billion.

The challenges facing the ESDF are, inter alia, the following: institutional division; distributions by portfolios holders to people with limited income despite the law on distribution freezing; addressing cumulated cases by foreign companies against ESDF for unfinished projects; ailing companies unable to pay salaries and expenses or make profits. Only by overcoming these obstacles will the Fund be able to play a role in encouraging national and foreign investment and establishing PPPs, insofar as it owns assets (especially vast lands and buildings) across Libya and enjoys the technical capacity of interfering in companies while providing any guarantees required.

10. Other sectors

10.1 Energy sector

The Resource Governance Index assesses the quality of natural resource management in countries that produce altogether 82 per cent of the world's oil and 78 per cent of gas. According to 2017 Index, Libya recorded 18 out of 100 points, ranking 87 out of 89 countries evaluated. Libya's results are "a failing point" indicating that the country has no government framework to ensure that society benefits from oil. It is likely that only a few companies or elites benefit from it. The failing outcome is driven primarily by the lack of an enabling environment (6 out of 100) which reflects the government level of openness, transparency, quality of organization as well as the corruption rate and political stability (RGI, 2017).

Libya's average oil production was about 1.7 million barrels in 2005 against an average of 1.8 million barrels per day in 2015 with a drop to 400,000 barrels per day. However, in December 2016 the production increased to over 700,000 barrels. The National Oil Corporation announced in 2017 that Libya's oil production has reached 1 million barrels per day, close to its target of 1.25 million barrels per day. According to the estimates of the Organization of Petroleum Exporting Countries (OPEC) for 2016, Libya's oil reserves were estimated at about 48.4 billion barrels. It is the largest in Africa and the seventh largest in the world. Libya is also rich in gas, where gas production is expected to reach three times the 2 billion cubic feet per day (NOC, 2018; Monitor Group, 2006).

Libya has 5 refineries (such as Al-Zawia refinery, Al-Harika refinery, Ras Lanuf and Boureiqa), with an estimated capacity of 380,000 barrels per day. These refineries are not able to convert heavy fuel oil (HFO) into light products nor meet the needs of light products, so the National Oil Corporation imports refined products before selling them locally at subsidized prices.

The lack of funding by the National Oil Corporation (NOC) didn't allow for optimal development of existing fields or new discoveries, which is expected to lead to lower production levels in the coming future. On a positive note, the oil sector is deemed to be the best operating sectors in Libya with efficient and highly professional employees. The development of the sector, especially the refineries, will contribute significantly to reducing the need for increased imports of fuel. In 2017, the Libyan government spent LD 3 billion on local market fuel supply.

10.2 Electricity

Demand for electricity in Libya is about 12 TWh with a shortage of about 9-10 per cent since 2005. Most energy planners recommended a minimum reserves margin of 5 per cent for guaranteeing supply security. The General Electric Company has embarked on a construction program which can almost double the generating capacity available. However, the events of 2011 prevented the completion of these projects and Libya is still suffering from a lack of energy. The company has a stable capacity of 10 GW, but it barely got 5.5 GW for actual use due to lack of maintenance and lack of fuel. The gas was gradually replaced with fuel oil to generate power which reduced operating costs by more than 50 per cent as recommended by the World Bank (World Bank, 2018).

In terms of energy density, the current transmission system includes 16,000 km of 220 kV and 400 kV lines, feeding 25,000 km of low voltage lines to distribute electricity to 1.2 million customers. The technical performance of transmission and distribution systems is acceptable and is often the same as pre-2011 levels. New power stations are to be built through conventional procurement including foreign contractors. However, these plans were postponed as a result of the political and economic situation. In fact, in 2018 only 23 per cent of the 2010-2016 planned generation projects were completed (African Economic Outlook, 2018).

Financing the projects by the electricity company is a major challenge insofar as it relies on the State's subsidies estimated in 2005 at LD 2.2 billion against LD 780 million in 2017. If fuel subsidies are lifted the challenge will be greater. Consumers usually pay less than the real cost, knowing that since 2011 many of them failed to pay electricity services or resorted to illegal connections.

10.3 Renewable energy (solar and wind)

Libya's geographical location is suitable for renewable solar and wind energy thanks to a daily average of horizontal radiation estimated at 7.1 kwh/m2/day and a sun period of 3500 hours per year. Solar energy in Libya can provide around 140,000 TWh per year. In addition, wind and biomass have only a potential of 15,000 and 2,000 TWh per year, respectively. GECOL and Renewable Energy Authority of Libya (REAOL) were planning to install photovoltaic systems to meet 12 per cent of energy demand in Al Jfra, Sebha and the green Mountain, before the project was suspended due to political and security issues (Al Hashemi and others, 2017).

In 2000, a German-Danish consortium signed a contract with GECOAL to conceive and construct a 25 MW wind farm. After identifying various sites, masts were installed to conduct a survey of wind conditions over the course of the year. Technical specifications for all components of the pilot wind farm and tender documentations were prepared, but the project was not implemented. (Al Hashemi and others, 2017).

Renewable energy may be very promising in Libya to stop oil and gas dependency, reduce energy expenses and generate budget surplus to be allocated for development. However, renewable energy has its own challenges, such as the lack of field data, a weak electricity grid and lack of field specialists.

10.4 Telecommunications

Libya's political conflict has disrupted the telecommunications sector. Cell towers and equipment were either destroyed or stolen. According to the OECD 2016 report, LD 1 billion of telecommunications infrastructure have been destroyed since 2011, including 20 per cent of the cellular sites in the country. The low number of internet users in 2014 reached 17.7 per 100 inhabitants compared to 31.7 per 100 in Egypt and 46.2 per 100 in Tunisia. In 2018 internet users accounted for 21.8 per cent (OECD, 2016; World Bank, 2018).

The Libyan telecoms sector controls fixed, mobile, internet and postal lines. Two state operators (Al Madar and Libiana) owned by the Libyan Post and Telecommunications Holding Company control the mobile sector in addition to a third state-owned Mobile operator (Libyaphone). Before 2011 and the 2014 political crisis, huge investments were made in the next generation network of national optical fiber. Libya was the first country in Africa connecting buildings to fiber networks. The first international optical fiber cables were installed in the country in 2010, followed by the second in 2013. The broadband sector market remains very weak (African Economic Outlook, 2018). The Government drafted the new 2014 Telecommunications Act for establishing an independent regulatory body pending the HOR approval.

The private sector has been allowed to work in the telecommunications sector in specific areas such as Internet service provider (ISP). Companies lease telephone lines and capacity before reselling them to users either through land services (ADSL) or through wireless services (Wi-Fi). For example, "I ON Telecommunication", the owner of Connect has managed to acquire more than 13,000 subscribers in Benghazi alone with annual revenues of more than LD 17.3 million in 2018. Opening the telecommunications network to private service providers can increase competition leading to lower costs and improved quality of service. Liberalization of the telecommunications sector and mobile and Internet markets should enable competition and create independent regulations to support and accelerate private sector-led economic growth (World Bank, 2015).

The Communications Holding Company is experiencing problems due to the institutional division which has affected the sector. It currently has three boards of directors each one claiming to be legally authorized to represent the company and manage funds. The same applies to subsidiaries. The gap between the official and parallel exchange rates also affected AL Dawlia company responsible for paying international calls in foreign currency to other telecommunications companies. Failing to transfer the money in the official price (1.4 LD/$) made the Company suffer big losses. The armed conflict caused severe damages to the sector's infrastructure.

10.5 Transportation

Libya has a wide road network, especially in areas and cities along the Libyan coast, linking the eastern and western borders, as well as in the central region and parts of the south. However, the roads linking the southern borders to the Libyan State are not in good shape due to lack of regular maintenance and to armed conflict.

Contracting works were never suspended after 2011 but remained limited to maintenance or to building new roads in remote areas. Another example is the new road project linking the west border (Ras Jadir) to the east boarder (Imsaad) to be implemented by the Italian government in compensation for the occupation period. The project which was to start in 2019 was signed before 2011 but never came to light.

Libya has 6 ports designated for commercial and public purposes in addition to several ports meant for exporting oil derivatives and fishing ports. However, low quality services are adding to technical challenges such as limited depth for receiving large size vessels, the largest ports depth being estimated at 10.5 meters. The Ports and Maritime Transport Authority and the Ministry of Transport seek to develop and operate ports by calling for investments. In this regard, the Ports and Maritime Transport Authority is negotiating the development of a large commercial port for transshipment trade in Soussa in the east of Libya. The depth of the new port ranges from 18 to 40 meters and the location of the new port is the nearest sea point to the shipping line.

There are at least six international airports namely Tripoli, Benghazi, Sebha, Tobruk, Labraq and Misrata in addition to local airports such as Beni Waleed, Kufra, as well as special airports dedicated to oil companies and military bases. The current flight capacity of airports is weak due to the repercussions of the armed conflict. When Tripoli airport was heavily destroyed, Maitika airport was used as an alternative before its suspension due to Tripoli war. However, it reopened in December 2019 after reconstruction and maintenance. Benghazi airport was also affected by the war against terrorism. The Libyan government, before 2011, was seeking to contract international companies for developing Tripoli and Benghazi airports among others. However, projects were suspended in 2011. Corruption did not spare contracts namely with the Canadian company Lavaline whose management confessed having given bribes to officials estimated at $30 million.

Libya railway network is lagging behind neighboring countries such as Tunisia and Egypt. Before it was frozen in 2011, the State contracted with a group of Chinese and Russian companies to build a new railway which is badly needed for movement and transport of goods.

10.6 Housing and utilities

Due to decades of isolation and neglect, infrastructure in Libya was in bad shape even before 2011 when Libya ranked 115th out of 139 countries on the Global Infrastructure Quality Index before it went down to 144 in 2014. In addition, the overall investment rate dropped significantly from 5.3 per cent of GDP in 2013 to 4.4 per cent in 2014; from 4.0 per cent of GDP in 2015 to 3 per cent in 2016 (African Economic Outlook, 2018).

