Simplified Enterprise Survey and Private Sector Mapping

LIBYA 2015

WORLD BANK GROUP

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Acknowledgments

This Investment Climate Assessment was produced by a World Bank Group team led by Pietro Calice as Task Team Leader and comprising Tahar Benattia (Altai Consulting), Adrian Carriere (Altai Consulting) and Eric Davin (Altai Consulting). The surveys were conducted by Altai Consulting in coordination with the Libya Bureaus of Bureau of Census and Statistics.

This Assessment was developed under the overall supervision of Simon Bell and Aurora Ferrari. The Country Management Unit, under the leadership of Simon Gray, Marie Francoise Marie-Nelly, Marouane El Abassi and Joelle Businger, provided strategic guidance. Hend Irhiam provided excellent support and coordination.

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Abbreviations and Glossary

Bbl	Barrel
CBL	Central Bank of Libya
FDIs	Foreign direct investments
FMCG	Fast moving consumer goods
GDP	Gross domestic product
GNC	General National Congress
HB	Husni Bey
HIB	Housing and Infrastructure Board
HoR	House of Representatives
ICA	Investment climate assessment
IMF	International Monetary Fund
ISP	Internet services provider
KIIs	Key informant interviews
LISCO	Libyan Iron and Steel Company
LYD	Libyan dinar
MFZ	Misrata free zone
MoH	Ministry of Health
NOC	National Oil Corporation
NTC	National Transitional Council
O&G	Oil and gas
PIB	Privatization and Investment Board
PPP	Public private partnership
RIA	Regulatory impact analysis
SMEs	Small to medium enterprises
US$	United States dollar

Currency Equivalents
(as of December 31st, 2014)
Currency Unit = US Dollar
US$1 = 1.25 LYD

Weight and Measures
The metric system is used throughout this report

Fiscal Year
January 1st–December 31st

1. Introduction and Background on Recent Events

In February 2011, in the wake of revolts against incumbent rulers in neighboring Tunisia and the Arab Republic of Egypt, Libya witnessed a popular uprising against the rule of Muammar Gadhafi, starting in Benghazi in the east of the country. The uprising led to a civil war between the Gadhafi loyalist army and rebel groups from several cities in the country. After eight months of fighting and almost 25,000 deaths, the rebels eventually took control of Tripoli, toppling the Gadhafi regime.

The overthrow of the 42-year long dictatorship was followed by a period of instability and weak institutional control over the country, coupled with the establishment of broad-based power for armed brigades from the main rebel cities. Militias, who gained legitimacy fighting the former regime, found themselves in control of a large portion of the roads, borders, airports as well as key strategic sections of the economy (such as ports and oil production infrastructure). At the same time, extremist groups were gaining a foothold in the east of the country, supplanting the formal justice sector with a systemic campaign of intimidation and violence. This nation-wide climate of insecurity was further fuelled by the refusal of the most powerful militias to cede power to a central government, contributing to a developing sense of impunity among their rank and file.

The General National Congress (GNC) was elected in July 2012 to act as the country's parliament and it was given 18-month deadline to primarily transition the country to a permanent democratic constitution. When the deadline passed with work on the new constitution only getting underway, the GNC was forced to organize elections to a new parliament (the House of Representatives [HoR]), which took power and replaced the GNC on August 2014. Meanwhile, an un-re-elected minority of GNC members, supported by militias declared a new self-proclaimed GNC and appointed a government cabinet. This new GNC is not recognized by the HoR or by international community.

At the time of writing this report, the country remains riven by fighting between rival militias supporting either the HoR or GNC. Two competing governments openly vie for control of the country in the midst of intense fighting in Benghazi, in the suburbs of Tripoli as well as in the Nafusa Mountains (Kikla). Flights to international and domestic destinations remain scarce, about 250,000 Libyans have been displaced from their homes and only a very limited number of foreign nationals have returned to Libya. In addition, the conflict has recently extended to include oil production and refining facilities throughout the country.
The UN is seeking to bring the HoR and the GNC together at the negotiating table to reach a deal to end the conflict. The ongoing UN negotiations are urging the two sides to reach an agreement on a coalition government whose highest priority would be restoring services and the confidence of citizens in the Libyan states.

2. Approach and Methodology

2.1. Objectives

The objectives of this Simplified Enterprise Survey remain broadly similar to those of an Investment Climate Assessment (ICA)[1] but with a specific focus on the impact of the recent conflict on the dynamics of Libya's private sector. This study aims at identifying potential areas for economic growth and increased employment, as well as potential further obstacles to business transactions, and to provide feedback from enterprises on their current situation. Given the prevailing security context in Libya, it was not possible to conduct in-depth, in-person interviews with enterprise managers. As a result, the World Bank Group developed a streamlined survey in terms of both sample size and questionnaire length. Overall, the main objective of this study is to provide analysis and data to inform possible interventions, either in Libya or abroad, in order to support the private sector throughout what looks likely to be a protracted conflict.

2.2. Secondary Research

A literature review of existing reports was conducted in order to compare the previous state of the Libyan economy with its current situation. In addition, macroeconomic reports and papers focusing on the private sector were consulted in order to understand the country's prevailing macroeconomic characteristics and dynamics.

The following reports were key to enrich this piece of research:

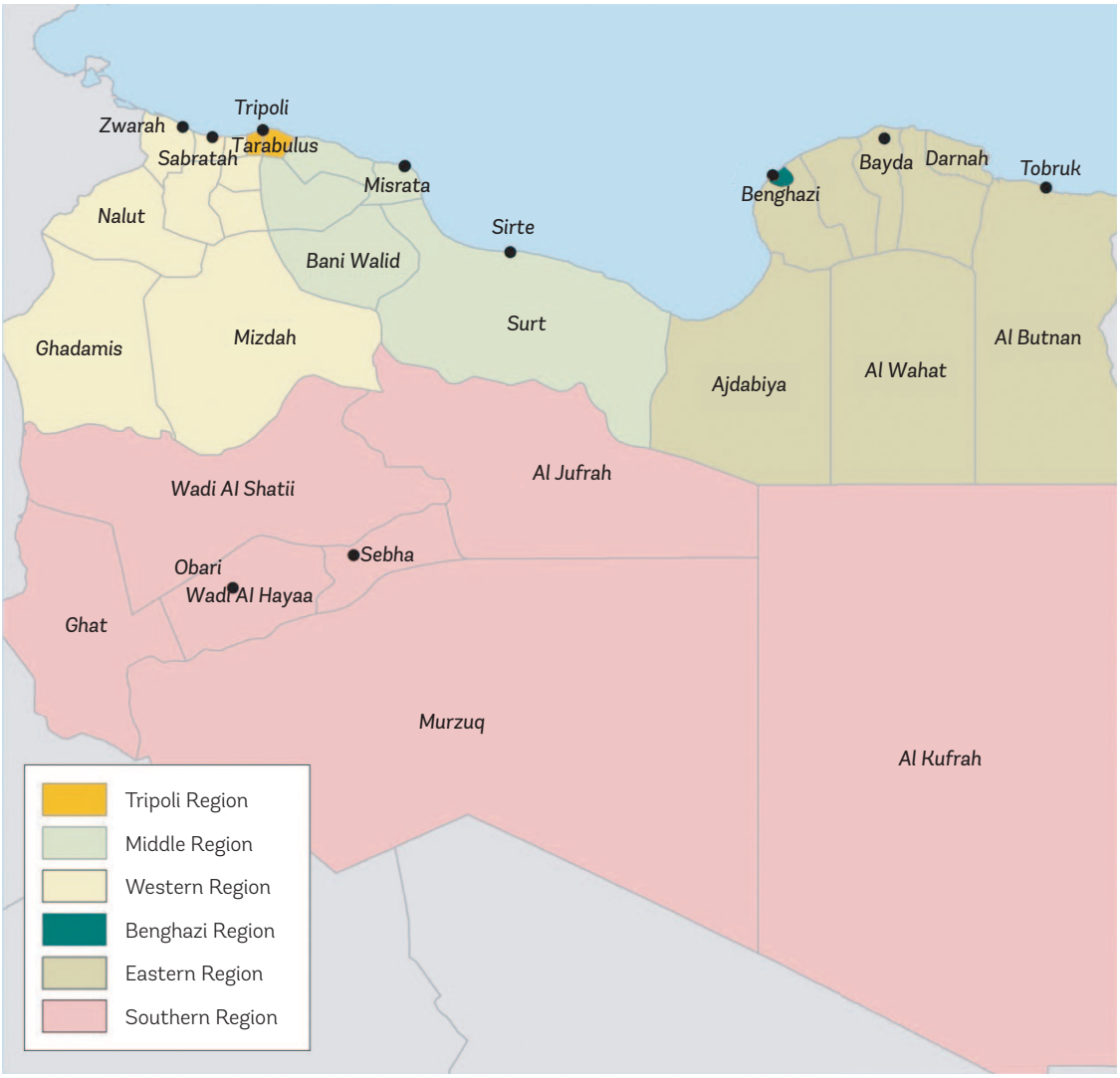
1. The Libyan Investment Climate, Enhancing Private Sector Performance for Diversification and Employment, The World Bank, 2011
2. Private Sector Research and Future Project Scoping in Misrata and Benghazi, Altai Consulting, 2013
3. Annual Report, Central Bank of Libya (CBL), 2013
4. Investment Climate Update: Private Enterprises in the Aftermath of the Revolution, The World Bank, 2012
5. Selected Issues on Libya, International Monetary Fund, 2013