Prior to 2011, Libya contracted foreign companies to redevelop its infrastructure. The contracts included most of Libya's large cities. Companies started the engineering works as well as excavations and executions. The total contracts for infrastructure, housing and utilities amounted LD 168 billion. If they had been completed, the infrastructure and housing problems would have been largely addressed.

Water infrastructure is a high priority in Libya. In 2013, the HIB planned to rehabilitate more than 75 sewage treatment plants (African Economic Outlook, 2018). In 2014, the construction of new sewage and pumping stations began. Saline treatment plants (desalination plants) were also targeted. There are currently some desalination plants such as Tobruk, Sousse and Zliten.

Infrastructure and housing projects need to be completed either through investment or direct financing by the State. In all cases, the State shall settle the status of the contracted companies whether by compensation or by terminating the contracts. In affected cities and areas, infrastructure contracts need to be revisited and updated.

10.7 Health

Health is a major concern in Libya especially that the system has been weakened by the institutional division; it suffers from limited financial resources, lack of human resources, severe shortages of lifesaving medicines and basic equipment, in addition to a depleted and neglected primary health care network. The survey conducted by the World Health Organization and the Ministry of Health in Libya showed that the existing preparations in infrastructure and manpower and the use of services amount to 79 per cent in medicine, 69 per cent in diagnosis of diseases and 37 per cent in hospitals.

Many medical centers and hospitals were closed in areas where armed conflict is taking place, making it difficult for citizens to obtain the necessary health care services. 17 out of 97 hospitals and 273 out of 1355 health care centers were closed, of which only 4 hospitals operate at a rate of 75-80 per cent of their capacity. Only 40 per cent of beds are usable with 15 beds to 10,000 people. The report also found that available health emergency services are estimated at less than 50 per cent, with human resources estimated at more than three times the fixed standard. Lack of efficiency may be due to irregular payment of salaries and shortages in medicines and supplies. Health needs of displaced persons, refugees and migrants have increased in many aspects in addition to vulnerabilities they face in detention centers. The situation in Libyan hospitals is getting worse, especially in southern Libya and remote areas where lack of medical treatment for kidney and cancer patients force citizens to seek it in neighboring countries (WHO, 2017).

The private health sector in Libya is promising. Most private clinics provide treatment services to the employees of public companies and institutions that use the medical insurance system. However, challenges such as limited funding, limited equipment and poor demand for service were an obstacle to the sector's development. The Presidential Council recently issued a decision regulating the work of the Medical Insurance Authority, which is believed to play an important role in the development of the sector.

10.8 Agriculture, livestock and fisheries

Most of the arable land is located on the coast, in the mountain area of Jafara, the mountain of Nafusa, and some areas of the south. The arable land in Libya is estimated at around 4 per cent of the total area and less than 2 per cent is suitable for agriculture. The government subsidized the agricultural sector to meet local needs. Large amounts of money for the establishment of agricultural projects and companies specializing in agricultural marketing were paid. The State also intervened in identifying crops grown for domestic consumption directly through their companies or indirectly through the provision of seedling and seed varieties. The cultivation pattern of irrigated crops consists of about 52 per cent of the permanent crops, including olives, fruit trees, citrus and fodder, with the remaining 48 per cent consisting of annual crops such as wheat, barley, vegetables, potatoes, pulses and others. Some studies show that local agricultural production meets local needs, especially in terms of fruits, vegetables and olive oil, and provides 20-25 per cent of grain requirements (GAI, 2007; Monitor Group, 2006).

The agriculture sector is faced with growth and development related challenges, such as lack of arable land, irregular rainfall and limited irrigation systems in agricultural areas. Arable land is shrinking considerably because of declining water levels and increased salinity, especially due to the use of groundwater. In addition to general challenges in the Libyan market such as the shortage in skilled workers, lack of funding for the development of agricultural projects, as well as limited seeds, equipment, fertilizers and pesticides in the local market.

The livestock sector is large enough and meets most local needs of milk, eggs and meat, but grazing and fodder land is scarce. Libya has a large continental shelf abundant in fish. The geographical location of Libya makes it competitive and close to export markets. In this regard, the Libyan State has sought to develop the fishing sector by establishing fishing ports and by training fishermen who work part-time or full-time. Fishermen were provided with mobile freezers, equipment and storages, but the support for the sector did not last as the fishing company was subsequently liquidated.

10.9 Tourism

Libya is far from the international average share of tourism in the GDP estimated at $21.5 billion against an overall amount of $62.9 billion. Libya tourism performance is also far from North Africa average estimated at $5.8 billion against an overall share of $12.2 billion.

Libya has a special geographical location and high-quality tourism assets including sea, desert and mountains. It has a 2,200 km coastline length and beautiful tourism areas such as Jabal Al-Akhdar and Ras Al-Hilal in the east, the Akakos Mountains in the south and Qabroun. It is a crossroads of civilization including the cities of Cyrenaica and Libtis Megna. All this should contribute to the long-term promotion of the tourism sector. Since 2011, the number of foreign tourists has dropped dramatically. Today, most of hotels and tourist services are limited to domestic tourists, especially in less stressful areas and cities. However, services such as tour guides and transport were greatly affected by the lack of demand for service, especially in the south.

Most of the five-star hotels in the Libyan market are wholly state-owned, such as Al-Mahari and Rixos or partly as Corinthia Hotel, while most of the three-star hotels or less are privately owned. The private sector contributed to the development of the tourism sector, especially the establishment of hotels and tourist villages throughout Libya, but the quality of services provided is not up to the global level.

In general, the private and state-owned tourism sector faces similar challenges. Most of the sector's employees need training and development in the field of hotel and tourism and need to master foreign languages to deal with foreign tourists. The security situation and the political instability are a challenge for the tourism sector. Most hotels and companies operating in the tourism field do not rely on electronic services which are very weak. For example, few hotels offer online booking in Tripoli or Benghazi.

11. Economic inclusion and migration issues

11.1 Economic activities and challenges faced by youth

Libyan youth represent 50 per cent of the active population and 43 per cent of the labor force. The youth sector in Libya is the most educated and responsive to modernity and development. The percentage of youth (25-29 years old) without education qualifications is 12.7 per cent against 77.3 per cent with high school certificate. For the 55-59 age group, these percentages were 56.6 per cent and 29.4 per cent respectively.

There are several challenges facing young people in Libya who are most vulnerable to unemployment and least engaged in economic activities. In addition, they are the least represented at the decision-making level and their participation in civil and political institutions remains at their lowest level.

Many Libyan youth have positive expectations about the country's development and their immediate economic integration. Unless those expectations are met, instability and disturbances will follow along with youth violence or involvement within armed groups. Addressing challenges and establishing plans to contain them and encourage them to participate in peace dialogues and economic development is important.

11.2 Economic activities and challenges faced by women

Thirty-three women won seats out of 200 in the general elections (about 17 per cent). In 2014, the percentage of Libyan women elected to the Libyan House of Representatives was about 16 per cent. Even with these promising percentages, women's representation in successive governments remains low.

Despite UN calls for securing a 30 per cent quota for women representation, it remains at 6 per cent in the GNA and at 1 per cent in the Interim government. There is one woman out of six members in Municipal Councils.

Female employment rate is 26.3 per cent. The participation rate of Libyan working women is over 50 per cent in scientific fields only. In administration, agriculture, services, manufacturing and trade, women's representation in the workforce ranged from 3.5 per cent to 21 per cent (bridges, 2018). However, according to OECD (2016), unemployment of young females in Libya reached 69.2 per cent. Lack of security and the ongoing conflict have affected women's participation in the economy and the business sector. Women are facing challenges accessing finance and managing private businesses, but little progress has been made in promoting equal access to resources, to finance and land ownership as a result of social traditions.

11.3 Migration and displaced persons

The humanitarian situation remains serious. According to the United Nations High Commissioner for Refugees (UNHCR), the middle of the Mediterranean is now the main migration route with Libya being the main starting point. In 2011, IOM estimated the total number of foreign nationals living in Libya before the crisis at about 2.5 million, of whom 768,372 emigrated as a result of the war in Libya during the 2011 crisis. The DTM report, 2018, identified a total number of 704,142 immigrants (90 per cent of adults and 10 per cent of minors) the majority being adult male migrants (89 per cent).

In 2016, UNHCR reported an unprecedented 109 per cent increase in the number of unaccompanied children arriving by sea, a trend which is expected to continue. The European Union has therefore intensified negotiations with the Libyan authorities to control migratory flows.

The problem of migration is a challenge for the Libyan State which counts 800,000 migrants who benefit from free treatment services, subsidized fuel and foodstuff; they also dominate the informal private sector where they are exempted from fees and taxes. On the other hand, the persisting flow of migrants creates a conducive climate for smuggling and crime. Local communities are dealing with other communities where crime, which is spreading, is increasingly accepted by the society. The inability of migrants to reach Europe will make them stay in Libya to benefit from better living conditions. Over time, they are expected to be granted the right to citizenship which would lead to demographic changes. One example is the African tribesmen who have extensions in Libya and who flocked to Libya after 2011. They sought to control villages and cities in the south of Libya while permanently attempting to obtain the Libyan nationality.

There are about 435,000 IDPs against 125,000 who left to other countries. The 200,000 displaced who returned to Libya face the challenge of social reintegration or rebuilding their lives. At the beginning of 2017, more than 1.3 million people, including internally displaced persons, returnees, migrants, refugees, asylum seekers and vulnerable non-displaced persons were in

Table 5. Migration

Region	Migrants present	Daily arrivals (Estimate)	Daily	Daily arrivals (Absolut)	Daily departure (Absolut)	Main nationalities of arrivals	Main country of final destination
Alkufra	16,549	333	349	6650	7012	Somalia Sudan Chad	Italy Germany France
Toubruk	7,320	173	166	3287	3150	Egypt Sudan Ethiopia	Libya Italy Malta
Murzuq	28,474	536	262	2748	1455	Niger Nigeria Chad	Libya Italy France
Almagreb	93,564	115	92	2443	1700	Egypt Nigeria Niger	Italy France Niger
Ejdabia	63,572	47	54	1104	1267	Sudan Chad Egypt	Italy Libya France
Nalut	9,160	39	37	781	715	Niger Mali Nigeria	Italy France Libya
Misrata	88,789	52	62	573	762	Niger Nigeria Chad	Italy Niger Libya
Sebha	31,100	40	29	434	308	Niger Mali Burkina Faso	Italy France Libya
Aljufra	8,011	18	18	356	353	Niger Chad Sudan	Libya Italy France
Aljafara	18,146	33v	46	318	391	Niger Nigeria Mali	Italy Libya Niger

Source: DTM, 2018.

need for humanitarian assistance. In 2019, the Libyan Interim Government created a committee chaired by the Minister of Foreign Affairs to negotiate and plan the return of the displaced. The plan suggests providing accommodation and payment for one year to help them.

12. Corruption

The administrative, political and financial corruption in Libya is one of the most important obstacles to building the Libyan economy and the main reason for the failure of all reform

Table 6. Corruption

Year	Points	Libya position	No. of countries
2012	21	160	174
2013	15	172	175
2014	18	166	174
2015	16	161	167
2016	14	170	176
2017	17	171	180
2018	17	170	180

Source: Audit Bureau, 2017; Administrative Control Authority, 2018.

attempts by the State. According to Transparency International's report, Libya has 17 out of 100 points of integrity. This is obvious from the amount of spending by the State on development projects with no outcomes. The following table shows Libya's ranking compared to other countries.

The supervisory bodies sought to promote the principles of transparency and corruption fighting in public institutions. For instance, the general department for investigation at the Administrative Control Authority of Beida, has investigated cases related to corruption, embezzlement of public funds and bad management. The number of cases registered in 2017 was 383 cases, of which 95 cases are pending, 59 referred to the disciplinary councils and 229 cases of financial irregularities in Benghazi and Green Mountain. In Tripoli, the same year, the Administrative Control Authority referred 118 similar cases with 220 people accused of financial irregularities.

Corruption spreads across public institutions, including regulatory ones, according to reports issued by Supervisory bodies. The main reason for corruption in Libya is clientelism and nepotism namely in jobs and contracts, abuse of power to serve personal interests, bribery, speculations in foreign exchange, fraud and monopoly.

Transparency, provision of accurate data and information on public spending, legal and administrative accountability of public officials, outcome of investigations and judgments related to administrative and financial corruption cases made public by the judiciary should all contribute to reducing corruption. A limited role of the State in economic activities in favor of the private sector should have an impact on reducing corruption.

13. Affected cities and reconstruction

The reconstruction of cities, including infrastructure and the social tissue destroyed by successive wars in Libya since 2011, requires the development of planning projects for some major areas especially in terms of infrastructure including roads, facilities, telecommunications and others. Affected cities were identified as follows.

13.1 Fighting-affected cities

In the aftermath of 2011, the Libyan infrastructure was largely destroyed as a result of heavy and medium weapons usage, air strikes by NATO, in addition to retaliation and looting acts by individuals, theft of equipment and machinery and smuggling of cables and towers.

Damages are not the same everywhere. For instance, Sirte has largely been affected as a result of Gaddafi presence until his death and the end of war. The city of Tawergha suffered from the fighting against Misrata, which caused the displacement of all its inhabitants. Some areas in Tripoli were destroyed by NATO airstrikes and destructive sophisticated weapons. Misurata, Benghazi and Ajdabia were less affected.

The war of dignity (Karama) in eastern Libya led by the Libyan national army against terrorism caused the damaging of buildings and infrastructure as a result of brutal fighting or use of public facilities as shields by armed Islamist groups. Among the damaged areas, the city of Benghazi, namely the Sabri district, where heavy fighting took place in streets and buildings and the city of Derna, namely the old town, where fighting took place with Islamic groups.

In the west, the Libya Dawn Operation caused the destruction and suspension of Tripoli International Airport. Cities like Wershfana that stood against the forces of Libya Dawn were destroyed. Al-Bunyan Al-Marsoos operation against Islamic organizations in the city of Sirte caused the destruction of what remained of it.

13.2 Cities and infrastructure affected by security chaos

Cities controlled by armed groups suffered from security chaos resulting in the displacement of citizens, especially in the southern region where an armed group believed to be non-Libyan controlled cities in the south such as Sebha and Merzq where infrastructure was damaged. Conflicts and fighting between cities and tribes in the Libyan West, such as the war of Al-Sayan, Kekla, Mashashia, Zintan and others caused a security chaos which gave armed groups and smuggling gangs an opportunity to tamper with the infrastructure especially in the telecommunications and electricity sector.

13.3 Attempts to complete suspended projects

In 2013, the Interim government, represented by Ali Zidan, sought to give compensations against war-damaged property through the Ministry of Housing and Utilities, namely in Misurata and Sirte among others. Libyan governments developed reconstruction plans including the completion of pending projects and the amendment of contracts in line with territorial changes. Indeed, some companies showed their desire to return and complete works in Libya pending compensations for damages incurred by the sites, machines and equipment.

In 2016, the Libyan Interim government established a committee for the stability and reconstruction of Benghazi in addition to the “Benghazi Reconstruction Fund”. However, all these efforts were vain due to persistent military action. There was no clear vision for work. In 2017, the “Crisis Committee for the South” was established and provided with LD 100 million for developing quick solutions to the infrastructure and providing the basic needs. In 2018, another special commission was set up for Derna. However, actions by these committees were limited to basic health, education and security needs.

Governments adopted the inventory, compensation and planning approach before the start of a two-phase reconstruction process.

Preparatory phase: The Interim government launched a wide range development process of various sectors such as education and health, in addition to providing basic needs and ensuring the maintenance of destroyed police stations across cities liberated by the Libyan army, such as Benghazi, Derna and the south. The UNDP, in collaboration with the GNA, also provided health and education related basic services in damaged areas. Thirty million dollars were allocated by donor countries while the GNA promised to pay 30 million for a counterpart program. A timetable was set along with the identification of priority cities.

Reconstruction phase: Given the damage caused by wars to infrastructure, property and others, this challenging phase needs good planning, funds and viable practical solutions for reconstruction. Therefore, the commission that has been tasked with the reconstruction of some cities is still making estimates of needs for the reconstruction to start.

13.4 Reconstruction challenges

- Challenges may be summarized as follows:
- Unless the ongoing wars come to an end and a lasting peace, stability and security are reached, reconstruction will always be missing;
- Reconstruction is too costly and may exceed the capacity of the Libyan State, especially that the spending on non-development budget line items exceed 85 per cent against 7.5 per cent of the total public expenditure;
- The Libyan government approved in 2012 the compensation scheme for property owners and enterprises affected. Some applicants from Misurata and Sirte received compensations. However, to be implemented, the scheme requires hundreds of billions. Some companies or individuals filed and won cases against the government;
- The planning of destroyed cities requires the development of new urban plans. However, the main challenge for the State is to respond to landowners' claims for compensations against the relinquishment of their real estate and properties;
- Reconstruction challenges include the completion of pending projects, most of which were signed before 2011. The companies concerned will claim compensations for damages to machinery, equipment and sites and a revision of agreed prices. On the other hand, some companies declared bankruptcy before liquidation. To replace them with alternative companies, the owner will have to spend huge amounts of money to cancel, transfer and make new contracts with all technical and financial challenges involved;
- For foreign companies to return and complete pending projects, large amounts of money are needed. The previously allocated money by the State and which was spent over the years will be difficult to find especially with volatile oil prices and the increase of public spending;
- Any reconstruction process needs foreign investment. However, the existing security situation is a major challenge combined with the absence of adequate legislations, a lack of sovereign guarantees and exchange rate instability;
- Any potential reconstruction process conducted by multinational companies may jeopardize the State's security and sovereignty, knowing that local companies are unable to invest in sensitive fields;
- Despite the urgent need for reconstruction, an in-depth study is required before coming up with appropriate plans, solutions and mechanisms.

14. Institutional divisions

The institutional division is currently one of the greatest challenges facing Libya where new institutions were established by two different governments. The division occurred after the 2013 parliamentary elections which results were challenged by some members of the National Congress. The division took place when the Interim government headed by Abdallah al-Thani began its activities in Beida (after moving from Tripoli) after getting the confidence of the House of Representatives. The National Congress in Tripoli gave confidence to the National Salvation Government headed by Mr. Omar al-Hassi. The division did not spare the executive and legislative institutions and had a severe impact on the performance of judicial institutions. In fact, it has various aspects as follows.

14.1 Institutional split

This is predominantly the case of most public institutions which are apparently united while being internally divided. The Tax Authority, for instance, is still one entity based in Tripoli. However, the offices located within the Interim government area report to the Minister of Finance and transfer their revenues to the Ministry's general revenue account – and in some cases, to municipalities in the form of credits without the headquarters' approval. The Investment Promotion and Privatization Authority is still a one entity with one board of directors. However, once again, its investment projects documents in the east are referred to the Minister of Economy of the Interim government in line with Investment Law No. 9 of 2010, whereas in the west, documents are submitted to the Minister of Economy in the GNA.

On the judiciary level, most judicial institutions, though united, suffer from performance issues. Court-Case management authority, for example, which is the legal representative of government institutions in the Libyan and foreign judiciary, represents the GNA in Tripoli and deals with its institutions. It also represents the Interim government in the east.