2.3. Sample Design

The sample was defined to reproduce the 2011 ICA regional distribution and to incorporate enterprises of all sizes across the country. The 2011 ICA sample was based on the last Business Census, performed in 2006 by the National Bureau of Statistics. However, as mentioned in the Introduction, political events since 2011 have had a major impact on the structure of the Libyan economy, so the ICA sample structure might not be representative of the current Libyan private sector. Nevertheless, for lack of more recent data, and to allow for comparison with the 2011 ICA, this study used a similar sampling frame. In total, 457 interviews were completed with relevant stakeholders of private enterprises (owners/managers or key personnel) throughout six areas of the country (see map 2.1):

- The Tripoli Area, comprising the capital and its surroundings including Tajoura, Janzour, Qsar Ben Ghachir, etc.;
- The Middle Area, located to the east of Tripoli, mainly composed of coastal cities

MAP 2.1 Map of Libya Divided into Five Main Sampling Areas



and including the economic hub of Misrata as well as cities such as Zliten, Tarhouna and Sirte;

- The Western Area, composed of the main towns west of Tripoli, mainly Zawia and Sabrata;
- The Benghazi Area, comprising the city of Benghazi and its surroundings;
- The Eastern Area, comprising the main economically relevant cities of Cyrenaica of Tobruk and Bayda, but excluding Benghazi; and
- The Southern Area, comprising Sebha, Obari, and Wadi Ashati.

Because of the impossibility of conducting face-to-face interviews in the current

TABLE 2.1 Sampling Tables per Location and Size

Location	Count 2014	Percent 2014	Frequency 2011	Percent 2011
Tripoli Area	210	46	172	36
Western Area	26	6	44	9
Middle Area	126	28	50	10
Benghazi Area	29	6	125	26
Eastern Area	26	6	50	10
Southern Area	40	9	39	8
Total	457	100	480	100
Number of employees	**Frequency 2014**	**Percent 2014**	**Frequency 2011**	**Percent 2011**
Micro (<5)	61	13	0	0
Small [5–19]	268	59	288	60
Medium [20–99]	104	23	166	35
Large ≥100	24	5	25	5
Total	457	100	480	100

Note: The 2011 figures represent the sample structure of the Enterprise Survey published in 2011 by the World Bank; For the 2014 Enterprise Survey, number of employees represent the total number of employee per company by the end of fiscal year 2013.

context, it was decided to conduct interviews by phone through a call-center in Tripoli, equipped with a computer. Nonetheless, turnover in companies, the large number of offices closed due to the current crisis and intermittent telephone network coverage in the east (due to damaged telecommunication assets) posed major challenges to data collection and triggered a very low response rate among existing contacts. Therefore, the option of following a strict sample group methodology was discounted as unrealistic.

In addition, since there is no comprehensive or up-to-date phone registry of companies in the country, the team had to use a database of small enterprises previously developed as well as information provided by businessmen in smaller towns. This database was used in the initial phase of the project but valid telephone numbers were quickly exhausted before the targeted number of 457 interviews had been conducted. Hence, a creative "snowball" approach was employed to collect phone numbers of enterprises at random on the ground (table 2.1). Field teams were mobilized to visit companies randomly in several cities throughout the country and collect contact details to be sent back to the call-center in Tripoli. This process substantially enlarged the sample size, but could not ensure a perfect representation of all locations, in particular in Benghazi and the Eastern Area.

The sample was intentionally not stratified by sectors due to the lack of accurate information provided by databases and the difficulties presented by a multiple-criteria sampling with such limited access to the population. Nonetheless, efforts were made to cover a range of industrial sectors, including all sub-sectors of the private sector to the exception of the agriculture (table 2.2).

2.4. Limitations

This study was undertaken while Libya was in the early stages of what has now become a *de facto* civil war. As such, applying an ICA methodology in its strictest form was

TABLE 2.2 Proportion of Overall Sample by Sector

Sector of activity	Frequency	Percentage
Construction (ISIC code F)	54	11.8
Chemicals, pharmaceuticals, non-metallic mineral products	46	10.1
Repair and installation of machinery and equipment	45	9.8
Food, beverages and processing	40	8.8
Retail trade (excluding motor vehicles)	28	6.1
Electronics, computers and optical products	24	5.3
Wholesale (excluding motor vehicles)	24	5.3
Accommodation and food services activities (ISIC code I)	21	4.6
Health and social work (ISIC code N)	20	4.4
Textiles, garments, wearing apparels and leather	15	3.3
Legal, accounting, architecture, consultancy, advertising	14	3.1
Transport, storage (ISIC code H)	14	3.1
Wholesale and trade of motor vehicles	13	2.8
Education (ISIC code M)	13	2.8
Entertainment services and beauty	12	2.6
Publishing, printing and recorded media	11	2.4
Information and communication (ISIC code J)	11	2.4
Wood excluding furniture	10	2.2
Electricity, gas and air conditioning supply (ISIC code D)	9	2.0
Water supply, sewerage and waste management (ISIC code E)	7	1.5
Real estate activities (ISIC code L)	5	1.1
Paper and paper products	5	1.1
Security	5	1.1
Other (specify)	4	0.9
Manufacturing, wholesale or retail of building materials	3	0.7
Financial and insurance activities (ISIC code K)	2	0.4
Tourism, travel	2	0.4
Total	457	100

not possible. The results of this report should therefore not be taken as official ICA results, and the sample, while providing a strong level of representativeness in terms of sector, size and location, is not as representative of the Libyan economy as would be the case under normal conditions.

Nevertheless, this report does provide an accurate snapshot of the private enterprises that remained active during the third and fourth quarters of 2014 following the crisis of the summer of 2014. Therefore, it provides a realistic overview of the current situation as of February 2015 and assesses the consequences of the crisis on the Libyan private sector. In addition, given the limited sample size, the research focused on six areas that were the most representative of Libya's

economy, and some cities and sub-regions were excluded from the sample (e.g., Kufra, Hun, Ajdabiya, Derna, etc.).

In addition, the outcome of the previous ICA in 2011 clearly showed that the Libyan economy was mostly composed of micro enterprises of two to four employees. This was intentionally not fully reflected in the sample of 13% of enterprises with less than 5 employees as it is not the World Bank Group's core interest when conducting enterprise surveys or similar exercises. No weighting was applied due to the lack of an updated sample frame.

Some caution should be applied when making inferences on the basis of this sample, given the oversampling of Tripoli and Misrata, and the limited representation of very small enterprises (below 5 employees) and of service sectors in comparison to manufacturing and trade.

Finally, the nature of the methodology used introduces a bias as it sampled companies that were reachable hence those who "survived" the initial shock of the political and security crisis. Less resilient companies that had to stop their activity could not be accessed, meaning that the effect of the crisis on the Libyan private sector may have been greater than the impact presented in this report. This bias is particularly important when comparing pre-crisis and post-crisis findings.

Note

1. The objective of an Investment Climate Assessment (ICA) is to "identify key constraints to growth in a country and areas for reform. These reports analyze perception of entrepreneurs and firm performance in the country and their link to quantitative data found in investment climate surveys." Source: https://www.wbginvestmentclimate.org/research-and-diagnostics/.

3. Findings of the Enterprise Survey

Based on the above findings, the following terms will be used throughout the following section;

- *Enterprise*, *firm*, *company* and *establishment* will be used indifferently and refer to a private association in order to carry out a business and generate profit from it;
- *Micro enterprise* will refer to a Libyan enterprise with strictly less than 5 employees;
- *Small enterprise* will refer to a Libyan enterprise with between 5 and 19 employees;
- *Medium enterprise* will refer to a Libyan enterprise with between 20 and 99 employees;
- *Large enterprise* will refer to a Libyan enterprise with 100 employees or more;
- *Crisis* refers to the crisis that started in July 2014 around Tripoli and led to the destruction of the main international airport of the city and the evacuation of most international workers;
- *Revolution* refers to the 2011 uprising against the previous regime of Muammar Gadhafi;
- The terms *Tripoli*, *Benghazi*, *Middle*, *Western*, *Eastern* and *Southern* refer to the five Areas defined in paragraph 2.3, and correspond to the sampling areas; and
- *Sectors* refers to broad sectors that were grouped into 5 categories for the sake of the analysis including *construction and real estate*, *manufacturing*, *trade*, *services* and *other*.

3.1. Profile of the Sample

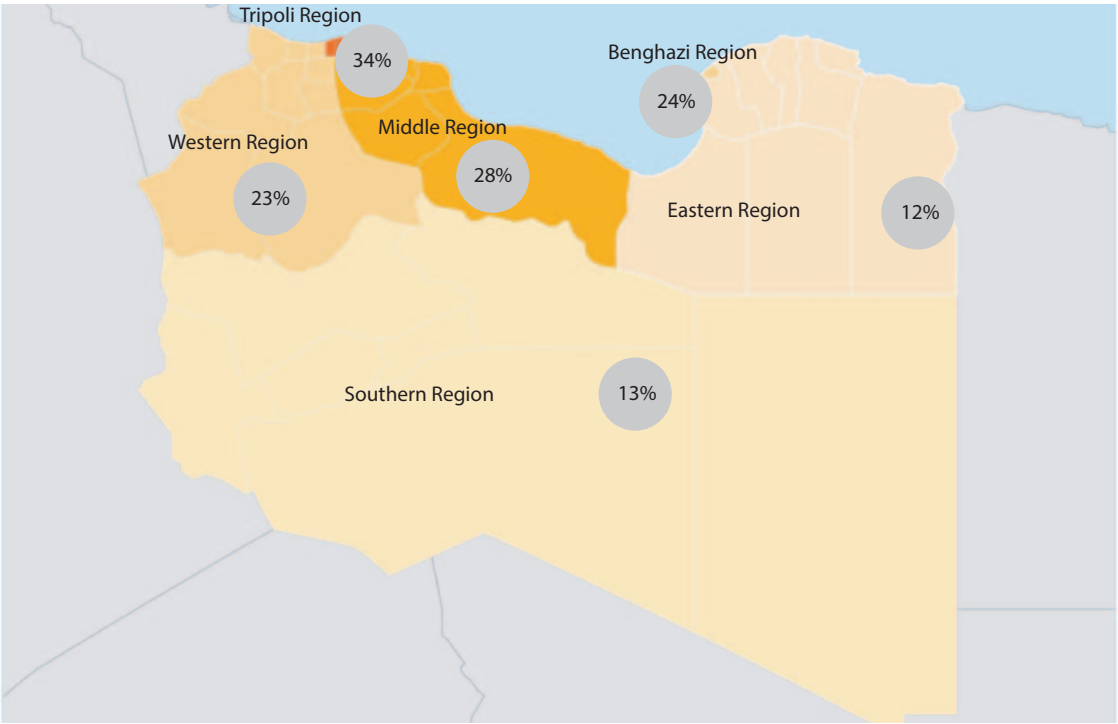
3.1.1. Locations, Sizes and Main Sectors of Sampled Enterprises

In total, the research team conducted interviews with 457 Libyan private enterprises. Of these 457 enterprises, 59% were small, 23% medium, and 5% large, with large companies generally concentrated in Tripoli, Benghazi and Misrata. The remaining 13% of the sample were micro enterprises, which are not traditionally included in an Investment Climate Assessment (ICA). Nevertheless, the research team interviewed micro enterprises in this survey in order to gain a more representative picture of the Libyan economy.

The research team interviewed companies from 26 different sub-sectors (see table 2.2): Proportion of Overall Sample by sector, which were then grouped into 5 broad sectors to facilitate analysis: 1) Trade, 2) Manufacturing, 3) Construction and Real Estate, 4) Services and 5) Other Activities. This last category regroups different activities such as water supply and waste management, electricity, gas, and air conditioning.

When interpreting the results of this study, is important to note that certain sectors and sizes of firms are overrepresented in certain regions. Construction and real estate companies tend to be larger than firms from other sectors, with 49% of them being medium or large while only 19% of the firms from the trade sector had 20 employees or

MAP 3.1 Percentage of Large and Medium Enterprises per Region (*n* = 457)



more (see map 3.1). The manufacturing, trade and "other services" sectors had a larger percentage of micro enterprises, while only 18% of trading firms were had 20 employees or more and the services sector had nearly no large firms.

Regarding location, the Tripoli region and the middle region (comprising Misrata) have a greater concentration of construction and real estate firms (83% of total firms for both regions) and trading companies (80% of total firms for both regions), higher than the national average. "Other services" companies where more statistically represented in Benghazi and the South, while services companies show a higher concentration in Tripoli and the Western Area than average. Manufacturing companies spread throughout the sample, with each region being close to the national average (see figures 3.1 and 3.2).

3.1.2. Revenues of Enterprises

Figure 3.3 presents the average revenues from sales of private enterprises in the sample were circa United States dollar (US$) 400,000. While micro enterprises had an average yearly revenue of US$200,000, small enterprises' median turnover reached US$300,000. The revenues leapt up to US$1 million for medium enterprises and US$17,000,000 for large enterprises. A majority of companies in Libya had revenues that did not exceed US$100,000 per year (29% of respondents), meanwhile 14% had annual revenues of between US$1,000,000

FIGURE 3.1 Panel Firms Represented as Broad Sectors vs. Size (*n* = 457)