The same applies to primary and appeal courts. In the eastern part of the country, GNA is considered unconstitutional by the courts which dismiss all cases against it. However, in the west, the judiciary questions the eligibility and legitimacy of the HOR and its institutions upon the ruling of the Supreme Court.

At the legislative level, some institutions are divided into branches, including the Food and Drug Control Authority of the Administrative Control Authority. It is administered from Tripoli; Benghazi branch director deals with offices located in eastern Libyan.

14.2 Institutional symmetry

The existence of two competing governments led to the establishment of symmetrical institutions sometimes under different names. While the Government of National Salvation initiated its activities at the headquarters in Tripoli, the Interim government formed a new government, hired civil servants and contracted employees from the private sector to establish new bodies.

The Interim government created eight ministries, which established 60 institutions, bodies and companies with new boards of directors, directors and heads of departments. The symmetry was at the origin of increasingly challenged decisions in addition to conflicts over the control of institutions involving political and economic stakes. The internationally recognized Interim government as the sole legitimate government in Libya made it a point to assign diplomats or replace those who failed to support it. New Boards of Directors were established including within the LIA and its subsidiaries. Once it obtained international recognition, the GNA followed suit.

It is worth noting that successive competing governments did not abuse of the institutional divisions; insofar as demands and claims are met, both governments preserved the institutional symmetry. They even managed to avoid the symmetry of sensitive institutions such as the Immigration Authority, the Public property Authority, the Prison administration and other institutions.

It is expected that a unified government, if any, would be facing major challenges consolidating institutions and following up on procedures, especially with the lack of proper management methods and the absence of archives to track documents. These challenges are combined with the overstaffing of the Ministry of Foreign Affairs. Downsizing is expected to provoke a social dismay. However, consolidation should help reduce the spending while built and purchased assets would become part of the fixed assets pending an appropriate process of ownership and purchase.

Political divisions had a severe impact on legislative institutions, including the Libyan parliament which considers itself as the sole elected legislative body representing the Libyan people, while the Libyan National Congress considers itself as the sole elected legislative body upon the Supreme Court ruling which put an end to the HOR. However, the Skhirat political accord brought the conflict to an end by substituting the National Congress with the State Consultative Council while declaring the HOR as the sole locally and internationally recognized legislative institution. Furthermore, the Audit Bureau and the Administrative Control Board were divided unlike the Judiciary.

14.3 Partial division of institutions

Some institutions had only some departments active and chose to rely on counterparts from the other government. The Central Bank of Libya is an example of division between the members of the Board of Directors. The president and one member continued to work in Tripoli, while the deputy governor moved with three members to Beida where they established headquarters for the Central Bank (which paralyzed the Board of Directors unable to reach quorum). However, the Central Bank failed to establish some administrative units, like clearing rooms, most probably for lack of control over assets and funds.

14.4 New institutions

An example of new institutions with no counterparts in the other government is the Women and Children's Authority which was established by the Libyan Interim Government. The Ministry of labor and social affairs on one hand and the Ministry of Economy and Industry on the other hand were split into two ministries.

14.5 Institutions surviving division

A very limited number of institutions survived division most probably due to the nature of their field of activity. Governments maintained the unity of institutions which would otherwise put the homeland and citizens at risk, namely the Passport and Nationality Authority responsible for passports, visas and employment registration and the Public Property Department responsible for registering, transferring and preserving public and private property documents. In addition, the Sea Water Desalination Company and commercial banks preserved their unity thanks to the professionalism of high-level staff who distanced themselves from political conflicts.

14.6 Challenges resulting from institutional division

Institutional divisions created major challenges, which can be summed up as follows:

- Excessive costs and expenses by existing and newly established companies dealing with cars, furniture, etc;
- Overrecruiting both internally and externally;
- Duplication of decisions and administrative procedures;
- Severe repercussions on the judiciary which always distanced itself from political conflicts. Division exhausted the courts, especially with conflicting rulings involving financial and administrative decisions;
- Unreasonable decisions due to the absence of relevant documents and backgrounds, such as the recognition by the Minister of Justice in the Interim government of a foreign company debt of LD 450 million as a result of a ruling by the arbitration court abroad;
- Waste of public funds in fighting for the legitimacy and representativeness of institutions, including the Libyan Investment Corporation;
- Issuing decisions and arrangements involving billions of Dinars with no legal basis, which affects compliance with laws and legislations;

- Administrative corruption, lack of monitoring and officials taking political divisions as an excuse;

- Rebellion against superiors by taking political divisions as an excuse; Superiors changing their institutions' subordination for their own interests;

- Challenging judgments by the courts, the judiciary or decisions related to exemption from duties; keep on illegally representing institutions; seeking international support to stay in the job.

14.7 Attempts to unify institutions

Following Skhirat accord, some institutions tried to coordinate efforts and services provision to citizens, namely the two Ministries of Finance in the GNA and the Libyan Interim Government to avoid duplicate payment of salaries; coordination between airports and ports authorities.

More recently, in 2018 and beginning 2019, persistent attempts were made towards reunifying institutions and boards of directors. However, success stories are very few. For instance, Heads of the Boards of directors of the Libyan-African Holding Company in Tripoli and Beida managed to reunify the Board of directors of Afriqia Airline company; The General Authority for Transport succeeded in reunifying the Libyan Maritime Transport Company. The newly restructured National Planning Council is also actively engaged in the reunification process.

Part II: Old Strategies and Challenges

15. Old plans and visions

There have been many attempts to develop a national strategy. The Monitor Group which was tasked to present a national strategy in 2006 was blamed for focusing on economic aspects at the detriment of socio-political aspects. In 2007, the Benghazi Center for Studies was commissioned to prepare a national strategy covering economic, political and social aspects. The strategies showed some positive results, including economic diversification in the private sector and the establishment of the Economic Development Board among others. However, the strategies were suspended due to the 2011 events.

In 2012, the National Planning Council commissioned Libyan experts to prepare Libya's 2025 vision under the supervision of the Economic Development Board. Libya's 2040 Vision was presented as an extension of the vision by Benghazi Center for Studies and Research in 2007. However, none of the current governments adopted the vision. In 2013, the Interim government appointed a committee of 50 multidisciplinary Libyan experts to develop Libya's 2030 Vision. The vision was outlined but not submitted in writing. Another national vision was presented by the Libya Institute for Advanced Studies for 2023, entitled "Reviving Libya". The proposed strategy focuses on four main pillars: peace, security and rule of law; economic growth; human development, governance and public sector reform.

In 2018, the United Nations and the GNA discussed a strategic framework to support Libya in a round of consultations on the United Nations Strategic Framework (UNSF) for the period 2019-2020. The strategy aims to work towards sustainable development, prosperity, peace and security; to provide a base of cooperation by strengthening the capacity of communities to maintain institutions in support of the peace-building process. UNDP aims to reduce the dependence of humanitarian aid by developing the capacity of state institutions (public health, community security, mine action, education, etc.) to respond to the crisis. The program also aims to support the strengthening of effective government institutions to enable citizens to have easy access to public services and economic opportunities. UNICEF will participate in the implementation of multiple programs for children, including in the areas of water, sanitation, child protection, education, health and nutrition. UNICEF, in collaboration with the Government, aims to ensure that policies, strategies and budgets are evidence- based, sound and child-centered (UNSMIL, 2019).

Furthermore, the WHO, in collaboration with the Ministry of Health, is working on a newly developed strategy to be initially implemented on six primary health care centers in Libya. The selected six centers will provide primary health-care services based on the new family practices approach. The strategy will be mainstreamed nationwide.

The Ministry of Planning developed the National Strategy for the Development of Statistics 2018-2023. The strategy aims to provide the private sector and non-profit organizations with data for in-depth analysis. It focuses on creating an enabling environment for a functioning statistical system to produce qualitative statistics upon the needs of users and to provide the public sector with official statistics enabling it to develop policies and track their impact on the social and economic well-being of the population (Ministry of Planning, 2018). In 2012, the National Planning Council appointed a committee to revise all available SMEs activities. The revised strategy was introduced in 2013 but has not been adopted.

All current strategies have been developed to focus on specific areas rather than considering the overall picture and the evolving nature of the Libyan economy and society. Some of them are outdated. The country is in dire need for a new vision and strategy. Below is a detailed explanation of the Monitor group strategy and the Libyan 2040 Vision used as a reference in this study.

15.1 National strategy – Monitor Group

This study is close to reality, unlike others, insofar as it refers to the strategic plan of 2006 by the Monitor Group which assessed the Libyan economy and collected data not available to the public. The Monitor Group proposed a national economic strategy to raise the global competitiveness of the Libyan economy. The research team studied the Libyan situation and identified the challenges facing the development of the economy. The main objective of the strategy was to help establish a unique model that balances between the market mechanisms and the basic values of the country. The strategy proposed nine priority actions to be adopted, including improving infrastructure and the quality of life. It also focused on improving the education system and diversifying the economy by encouraging private sector development, improving business processes and suggesting specific areas to focus on. However, this strategy was developed in the era of Gaddafi based on the structure and vision of the country at the time. Today, after the dramatic changes since 2011, this strategy needs to be revisited and updated to accommodate changes.

15.2 Libya Vision 2040 – National Planning Council

The 2040 Vision for Libya, based on a previous one that was modified and updated along the current economic, social and political developments, focused on comprehensive human security which includes citizens' security, political, economic, health and environmental security. The Vision also focused on the current situation, globalization and sustainable development. The study which also evaluated the country's economic performance, concurred with the strategy prepared by the Monitor Group on forward-looking issues such as diversifying sources of income, developing education, combating corruption and activating the role of the private sector.

Libya's 2040 Vision criticized oil dependence and weak investments in non-oil sectors which resulted in low economic performance, misuse of resources and high production costs with low product quality. It also criticized the execution mechanisms of infrastructure projects. There is a lack of specific procedures and policies in addition to the absence of administrative structures and institutions. The multiplicity of institutions responsible for supervision and implementation led to overlapping, absence of coordination and inability to evaluate and follow up on implementation. On the industrial sector level, the study criticized the investment of 19.7 per cent of the total development spending in large projects such as the cement industry and iron rather than focusing on small and medium enterprises. The study showed that large projects did not achieve the desired returns because of the unreadiness of the Libyan economy for such mega projects, the absence of skilled labor and the market immaturity to absorb these products. Most of the projects were implemented without the preparation of deep feasibility studies, including marketing, technical and environmental studies. In the business sector, the study criticized the huge amount of investments exceeding LD 130 billion in companies which failed to make turnover as expected, and which became a burden for the state that found itself obliged to cover their losses and meet their needs. Failure was attributed to bureaucracy, overstaffing, low wages, high costs, low productivity, poor quality and obsolescence of capital assets.

16. Challenges facing the Libyan economy

The following is a summary of the challenges preventing any possible adoption of a national strategy (challenges that still need to be addressed) which could be a base for a national dialogue or a future vision:

- **Fighting over sources of income (natural resources):** Oil has the largest share of the GNP with a significant impact on political and economic decision-making and a great influence on the ground, especially after 2011. One example is the closure of oil fields in 2013 by Ibrahim al-Jidran who forced the international community, heads of governments and the UN envoy to visit him for negotiation. He dictated his terms, including the payment and the empowerment of his partisans in the successive governments. Attempts were also made to take back the control on oil after the Libyan army did. In some other cases, the suspension of oil flow was used as a pressure card on governments. Therefore, fighting over oil and attempts to control it will continue until the construction of a strong state capable of conserving natural resources. Unless income sources are diversified and dependence on oil is reduced, attempts to control it will continue – at least for now;

- **Political instability and armed conflict:** Libya has a large territory with disproportionate demography. Therefore, securing its borders is not an easy task. It requires sophisticated equipment and advanced technology for monitoring and protection. Therefore, spending large amounts of money to serve the purpose adversely affects investment and development. Political instability and armed conflict remain a major challenge to build and diversify the economy and reconstruction or to attract foreign investment in the Libyan market;

- **Unemployment and employment in the public sector:** One of the challenges facing the Libyan economy is the number of civil servants, in addition to the rise of unemployment and the inability of the state to provide new jobs for new graduates who end up working with armed groups or commit illegal acts. There is an urgent need to address the problem of employment in the public sector and to set up innovative mechanisms to support the private sector in absorbing the surplus of employees;

- **Education and Training Centers Outputs:** The outputs of education and training centers are the major obstacles to employment in the Libyan market, as they do not meet the needs of the labor market, especially in the private sector. Employers are therefore compelled to hire foreign workers rather than Libyans;

- **Subsidies for goods, fuel and others:** Subsidizing goods and fuel is, by definition, to provide support to Libyan citizens and help them bear the living burden. However, it largely contributed to the rise of criminal acts and smuggling, (specially to neighboring countries) and to the waste of public money. Lifting subsidies should contribute significantly to shifting funds to development and fighting crimes and smuggling;

- **Institutional divisions:** Institutional divisions as a result of political conflict have become a real challenge to the prestige, sovereignty and representation of the State. Libyan institutions have lost millions of dinars in fees paid to lawyers only to prove legal representation while the Libyan State was unable to unfreeze its assets. The Libyan State is at risk insofar as each government is dealing with different external parties to defend its own interests and is concluding agreements and contracts to buy allegiances and build relations regardless of the State's interests. On the local level, institutional divisions had a severe impact on administrations, especially with a total lack of supervision, administrative negligence and waste of public money;

- **Poverty:** Several reasons are behind the rising rate of poverty since 2011, including wars, internal and external displacement, damages in property and assets, lower value of civil servants' salaries, inflation (especially the prices of goods and services pegged in foreign currencies) and poor medical services;

- **Crime networks and institutionalization of crime:** Armed groups took over the security and military, especially in the capital Tripoli, where they infiltrated the public business sector to control the sources of income, manage funds and monopolize a large proportion of banking services. They managed to institutionalize the relationship between public servants, armed group members and some businessmen. They also ensured protection to smugglers along with citizens who in turn provided basic and logistical services. They perpetrated kidnappings against ransom or royalties. The increasing institutionalized criminal operations posed a major challenge to economic growth and reconstruction which dissuaded foreign investors from entering the Libyan market. The delay in confronting these groups gave them the opportunity to grow and institutionalize within the State's internal and external institutions;

- **Corruption, clientelism and favoritism:**

The Libyan state is a corrupt state. After 2011, corruption was widespread. International institutions did not hesitate to publicly unveil some of the corruption acts, including the United Nations envoy to Libya who said more than once that the level of corruption among Libyan officials was very high. The Administrative Control Board documented cases of corruption and waste of public money. In addition, favoritism, regionalism and tribalism were flagrant in recent years, especially in terms of employment, Letters of credit, etc., resulting in massive discontent by the population and a social rift between some regions. Administrative corruption and clientelism are major obstacles to the private sector and foreign investment in Libya;

- **Reconstruction and infrastructure development:** The infrastructure in Libya was always poor. After the armed conflicts and wars of 2011, the infrastructure in most Libyan cities and regions was damaged to such extent that reconstruction and infrastructure development require large amounts of money the Libyan State cannot afford now, while salaries and subsidies account for most of the spending. All this is combined with corruption, a weak banking sector and lack of institutional structures. Reconstruction needs basic infrastructure such as roads, ports and airports, to enable local and foreign companies to import their materials and bring their workers to the sites;

- **Compensations to foreign and local companies and to citizens for war damage:** The compensation challenge is directly related to enabling governments to start rebuilding and developing infrastructure. Most companies which had contracts with the Libyan state prior to 2011 require compensation for damaged property and fixed assets. The same goes for local companies and private factories, especially those who had a favorable court ruling. Added to this are landlords whose properties may be demolished because of the re-planning of cities affected by wars;

- **The private business environment and competition of public companies and foreign companies:** It is expected that the private sector in Libya (especially small and medium enterprises) will contribute significantly to rebuilding the Libyan economy, diversifying sources of income, absorbing unemployment and reducing public sector employment. The government does not provide any services or support to the private sector. The lack of security, the spread of corruption, bureaucracy and the weak sources of funding have severely damaged the stability of the private sector. In addition, public companies enjoy priority in terms of public contracts unlike the private sector which faces fierce competition by the informal sector and by foreign companies which have expertise and financial capacities;

- **Inconsistent policies:** Uncertainty in Libya's economic, social and political situation is a challenge to the private sector and to foreign investors who are reluctant to invest. On the other hand, the restructuring and the affiliation of public institutions constitute a burden to clients and to the State;

- **Financial challenges:** Financial problems are a continuing challenge to the economy. The public expenditure is mostly devoted to the public sector's wages and salaries and to subsidizing goods and products rather than to development. The currency gap between the parallel market and the bank has exhausted small traders as well individual and family enterprises who could not get hard currency at the official price to open credits. On the other hand, the lack of performance by the banking sector, the limited funding to the private sector and the reluctance of banks to finance investment projects are all major obstacles to economic growth and to local development. Other challenges consist in the lack of financing for micro- businesses and the absence of the Credit Guarantee Fund for Small and Micro Enterprises. Regarding Islamic banking, the foundations of the Islamic financial system must be established, which require the development and restructuring of the banking and financial sector, the review of relevant legislation and laws and the development of human resources of the banking sector;

- **Weakness of industry and agriculture sectors, and dependence on imports:** Consumption food and vegetables as well as equipment are imported. The agricultural sector is not expected to contribute significantly to exports (if developed) due to limited agricultural land and quantity of water. The industrial sector faces challenges related to the lack of experience of Libyan workers, the absence of raw materials at a competitive price in the local market and the dependence of traders on imports. However, developing the agricultural and industrial sectors to meet the needs of the local market would create job opportunities and contribute to the diversification of the economy, especially in SMEs;

- **Legislations:** Most of the legislations related to business activities were issued before 2011. Some of them, which date back to the 1970s, need to be reviewed and updated to meet current requirements and comply with relevant international standards, especially in terms of investment, private sector and privatization. The current legislations need to be developed and updated to include investment methods such as BOT, PPP and others;

- **Evasion of Libyan money:** Criminal groups operating in Libya divert their revenues and assets towards investments abroad to avoid legal actions against them. Therefore, the economy is suffering from the evasion of funds which could be invested locally. Businessmen and capital owners prefer to transfer and invest their money abroad away from criminal acts;

- **Migration:** The large number of migrants transiting in Libya and who failed to complete their journey to Europe constitute a real challenge, especially that they prefer to stay and work in the informal economy. Their presence may change the demographic face of the country especially that they might force the Libyan authorities to grant them citizenship.