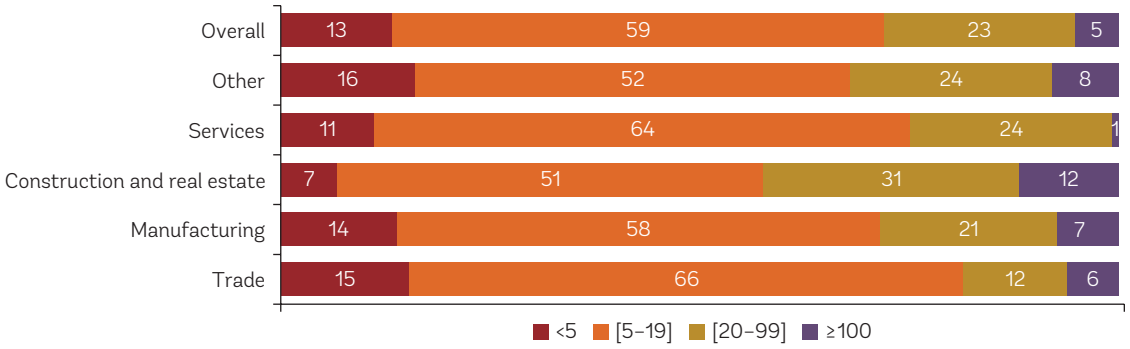
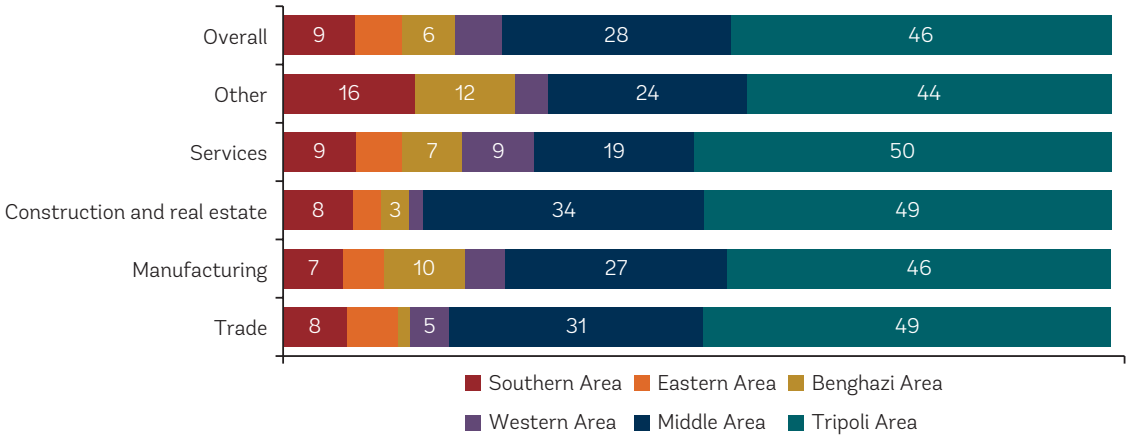


FIGURE 3.2 Panel Firm Represented as Broad Sectors vs. Location (*n* = 457)



and US$5,000,000, and 9% had revenues of over US$5,000,000. Interestingly, micro enterprises were found to also generate high revenues as 61% of them had yearly turnovers above US$100,000. Trade and manufacturing companies were the most revenue-generating enterprises with respectively 50% and 36% of them presenting yearly revenues above US$1,000,000 while this ratio fell to 21% and 22% for construction and services companies.[1]

3.1.3. Exporting Companies

A very limited number of sampled companies actually exported goods or services. From the sample, only 8% of the enterprises exported goods, emphasizing the lack of quality manufactured production in Libya, as 98% of exports originated from petroleum oil.[2] Libyan companies interviewed tended to rely on imports to meet the lack of domestic supply and flaws in some manufacturing sub-sectors. Most Libyan companies focused on their respective domestic market where unutilized potential had been identified, and where few foreign competitors existed, largely due to the recent history of the country. The purchasing power of Libyans attracted them towards the retail and

FIGURE 3.3 What Were Your Yearly Revenues in Fiscal Year 2013 in US Dollars per Size of Company? (*n* = 224)

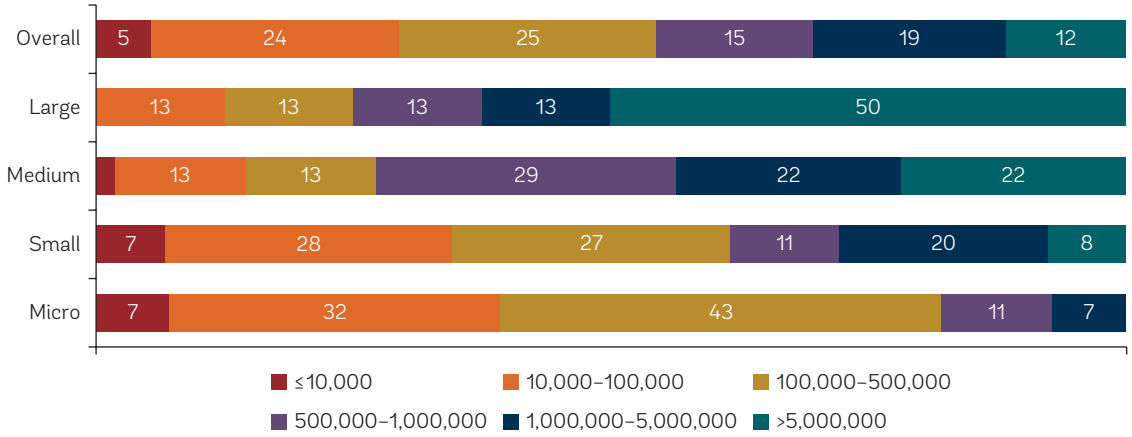
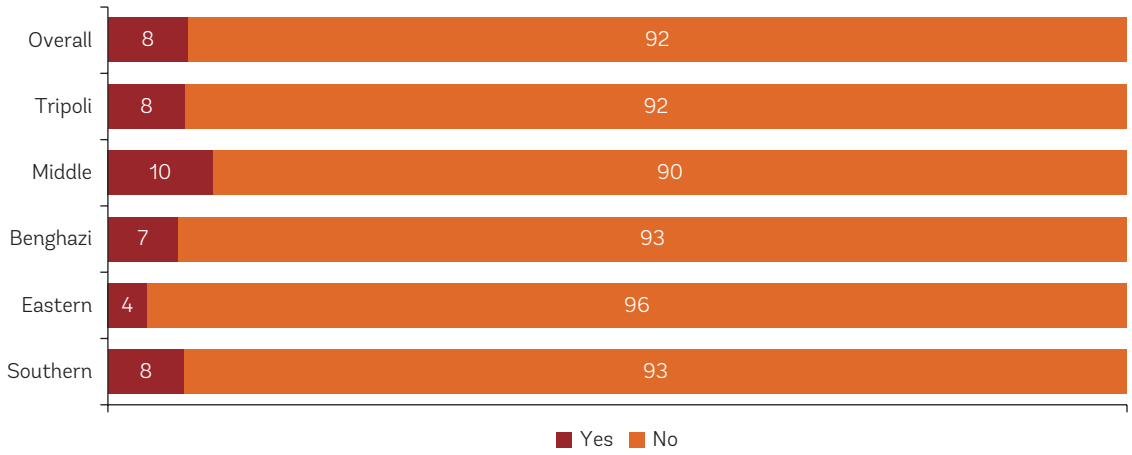


FIGURE 3.4 Does Your Company Usually Export Goods? (*n* = 457)



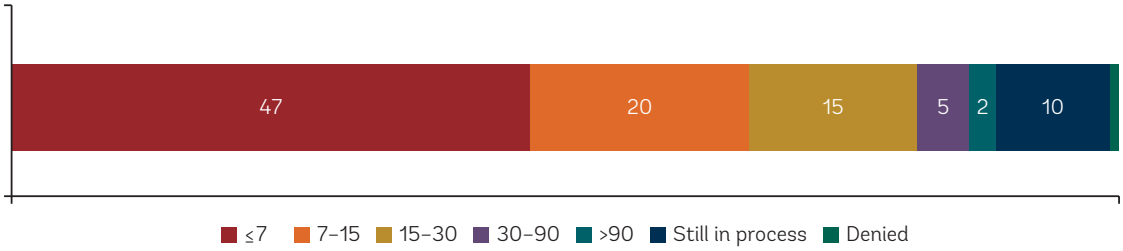
catering services, which are sectors that intrinsically target local consumption.

As shown in figure 3.4, the typical exporting company is located in the Tripoli or the Middle Area (Misrata mainly), has at least 20 employees and operates in the chemical or food and beverage industry. Smaller enterprises, particularly those located in the Eastern and the Southern Areas were found to have a smaller chance to export any goods.

3.1.4. Access to Public Services for Businesses

The licensing system still functioned and delays to obtain licenses were resolved rapidly (see figure 3.5). About a third of private establishments sampled (31%) submitted an application to obtain a license to operate in the import or export of goods over the last two years. Large companies had applied more often (10 percentage points above the sample

FIGURE 3.5 Days Reported to Obtain an Operating/Import/Export License (*n* = 126)



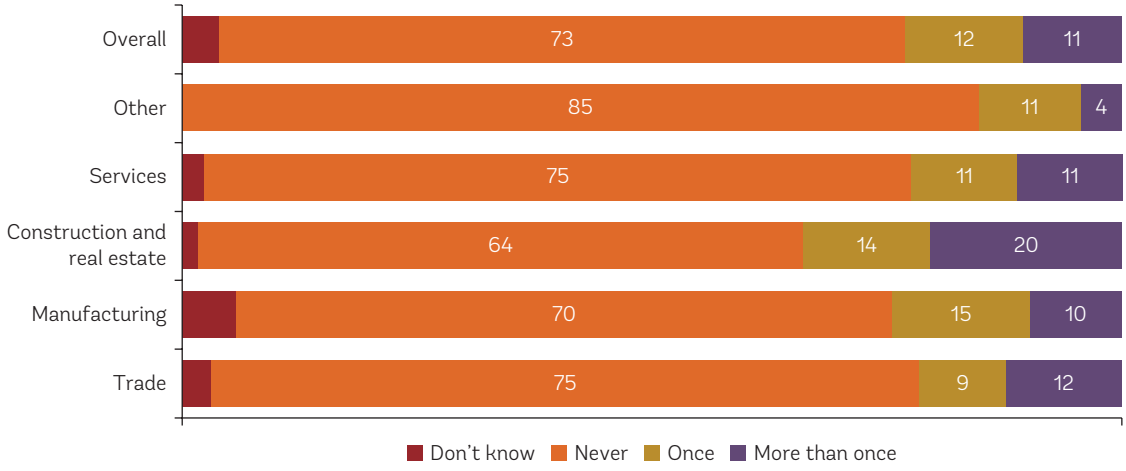
average) as they tended to behave in a more formal manner than smaller actors. The number of applications was equally distributed across the sample with a slightly larger proportion of companies applying in Tripoli and the South Area and in the manufacturing sector.

Out of those that applied, any delays reported were not significantly long; about half of the sample obtained the license in less than a week and another 20% between a week and 15 days, while only 7% of the enterprises experienced delays of more than one month, a minority reporting to have waited about a year to get it. About 10% were still in process and only one reported that its application had been denied, showing that this procedure remained active in Libya despite the current difficulties to function. It is worth noting that this did not seem to be an issue while many other institutions were all but dysfunctional.

Small and micro enterprises in the trade and services sectors were more likely to report that their licensing application was still in progress, whereas the vast majority (97%) of large companies who had applied for licenses had obtained them.[3] Enterprises from the Western, Middle and Tripoli regions were less likely to be waiting for their applications to be processed (0%, 6% and 8% respectively reported that their applications were still in process) than enterprises from Benghazi and the East (13%) and the South (23%), and thus it appears that process flows in the East and South are slower and less efficient than in other regions.

Three enterprises out of four were not visited by a tax official over the last year, suggesting that the tax collection system was almost completely dysfunctional in the country (see figure 3.6). Twelve percent of firms mentioned that they were visited once and 11% more than once (in average 2–3 times per year). Surprisingly, establishments across the sample showed close trends with a difference of only 6% between large companies (26% were visited at least once) and micro enterprises (20%). Some small regional differences were identified as enterprises in Benghazi and the Eastern Areas were visited less than their peers in the Western and Southern Areas, having been "never visited" 86% and 88% respectively. This can be explained by the weakness of the state in the Eastern Area compared to the relative existence of institutions in the Western and Southern Areas—although largely dysfunctional. Enterprises in the trade and services sectors were less visited than others (21% reported "once last year") as they tend to be smaller, more informal or of less interest for

FIGURE 3.6 Over the Last Year, How Many Times Was This Establishment Either Inspected by Tax Officials or Required to Meet with Them? (*n* = 457)



tax officials. Construction companies reported the highest number of visits (34%) as these companies, often large and strategic, tended to be less informal in their operations. In 2009 the ICA reported that a typical firm encountered tax officials and labor officials about twice a year suggesting an important drop as it was averaging at 0.25 in 2014.

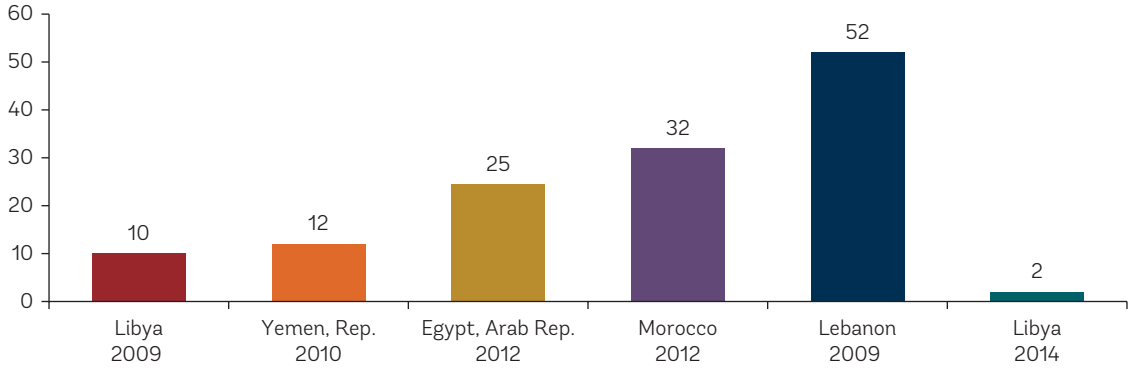
3.1.5. Access to Finance

Paneled firms were overwhelmingly dependent on their own capital as their unique source of financing. Very few Libyan private enterprises contract loans. Of the total sample, only 2% of firms mentioned they had a loan or a credit line. The small number of companies that had contracted a credit line were logically the larger enterprises for they had greater capital needs and greater access to banks. It is worth noting that none of the companies interviewed in Benghazi, the Eastern Area or the Western Area contracted loans, outlining the additional difficulties in obtaining credit lines in those regions. Around 2–3% of companies could access loans in Tripoli, and the Middle and Southern Areas.

Compared to its regional peers across years (where an ICA has been conducted), it appears clear that Libya has an exceptionally low position when it comes to external financing for the private sector (see figure 3.7). Even when comparing the results of this enterprise survey with the ICA conducted in Libya in 2009, the levels of firms currently having a loan or a credit have dropped by almost 8% showing first that Libyans are not keen on using external finance (for a majority of them, see figure 3.8) but also because the system is no longer functioning correctly. The World Bank Group ranked Libya 186 out of 189 economies on the ease of getting credit, impeded by weak collateral and bankruptcy laws, and 187 out of 189 on protecting investors.