17. Characteristics of the Libyan economy

Despite the above-mentioned challenges, the Libyan economy has many advantages which should enable it to sustainably develop and stand up in competitive markets:

- **The geographical location:** The location of the Libyan State on the Mediterranean Sea with a 2,200 Km coastline and a large surface area is adequate for local and foreign investments into renewable energy projects and in large factories such as metal processing plants

and refineries. In addition to sea tourism and fisheries-based projects like fish farms. This is an important competitive advantage in comparison to a country such as Singapore, where the small geographical space available obliges the State to focus on technical services that do not need large areas. The moderate climate, which gives competitive advantage to workers and equipment and reduces cooling and heating needs, is a competitive factor compared to other markets such as the United Arab Emirates and the Gulf states. The vast geographic area can also encourage companies to transfer and localize industries and knowledge from developed countries to Libya due to their limited labor force, small spaces and high production cost. It may attract some industries especially from European countries bordering the Mediterranean pending the improvement of infrastructure and legislations in force;

- **Antiquities and ancient cities:** The country enjoys a wealth of archaeological sites and a diversified desert, mountainous and coastal nature in addition to several old cities, which is conducive to a successful tourism sector. Building a tourism economy may be secured thanks to religious and historical legends incarnated in monuments such as the cave of Marcos the Evangelist, the holy water in the Green Mountain, the Arcos of Marcous Helios in Tripoli and the Akakos mountains in the south, as well as other tourist attractions such as the tomb of Aoun in the south and the Derna Falls in Jabal Al Akhdar, Ras Al Hilal, Barada, etc.;

- **Population:** The size of the Libyan population is relatively small in comparison to the large surface area of the country. This is a comparative advantage in terms of GNP and can make difference in the Libyan economy to improve the situation of the population in a short period of time;

- **Youth:** The youth represent most of the population and are estimated at 50 per cent of the active population against 43 per cent of the labor force which makes of them an important resource and a basic pillar of human development in general. The youth are still able to change, to develop and cope with fast technological developments, which makes them more competitive;

- **Oil and gas:** The abundance of oil and gas reserves which are expected to exceed 20 per cent of the current quantity contributes to a competitive economy and provides additional income to be used for development and diversification of the economy. Oil reserves can also be used as a sovereign guarantee to support foreign investment and encourage investors to invest in the Libyan market;

- **Libyan expatriates abroad:** The large numbers of Libyan expatriates have expertise and hold high-level multidisciplinary jobs. Therefore, encouraging the return of Libyan immigrants and their involvement in the local economy will contribute significantly to the transfer of knowledge and the development of business, services and others. Their presence would spare companies and investors in the Libyan market the need to train them;

- **Sovereign funds:** Sovereign funds such as the Economic and Social Development Fund and the Libyan Investment Authority can have a comparative advantage in reconstruction and stability restoration. They can encourage foreign investment in the Libyan market by partnering with investors or by providing guarantees to secure projects in the local market.

Part III: Proposals for a National Dialogue and a Vision for the future

18. Proposals for a national dialogue

It is clear from this study that the challenges had a severe impact on the Libyan economy performance while preventing sectoral development. Therefore, the study suggests some forward-looking themes to try and overcome these challenges. Proposals are divided into two parts as follows.

Armed conflicts and political instability are major challenges expected to be addressed or at least mitigated with the restoration of political stability and the formation of a national unity government. Criminal acts, especially those related to banks, Letters of credit, kidnapxping and smuggling, and which need to be urgently addressed, are also expected to decrease significantly if a strong government is formed and if the State manages to build military and police institutions away from tribal and regional affiliations. However, failure to start addressing these issues can lead to their institutionalization, turning them to a fait accompli which would hinder economic growth.

Old and ongoing challenges are medium and long-term issues which require the establishment of detailed strategies and plans as follows.

19. Exceptional and urgent issues to be addressed

Exceptional issues that require in-depth studies and mechanisms can be summarized as follows.

19.1 Fighting criminal acts

Criminal acts are widespread in the Libyan markets, including banks related businesses involving criminal networks (bank employees, businessmen and armed groups members) who take advantage of the exchange rate gaps. Added to this are kidnappings, banditry and protection services which undermine any possible restoration of a stable, secure and sustainable economy.

Furthermore, the smuggling of foods and fuel among others contributed to instability and to reluctance among traders and investors who chose to reduce their relations with commercial banks to the minimum and to use other mechanisms away from the State control and largely supportive of the informal economy.

Addressing these challenges requires a series of strong measures that the State must take as follows.

(1) Banks

- Developing the banking sector is a must; information confidentiality should be guaranteed and anyone who violates the rules and procedures must be sanctioned;
- Developing the banking sector by using electronic software for deposit, payment and transfer may give confidence and credibility to transactions;
- Putting an end to the exchange rate gap by taking measures such as floating the Libyan dinar, which result in a significant reduction in the profits achieved;
- Resorting to trial procedures against everyone involved in such criminal acts;
- Adopting the defamation policy for those who are proven involved in such acts;

- Promoting the principle of transparency in transactions with banks and public entities.

(2) Armed groups

- Restricting and combating armed groups and their affiliates through security and police services, pursuing them and bringing them to justice;
- Working to attract the affiliates of these groups and reintegrating them in society by creating jobs and providing training;
- Seeking to dry up the income sources of these groups and engaging international institutions and neighboring countries to fight cross-border groups.

(3) Illegal immigration

- Developing mechanisms and solutions to control the Libyan borders in cooperation with neighboring countries and international institutions;
- Urgently identifying migrants residing in Libya, their place of residence, how they arrived; issuing permits and temporary residence permits, and collecting sovereign fees in exchange for the jobs they do;
- Working with the international community to establish shelters for migrants in sending countries and with the receiving countries that can contribute to limiting the flow.

(4) Smuggling illegal goods, fuel and materials

- Seeking to find solutions to replace or cancel commodity subsidies and limiting the flow of these goods to neighbouring countries;
- Establishing supply and distribution mechanisms to beneficiaries until the subsidizing system is abolished, to limit selling and exports of subsidized goods;
- Pursuing criminal groups involved in smuggling and coordinating with neighbouring countries to fight cross-border networks.

19.2 Reconstruction, stability and infrastructure development

Reconstruction and stability are a major challenge to be urgently addressed, especially in some areas such as Sabri, Souk El Hout, and other cities such as Taourgha and Sirte. Reconstruction by the State is difficult with the lack of data on revenues and public spending, hence the need to develop and propose mechanisms for reconstruction, especially through relevant local and foreign investment.

Restoring stability needs urgent measures including the activation of security and police institutions and restoring stability to encourage citizens and companies to start their businesses. One major priority is to develop the health sector and provide treatment, drugs, first aid as well as urgent surgeries. Education is indispensable for stability especially that many schools and institutes were destroyed during the fighting. Return to school dissuades students from engaging in outlaw armed groups and formations.

Any potential economic growth requires the rebuilding of infrastructure in most Libyan cities, including for investment, industrial, service and transit projects. Therefore, the State must take courageous decisions as to complete contracted projects, assign them to other companies or grant them to foreign or domestic investors. However, due to political and security concerns, only selected projects may be granted to either local or foreign investors.

20. Addressing other challenges – medium and long-term

The State has not been able to address some issues over the past years for several reasons that vary according to the challenge in question or to the regime in control. These challenges are referred to in section 18. The proposed solutions, which first need to be studied and analyzed, may contribute significantly to addressing these challenges. However, this does not mean to wait until extraordinary issues are completed (mentioned in section 21). Some solutions may be adopted immediately, including the following.

20.1 Public sector employees, unemployment and education outputs

One major challenge to be addressed is to reduce the public sector's overstaffing to save on the money spent on wages and salaries and reinvest it instead in development and construction. The solution would be to accommodate them by the private sector, which should help reduce unemployment and allow the public sector to inject new blood with updated standards. The diversification of the economy and the support to the private economy, especially small and micro enterprises in addition to opening investment opportunities, are all expected to create jobs to accommodate staff.

The poor outputs of education and training centers require compliance with international standards to meet the market requirements. This would enable graduates to work in the private sector and foreign companies but also to improve the skills of public servants. Training centers are expected to play an important role in rehabilitating public-sector employees and reintegrating them in the private sector after layoff. There is a need to modify curricula and training mechanisms by resorting to specialized international centers. The reliance on local expertise alone will not enable the sector to develop and qualify and will limit the transfer of knowledge. Therefore, external support from training centers, universities, international partnerships and twinning can lead to positive results. Universities also need to focus on scientific research and development and continue to evaluate the outputs of education to meet the market needs of skilled labor.

20.2 Fight corruption, clientelism and favoritism

Fighting political, financial and administrative corruption is a priority for change and development to happen. The widespread corruption along with regional and tribal favoritism had severe impacts on the economic, social and political performance of the State. Therefore, the establishment of mechanisms to fight corruption and clientelism is fundamental, otherwise the State will fail to reduce public employment or to grant investment contracts. Therefore, a national strategy to fight corruption according to Transparency International requires the provision of data and information in relation to procedures, contracts and public spending. Defamation of unlawful economic and financial actions, waste of public funds and employment exploitation is part of such strategy. The role of the Audit Bureau and the Administrative Control Authority should be encouraged, and mechanisms put in place to monitor their work and ensure that services are provided without compromising transparency and fairness. The Anti-Corruption Commission should comply with international standards including in terms of training employees and mechanisms to ensure fair and transparent performance.

20.3 Diversifying sources of income

The diversification of income sources is necessary for the development of the Libyan economy, especially that oil and natural resources are depletable and the Libyan State alone is unable to control the prices of petroleum products. Besides, the oil industry is faced with several challenges especially that the world is attempting to move away from oil dependence as the sole source of energy by adopting renewable energies This could place the Libyan economy in real danger if diversification does not take place. Furthermore, fighting over oil production sites, as in 2013, led to a halt in production for several years. Nonetheless, the oil sector revenues can be the main source of any future development in the Libyan economy, hence the need to develop, modernize and diversify the sector.

(1) Developing the oil and gas sector

The production capacity of the Libyan oil and gas sector can rise to more than 3 million barrels per day and generate an additional $9 billion a year, depending on the price of oil. However, for this to be achieved, Libya will need a substantial annual increase to fund exploration and development activities, as lack of funding will lead to lower levels of production in the short term.

The maintenance and development of existing refineries and the establishment of new refineries with significant capacity will contribute to eliminating the need for increased imports of oil and fuels as much as possible.

In the petrochemical sector, there are opportunities for economic growth and diversification through the shift to the use of natural gas liquids instead of other fuels and large resources at low cost and competitive prices. An example is the adoption of the General Electricity Company in the operation of some power plants based on studies by the World Bank. The generalization of the use of natural gas as an alternative to other species will contribute significantly to reducing the investment and development costs in the sector.