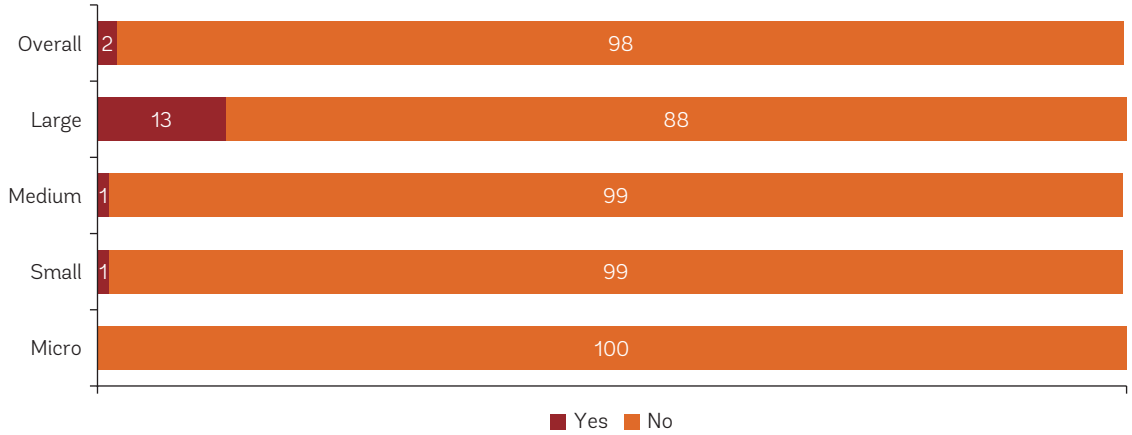
To confirm this trend, managers were asked to estimate the source of the money used for the working capital of their companies, of which three quarters used exclusively internal funds or retained earnings. The remaining

FIGURE 3.7 Percentage of Firms Having a Loan or Credit Compared to Regional Peers



Note: Data from the 2012 Investment Climate Update in the Arab Republic of Egypt, 2012, p. 52 and 2011 ICA in Libya, p. 48. Data for 2014 are based on the Enterprise survey realized for this report.

FIGURE 3.8 Does This Establishment Have a Credit Line or a Loan from a Financial Institution? (*n* = 456)



Note: One interviewee mentioned "don't know" and was cleared out for this specific question.

quarter also used mostly internal funds with the minority using external finance called upon domestic banks for loans (while none used international banks), credit from suppliers, advances from customers (often between 10 and 30% of the capital) or public financing from government agencies. The remaining sources were money loaned by friends or relatives that was used by 10% of enterprises for which it represented often less than 50% total working capital.

When it comes to source of funds to finance investments in fixed assets, the gap is even larger as 85% of our sample used only

internal funding. A minority of large enterprises called for credit from international banks (1% of the sample) or from domestic financial institutions while about 8% of them were lent money from friends of relatives.

Libyan enterprises do not contract loans simply because they do not need them (see figure 3.9). Eighty five percent of the interviewed enterprises do not contract loans because they reported not needing external financing and preferred to use their own capital or other forms of financing such as friends or family financing. Twelve percent of them made an attempt to contract a loan, of which 8% said their applications were turned down and 4% mentioned it was still pending. The remaining 4% did not have a clear idea why their enterprise did not have a loan. Larger companies made a higher number of attempts to obtain a credit and 20% of them managed to access it; this proportion fell to 10%, 12% and 6% respectively for medium, small and micro enterprises. The Western and the Middle Areas were the less demanding for credit services (100% and 92% identified "no need for a loan" as an response) while the Southern Area appeared to have greater needs as 23% of enterprises had requested a loan that was subsequently not granted, likely due to the suffering of the deficient system.

Construction and real estate companies (that are more likely to be larger enterprises) were more likely to apply for loans than other enterprises (17% compared to 11% overall), with 12% of these applications rejected (4 percentage points above average), and 5% still pending (2 points above average). Trading companies, often smaller in size, were less likely to apply for financial credit, with 88% reporting that they did not apply for loans.

A third of the sample (34%) were familiar with Islamic finance and a tiny proportion (5.4%) of them already used it for businesses purposes (see figure 3.10). It seemed that enterprises in Benghazi (45%), in the Southern Area (43%) and in the Western Area (46%)

FIGURE 3.9 What Is the Reason for Not Having a Loan or Line of Credit Currently? (*n* = 447)

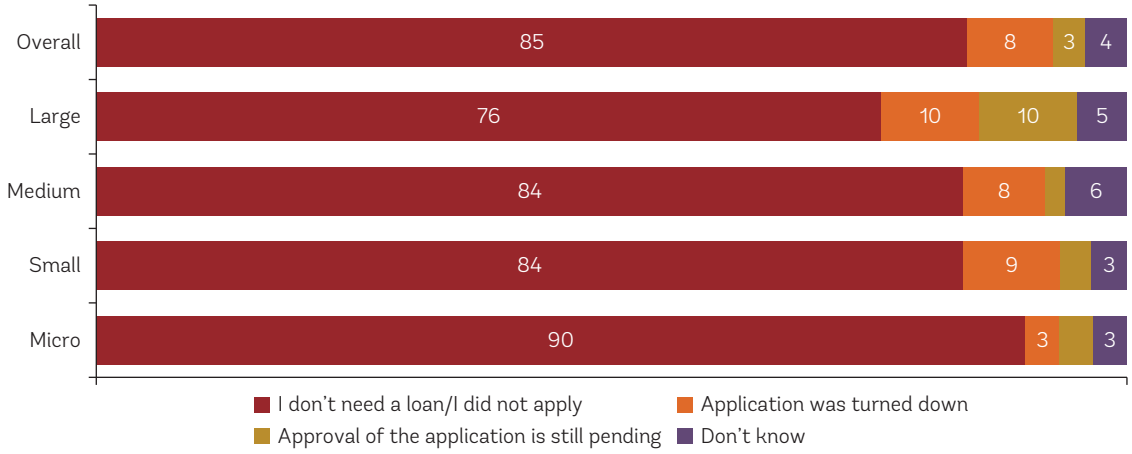
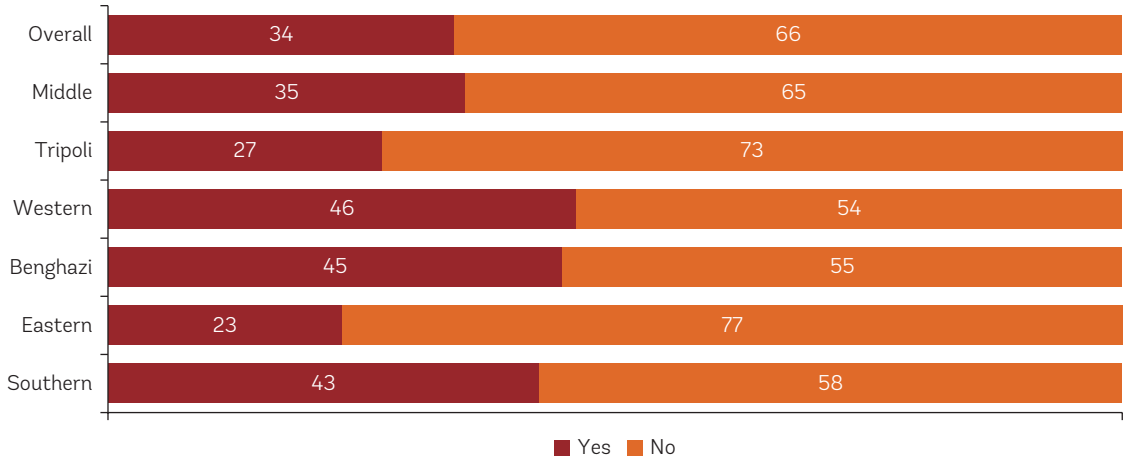


FIGURE 3.10 Are You Familiar with Islamic Modes of Financing? (*n* = 457)



had more knowledge about Islamic financing than in the rest of the country (only 27% in the Middle Area for instance). Medium-size enterprises were more familiar with Islamic financing (50% of them were familiar) probably because larger enterprises had greater needs in conventional financing and smaller ones were less demanding for financial services. Companies in the construction sector were the most familiar (44%) while those in the trade industry had the most limited knowledge (28%) given their limited need for funding which did not enhance their awareness.

Despite the limited knowledge, almost all private enterprises expressed sympathy towards Islamic finance as 94% said they would use it if it was established mostly for religious reasons, in particular the fact that there is no *riba* (interest rate), which can also be interpreted as an economic benefit for Libyans that prefer to see no interests for loans.