Also, the demand for agricultural chemicals (fertilizers) may create a good investment opportunity, especially that Libya currently provides intermediate products such as urea (chips) and ammonia (shipped as liquefied gas) to nitrogen fertilizer companies in the MENA region. Developments to produce high value products such as nitrogen, blended or complex fertilizers are a possibility.

(2) Industry sector

The Libyan State owns large companies such as the Iron and Steel Company and the General Company of Scrap, which focuses on iron products. The current production meets domestic consumption, while the company exports its surplus. However, it is expected that during reconstruction, domestic demand will increase, and the State will have to import. Iron and steel were developed based on imported primary inputs and subsidized energy. In the same way, other industries such as the energy-intensive aluminum industry can be developed as Libya has both the energy and the location to compete in this field. Furthermore, after 2011, in the south and south-east, quantities of gold have been discovered and are now illegally mined and exported. The establishment of mines and factories to develop gold may create opportunities and generate new knowledge in the Libyan market.

The State owns a group of public companies specialized in manufacturing cables, electric wires and pipes. Most of these companies need to upgrade their assets and train their labor force, in addition to restoring some of the assets destroyed by wars. If theses manufactories are developed with private sector involvement and foreign investors, they can contribute significantly to the market, meet local needs and possibly export to some neighboring countries.

(3) Tourism sector

Tourism can be a source of economic growth and job creation in Libya, thanks to the country’s geographical location alongside the Mediterranean coast near Europe and to its historical heritage. Foreign companies can play an important role in developing the tourism sector.

The Libyan government must deal with several factual challenges to the development of the tourism sector by coming up with solutions as follows:

- The employees of the sector must be well trained on hospitality and hotel services; financial and functional incentives must be applied to encourage employment in the sector;
- Reviewing regulations and easing pressures especially by granting visas to foreigners and establishing tourism related companies;
- Developing the infrastructure and transport sector, especially roads and airports.

(4) Agriculture (for domestic production)

Agriculture cannot be relied upon as a major sector to diversify sources of income or to reduce imports, but it can meet the local needs in vegetables, fruits and grains. The livestock sector, which needs pastoral and feed areas, should also focus on meeting local needs of milk, eggs and meat. The fish sector can create good jobs and export markets. However, training existing workers and providing equipment such as refrigerators, transformers, boats and warehouses is indispensable for the sector's recovery.

At the international level, communication with international markets and adoption of international standards for the agricultural sector contribute to creating investment opportunities for the most viable products for export. This will enable Libya to develop activities that depend on the exportation of high value agricultural and fishing products that can be competitive such as dates, olives and olive oil.

(5) Construction sector

The construction sector is linked to economic growth and development more than any other sector. Without the development of the construction sector, economic objectives such as improving infrastructure, increasing the supply of public housing and tourism will not be achieved. Due to the remnants of war and the massive destruction of the housing sector and infrastructure, the demand is expected to be strong. Local companies engaged in construction are expected to be highly experienced due to the extensive damage to infrastructure and housing. In the future they will be able to compete globally for the uniqueness of their experience.

Both foreign and domestic companies face a difficult regulatory environment, especially in terms of skilled labor, knowing that the sector depends heavily on foreign labor. In addition to the provision of basic construction needs such as cement, iron and others, which are produced locally but in quantities that do not keep pace with the demands of the local market. It is difficult to obtain funding for the implementation of housing projects despite the abundance of deposit liabilities in commercial banks. Local companies lack experience in specialized construction such as bridges, tunnels and towers. Their previous experience is based on traditional concrete construction and paving of simple roads. It is necessary for the sector to develop by relying on foreign expertise or encourage partnership between local and foreign companies to transfer knowledge and experience.

(6) Financial sector

The financial sector in Libya needs to develop in line with international standards, as the State controls all financial institutions. Thus, the development of the financial sector will have a good impact on most economic sectors by providing financing for small and micro enterprises and enhancing the principle of transparency of big companies through the stock exchange market to encourage capital investment in the Libyan market which could be the new destination for financial investment (like Dubai and Singapore).

However, the development of the Libyan financial sector requires brave measures. The current Libyan market is controlled by the State where the central bank plays a tight supervisory role with no competition or innovation. Banks are limited to creating revenues from personal savings and banking transactions. Poor infrastructure, especially in the ICT sector, and the lack of financial expertise are an obstacle to the sector development.

The Libyan government should change existing laws related to business and banks while developing established standards of public finance, accounting, auditing and transparency. There is a need to reduce the role of the Central Bank, develop the Libyan banking sector, open the financial market for foreign investment, lift restrictions on transfers and invest in the creation of a competitive stock exchange market.

(7) Information technology sector

ICTs are an engine of economic growth in the developed world. They largely contributed to the national income of large economies such as India and the United States of America. The ICTs and e-commerce can greatly help diversify Libya's economy. E-government mechanisms will greatly contribute to the development of the trade and services sector Libya, especially with its large geographical area, vast cities and limited population. It can also be a technology center for software development or a Call Center for other companies and institutions that need to communicate in Arabic.

The technology sector needs money for maintenance and development. It has been significantly affected by the ongoing conflicts with estimated losses of one billion Libyan dinars. Moreover, investing in a fast-developing sector like technology involves investment risks due to the rapid amortization of equipment. In addition, the current frequency distribution is difficult to expand and develop because of limited space. Also, employment in the sector requires training and development. The telecommunications sector needs several legislations, such as the establishment of the Telecommunications Regulatory Authority, the law on commerce, electronic transactions, e-crimes laws and others.

The State is required to work on issuing such legislations in addition to allowing domestic and foreign investors to invest in the telecommunications sector. Banks should also have a catalytic and supportive role to encourage small investors to finance projects in the telecommunications sector. Attracting multinational companies specializing in technology while giving them a competitive advantage may encourage them to establish affiliates and absorb national manpower by transferring knowledge and creating a base for technological development and scientific research.

20.4 Transit trade and free zones

Several characteristics can contribute to transit trade and to the use of free zones, thanks to Libya's large geographical area where free industrial and service areas along the coast or in the heart of the desert next to neighboring African countries can be established. Libya is a link between southern Europe, Africa and North Africa. Furthermore, the availability of energy, particularly for industrial projects, and the nature of the Libyan law, encourage the creation of free zones.

However, the infrastructure is very weak, the local workforce lacks skills and is unable to comply with work requirements. Libya must prepare to compete with heavily experienced and established transit services markets involving large shipping, handling and packaging companies.

For the success of the transit trade, the Libyan state should focus on developing the infrastructure to meet trade requirements. For example, it is required to build good capacity and suitable ports for transit trade in addition to roads linking the borders and freight airports, which will be conducive to trade between neighboring countries. Emphasis should be placed on developing and training human resources wishing to work in this sector, encouraging the involvement of the private sector, opening the doors for investment by multinational companies and eliminating restrictions and bureaucracy.

21. Developing the private sector

The private sector is of great importance in redeveloping and restoring the Libyan economy, as it can create large opportunities for absorbing fresh graduates and former civil servants. The private sector can speed the transfer of knowledge and rapidly adapt to political and economic changes, unlike state-owned companies. Furthermore, the private sector creates a spirit of competition and contributes effectively to the increase in state revenues such as taxes, social security and others. There is an urgent need to rebuild and develop the private sector so that the country can rebuild destroyed cities, diversify the economy and create new markets. Without a strong private sector and by relying only on state-owned enterprises, development will stumble, and corruption will rise.

The private sector is undergoing major economic challenges to be addressed in Libya. Small and large investors including foreign inestors cannot inject or invest money in a climate of unstable public policies and insecurity. Therefore, to stimulate the private sector, the State must take some measures, which can be summarized as follows:

- Revisit current legislations and procedures related to trade and businessmen especially legislations relating to small investors, traders and businessmen; legislations related to taxation and to the establishment of companies need to be reviewed and amended;

- Focus on the role of chambers of commerce and the Chambers Union: The current role of the Chambers is limited to providing certificates of origin and affiliation documents. Chambers of Commerce play an important role in communicating with the outside world, developing business and creating opportunities for communication and knowledge transfer;

- Address the funding challenges: Without funding the private sector in Libya will continue to be very small. Financing in Libya is faced with many problems, including public sector ownership of commercial banks, limited financial expertise of staff, lack of incentives and low salaries in the banking sector; foreign banks and financing companies have difficulties penetrating the Libyan market especially in the absence of institutions to analyze the debtors background for the sake of creditors;

- Create industrial zones and specialized areas like business parks and incubators: Libya has established in the past a body for industrial zones and business incubators which never achieved the desired effect. Enabling the private sector to establish and promote business incubators and industrial zones could be more beneficial and is expected to create jobs and opportunities for small businesses;

- Reduce the State intervention in the private sector: Lending and financing mechanisms within commercial banks should be well adapted to deal with corruption and clientelism;

- Transparency and fighting clientelism: The State must take explicit steps in fighting corruption and promoting transparency to create a fair opportunity for all to compete;

- Fairness in competition between state-owned companies and private companies: Public companies pose a great challenge to the private sector as they are state-owned and get financial support to cover their expenses. They also have priority in opening Letters of credit for imports and supply; they are exempted from taxes and customs duties which results in non-competitive products; they have priority in contracting with public bodies, which hindered the growth of the private sector;

- Support the establishment and development of SMMEs away from the interference of state institutions by providing the appropriate infrastructure, mechanisms and sources of financing, activating the role of collaterals, reducing their interventions in decision-making and finding solutions for real estate ownership and guarantees for commercial banks.