Six percent of respondents reported having used Islamic finance in the past, in particular for companies in the manufacturing and trade sectors for which the percentage was 7% and 6% respectively. It is worth noting that the Southern Area had he higher proportion of enterprises reporting the use of Islamic finance (8%) while few reported using it in Benghazi (3%) and none in the Eastern Area (0%); Tripoli and the Middle Area (7% and 5%) where contributing the most the national average.

3.2. Dynamics of the Private Sector before the Crisis

The following section presents an analysis of the dynamics of the Libyan private sector before the summer 2014 crisis, to understand and provide a context for the current crisis. As mentioned above, previous analyses showed that despite the continuous climate of instability, the Libyan economy resumed its march towards growth in 2012 and 2013, although it seems that this growth started contracting before the summer 2014.

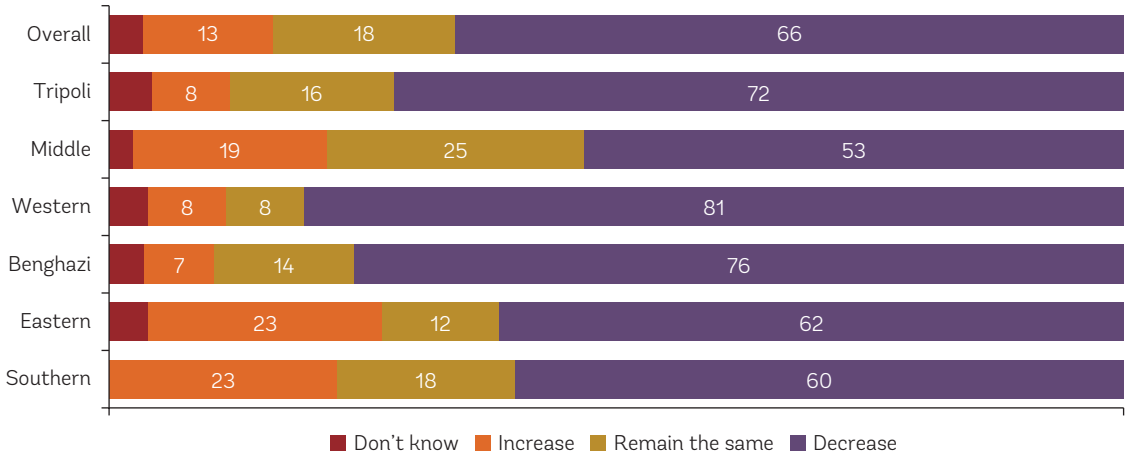
3.2.1. Sales: Pre-Crisis Level

The Libyan private sector was characterized by a global downward trend before the summer 2014 crisis. Despite the moderate growth observed during the first semester of 2013, data suggested that the private sector experienced the return of a downward trend outlined by the fact that two thirds (66%) of paneled firms saw the revenues of their sales decreasing between the two first quarters of 2013 and the two last quarters of 2014, before the burst of the recent crisis. The average diminution of sales was of 50% over the period (see figure 3.11).

About 18% of enterprises kept a similar level of revenues, while only 13% of them saw their sales grow. All types of companies presented similar results although micro enterprises—often trading and retail companies—had the greater percentage of growth given that they often marketed locally and were less exposed to big contracts. Medium-sized companies were impacted upon the most with 72% witnessing a negative growth over the period. Similar patterns were observed across sectors, although the services sector performed slightly better than construction and manufacturing for instance. Some regions performed better than others, in particular the Middle, the Southern and the Eastern Areas for which the decrease was below average, at 53%, 60% and 62% respectively, compared 81% for the Western Area. The Middle Area was positively impacted by the dynamics of some companies in Misrata, and the south of the country experienced low-intensity conflict at that time which serves to explain their better score. More surprising, the east of the country, and Bayda in particular, proved more resilient that the west of the country it appears.

Furthermore, 56% of exporting companies (n = 36) reported a decrease in their exports, while it remained at the same level for 22% of them and actually increased for less than 20%, showing that even external trade had been impacted upon.

FIGURE 3.11 When Comparing End of June 2013 and End of June 2014, Did Your Sales? (n = 457)



3.2.2. Investment: Pre-Crisis Level

The deterioration of the business climate started before the recent crisis as a relative majority (43%) of the sample had decreased their investments between June 2013 and June 2014, probably as a direct result of the fall in revenues. Nonetheless, a larger number of companies (35%) kept the same level of investment towards the beginning of 2014, showing that there was hope for a recovery of the activity. Around 16% increased their investments during the period, showing a rather optimistic approach while faced with the climate of crisis. Just like for revenues of sales in this period, the Middle, Southern and Eastern Areas had the best performing companies. In the region of Misrata, only 34% of companies decreased their investment over the period and about a quarter increased it (23%). The region of Benghazi showed greater pessimism with only 7% of enterprises increasing their levels of investment. It is worth noting that Benghazi had experienced serious security issues throughout 2013. The distribution of investments by size was balanced across the panel (see figure 3.12), except for micro enterprises that were performing better than the rest (33% of "decrease" compared to 44% for the rest of the sample).

3.2.3. Employment: Pre-Crisis Level

The employment rate started dropping across the period as another direct consequence of bad financial results, reducing staff was naturally seen as a way to reduce the weight of payroll on the company's costs. Indeed, if half the companies kept the same number of employees, only 11% of them recruited while 39% reduced numbers altogether. A strong correlation with the size of the company was found as large and medium enterprises tended to reduce their staff more while micro enterprises were more likely to recruit with 18% of micro enterprises recruiting at least one additional employee across the period. Establishments in the construction and real

FIGURE 3.12 When Comparing End of June 2013 and End of June 2014, Did Your Investments? (*n* = 457)

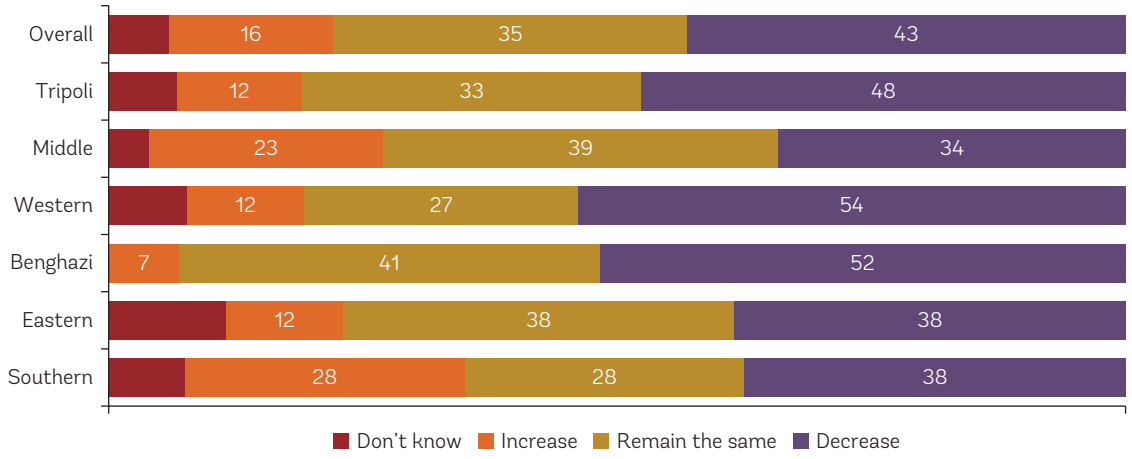
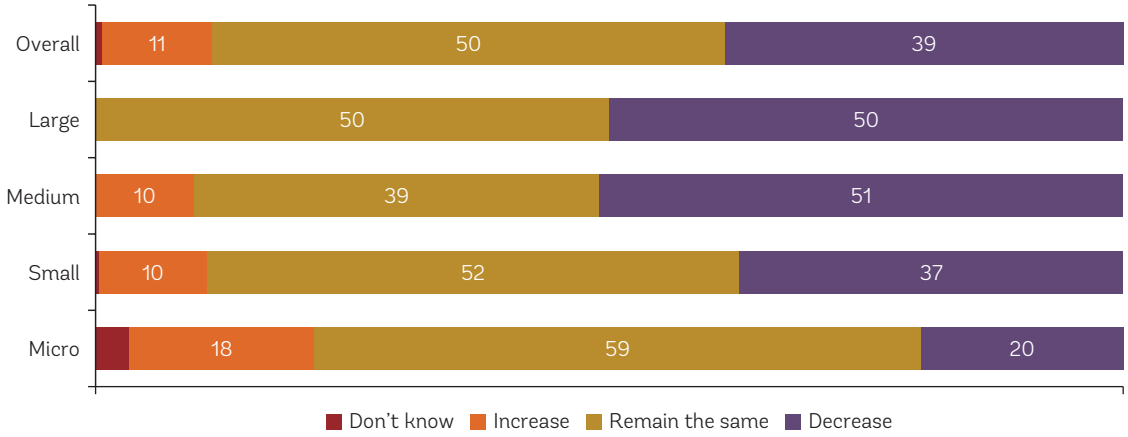