21.1 Privatization

Following a review of the experiences of some countries which have privatized their economy, it appeared that privatization can be a risky procedure that puts the sovereignty and security of the State at risk while benefiting elites. Privatization can have a severe impact on citizens as private companies look for maximizing their profit unlike public companies which are socially rather than financially driven. However, privatizing outdated public companies relying on government funds which should be redirected to development and reconstruction, may be an ideal solution. Privatization is also expected to attract foreign investors to invest in the Libyan market. Also, privatization is expected to contribute to training and improving the skills of the employees in addition to creating a competitive market.

Therefore, the Libyan state should take a few measures to ensure the success of privatization, which can be summarized as follows:

- The State can start privatizing public companies which are unable to develop and need large amounts of money to become competitive;

- Establish and entrust a separate body to consider the status of companies and institutions eligible to privatization, evaluate their assets and propose privatization mechanisms;

- Promote the principle of transparency in eligible companies and provide a fair opportunity for all to participate;

- Have reservations regarding areas of sovereign nature, such as the water and sanitation infrastructure as well as electricity networks; limit privatization to service and industrial projects.

21.2 Encourage Foreign Direct Investment (FDIs)

Foreign investment usually plays an important role in the local economy. Several countries have focused on rebuilding their economy by allowing foreign investments which can contribute to reconstruction, construction of infrastructure, establishment of new factories as well as commercial and service companies. They ensure the transfer of knowledge to Libyan employees and have a positive impact on the business environment. Foreign investors are often supported by their governments, which helps build strong political and economic ties. Reconstruction projects, geographical location and energy reserves can be attractive to foreign investors. To do so successfully, the Libyan State should take stimulating measures such as:

- Amendments to existing legislations: The existing legislation related to business and foreign investment such as Law No. 23 of 2010 and Law No. 9 of 2010 on the promotion of investment does not meet the purpose, hence the need to amend it. Additional legislation related to PPP and BOT and other regulations need to be issued to stimulate investors;

- Issuance of sovereign guarantees for investment: The existing laws and legislations related to investment and to business environment do not give sovereign guarantees to investors. For example, the issuance of bonds in Libya is only meant to cover the budget deficit and is limited to the Central Bank and state-owned commercial banks. Large investors will hesitate to invest in infrastructure without clear sovereign guarantees. Here lies the important role of sovereign funds such as LIA and ESDF;

- Procedures for establishing companies, issuing visas and others: The existing procedures in the Libyan economy are challenging to foreigners who need to wait long before obtaining approvals and permits. For example, issuing an investment decision from the competent minister may take up to three months, not to mention visas, which requires at least two weeks. This is combined with the difficulty of transferring money, the interference of security agencies and non-compliance with contractual terms by the State. To attract investors, incentives must be given to help start investment in businesses;

- Competition with other markets that stimulate foreign investment: Some neighboring countries have adopted different incentives to attract foreign investors. Therefore, the Libyan State must compete with existing markets, which succeeded in absorbing investors and offering more incentive benefits. Such benefits require comparative studies between the proposed incentives by countries and what the Libyan state offers to identify the gap. Local advantages identified to attract investors include investment in tourism, maritime resources, reconstruction, infrastructure and telecommunications;

- Development of the banking and finance sector: There is no doubt that foreign investment needs banking services and advanced financing mechanisms in line with international developments in terms of savings investment, transfer of funds, opening credits and re-investment. Therefore, there is an urgent need for the development of the banking sector.

21.3 Natural resources management or equitable distribution of wealth

There is disagreement over fair distribution of wealth on the one hand or managing natural resources that can generate profits for citizens on the other. However, some parties have concerns that the latter would give further opportunities for corruption, monopoly and embezzlement of funds generated from natural resources in addition to strengthening and increasing the power of criminal networks. Another opinion is that fair and direct distribution of wealth to citizens will make the State waste a great opportunity of building infrastructure and investing funds in an optimal way to contribute to the development of the economic environment and the society.

One of the biggest challenges facing Libyan society is how to manage the revenues of natural resources. In the era of Gadhafi, a distribution of wealth was suggested by giving each person $10,000 a year from oil production revenue. However, this proposal was replaced by the establishment of the Economic and Social Development Fund (ESDF). The plan was that the ESDF would distribute profits to the population including low-income groups, workers and businessmen. However, the Fund itself has become a burden for the State due to the big losses it incurred. The payments ended up being made by the Public Treasury targeting low-income groups before the distribution was stopped in 2014.

Fuel and goods subsidies can also be considered as a distribution of income to all Libyans and residents in the country. This is a double subsidy to electricity since the General Electricity Company pays subsidized prices for oil and gas burned in power generation. Electricity consumers pay less than the real cost knowing that a high proportion of consumers do not pay. Subsidies benefit everyone, including foreigners residing in Libya and some neighboring countries which benefit from the smuggling of fuel and commodities.

All the attempts suggested to lift or replace subsidies did not consider alternative solutions to address the issue, since it is impossible to cancel subsidies on fuel and health services without setting up alternative mechanisms to cover the deficit and divert funds to the Libyan citizens, directly or indirectly.

The same applies to free treatment and free education. These subsidies constitute a large percentage of the total annual public spending and are limited to Libyans and some foreign residents. However, they are not being utilized as required, as the cash flow in these sectors has led to a state of indifference among the supervisors and workers in the sector and a large part of the medicine and equipment is being smuggled out of the country. Therefore, lifting subsidies and setting up a mechanism for redistributing or managing wealth may create significant savings and enable the citizens to make better use of their share of the national income.

For example, the State spends annually billions of dinars on the health sector in the form of equipment, payroll salaries, drugs and devices, etc. In contrast, most citizens seek treatment abroad. Drugs and equipment are smuggled to other countries. There are proposals to cancel free treatment in clinics and hospitals, and to limit it to primary health and emergency services. The money saved would be distributed directly or paid for medical insurance. It is expected that this measure may stimulate the private sector to provide treatment services to citizens and others according to market prices, which would be expected to create a competitive environment and develop the sector to compete with neighboring countries.

In the education sector, free education can be limited to basic, middle, and secondary education. University education and education abroad are paid entirely by the persons involved. Thus, the State can largely spend on educational infrastructure and other expenses including salaries and wages. The privatization of higher education can create a competitive market which would push universities and institutes to develop educational curricula in line with international standards and the needs of the local market. As for students who wish to complete university studies abroad, a mechanism can be established to give study loans that would be deducted from the student's career income over a long period of time. These loans can be granted directly from operating commercial banks and with a guarantee from the Libyan State to recover them.

The Libyan state is expected to provide at least 60 per cent of the total spending on subsidies, education and health, estimated at LD 30 billion per year according to oil prices and production in 2018. The money can be used as collateral. This amount may give the State mechanisms for distribution, either directly or indirectly to citizens or can be invested for the generations to come or create investment opportunities for citizens in the form of grants for SMEs projects.

Several proposals have been made to distribute wealth or manage natural resources, for example:

- Seven Categories: Distribution of returns on seven categories including the current generation, the future generation, central and local governments and in oil production areas, transit areas, export areas and areas of oil refining. The central governments will be responsible for the strategic infrastructure, justice, foreign and defense, while local governments will be responsible for local infrastructure, education and health;

- The four rights: Distribution of returns on four categories namely the central government, local administrations, Libyan families and citizens. The central government work is limited to sovereign businesses as mentioned above. Income distribution to households will follow the global basic income system;

- Free economic zones of special nature: Revenues will be invested in the construction of free zones of special nature involving the Libyan Investment Authority and investment funds such as the ESDF in the construction and use of funds' assets as collateral for investment. Oil stocks and natural resources will be used as collateral as well. Free zones have advantages provided for by the Free Zones Law No. 14 of 2010, which gives the right to establish a full investment environment, including the use of other languages in official transactions, and the establishment of courts, arbitration centers and specialized stock markets. In addition to exemption from taxes and government fees, protection of capital funds invested and the establishment of service companies and institutions. Revenues generated by these zones can be used for the development of infrastructure;

- Local management of natural resources revenues: The proposal consists of creating a decentralized system with a broad range of power given to local governments for construction, development and spending. The role of the sovereign State will be limited to defense, security, foreign affairs and justice that will be mostly financed from revenues of natural resources.

Each proposal, be it the equitable distribution of wealth or natural resources management, has advantages and disadvantages. Any implementation mechanism will directly affect the work and development of other sectors and change the identity of the Libyan economy. A fair distribution of wealth needs analysis and lessons learned.

22. Conclusion

The State has tried since 2006 to propose a vision to develop the Libyan economy and address obvious problems without success. Several challenges need to be considered before suggesting any new vision or remedial plan for reform. The root causes of these challenges are different. Some challenges are inherent to the Libyan economy such as dependence on energy resources and irrational employment in the public sector. Others resulted from armed conflicts, institutional division, corruption in the banking sector, devaluation of the local currency, the parallel currency market, smuggling, kidnapping and institutionalization of crime.

The Libyan State has various advantages that may help in the reconstruction and diversification of the economy. The vast surface area, the geographical location on the Mediterranean coast, proximity to large markets such as the European market are all attractive factors to turn Libya into an industrial and commercial hub. The State can provide energy at low prices and be competitive thanks to its geographical position. It also has a diversified nature and a great historical heritage that can attract tourists. Besides, the small number of inhabitants can easily reflect any efforts made for development and diversification, especially that most of the population is young.

By analyzing the challenges and characteristics of the Libyan economy, several topics were proposed, which are expected to contribute significantly to the reconstruction and development of the economy. The diversification of the economy and the fairness of the distribution of wealth is one of the most important issues for which decision makers should adopt implementation mechanisms to ensure stability and sustainable security. The privatization of public companies, which are burdensome to the state which covers their expenses, and which undermine any attempts to revive the private sector, is one of the most important issues; in addition to encouraging foreign investment to contribute to the reconstruction and diversification of the economy. All these issues require national dialogue and in-depth studies to build upon a mature and verifiable vision for the future.

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