FIGURE 3.13 When Comparing End of June 2013 and End of June 2014, Did the Number of Employees? (*n* = 457)



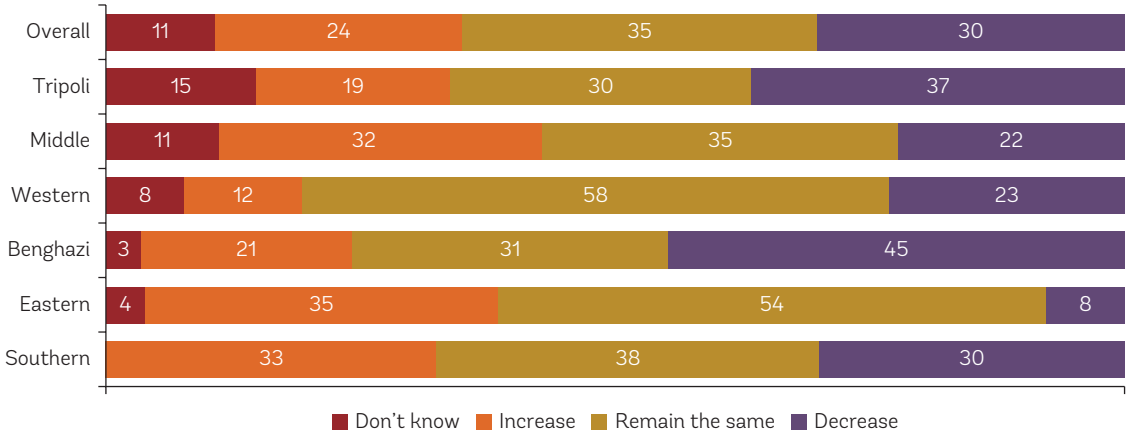
estate and manufacturing sectors showed similar dynamics combining a level of recruitment above average, but a greater number of companies also reducing staff. The trade sector—composed of many micro enterprises—was mostly status quo as 68% of companies kept the same number of employees over the period and only 25% of them decreased their staff.

On average, interviewed establishments decreased their staff by 20% except for larger establishments that decreased it by 47% permitted by their larger overall staff numbers (see figure 3.13).

3.2.4. Competition: Pre-Crisis Level

Competition was reported to have remained at an equivalent level with a slightly larger decrease depending on the regions and size (see figure 3.14). Across the sample, more than a third replied the number of competitors remained the same across the period. This percentage was rather balanced though, with 30% reporting it as decreased and 24% as increased. In reality, it was often complicated for Libyan businessmen interviewed to assess the number of competitors around them and to follow the market in terms of new entrants or inactive establishments. Micro enterprises felt that the number of competitors increased by 36%, almost three times more than the ones identifying "decrease" (13%), confirming the specific dynamism of small structures. Medium companies were the most numerous to report a decrease in the number of competitors, and large companies appeared to think that the market held steady with a similar number of competitors (50%), none (0%) of the latter reporting an increase in competition. Perception of competition decreasing was higher among companies working in construction and real estate given the concentration of large and medium sized companies in the sector. Enterprises in the manufacturing, services and trade sector—often micro and small enterprises for the latter—were more likely to report a rise in competition. Trade companies, for example, reported

FIGURE 3.14 When Comparing End of June 2013 and End of June 2014, Did the Number of Domestic Competitors? (*n* = 457)



a 17% increase in competition across the period, compared to 10% for the overall sample.

In addition, companies that reported a higher level of competition were more likely to have reported increased revenues post-crisis, with 31% reporting an increase of sales (compared to only 4% amongst companies who reported a drop in competition). Nearly all companies that reported a decrease in competition described the Libyan economy in negative terms, while companies that reported an increase in competition were more balanced in their assessment of the economy. Indeed, some companies emphasized that increased completion was welcome in specific sectors, particularly for the trade sector.

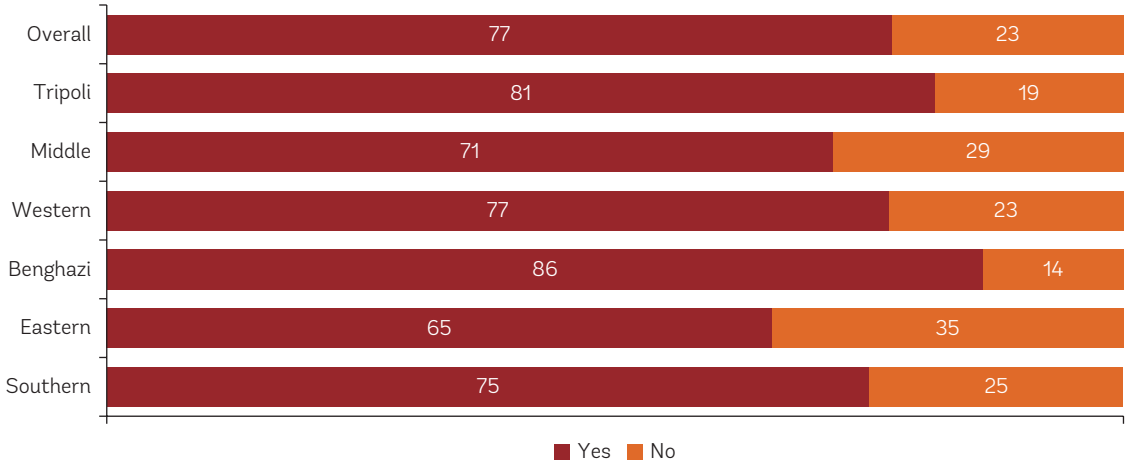
During the year preceding the summer 2014 crisis, the Libyan economy started to show signs of a downturn, with a general reduction in sales revenues reported by the sampled enterprises. Most companies saw a decrease in their level of investment and started reducing staff given the unstable context. After the revolution in 2012 until the first two quarters of 2013, enterprises generally reported growth in revenues. The current negative trend is due to localized conflicts beginning in early 2014, in particular in the east, and the appearance of weak economic governance and policy.

3.3. The Impact of the Summer 2014 Crisis on the Libyan Private Sector

The recent crisis has had a direct and broad impact on the economy in general and on the private sector in particular (see figure 3.15). A strong majority (77%) of enterprises reported that the crisis had a direct impact on their business, including 86% of enterprises from Benghazi and 81% from Tripoli, the two cities that experienced the most intense fighting during this period.

Companies of all sizes were hit equally by the crisis, while companies from the construction, real estate and manufacturing sectors were more likely to have experience and impact, due to their greater number of assets

FIGURE 3.15 Has Your Firm Experienced a Direct Impact from the Current Conflict (Started in the Summer 2014)? (*n* = 457)



and the relative importance of production when compared to enterprises focusing on trading or services.

Different enterprises from the sample group experienced the shocks of the crisis in different ways, and reported different "main issues" that arose as a result of the crisis:

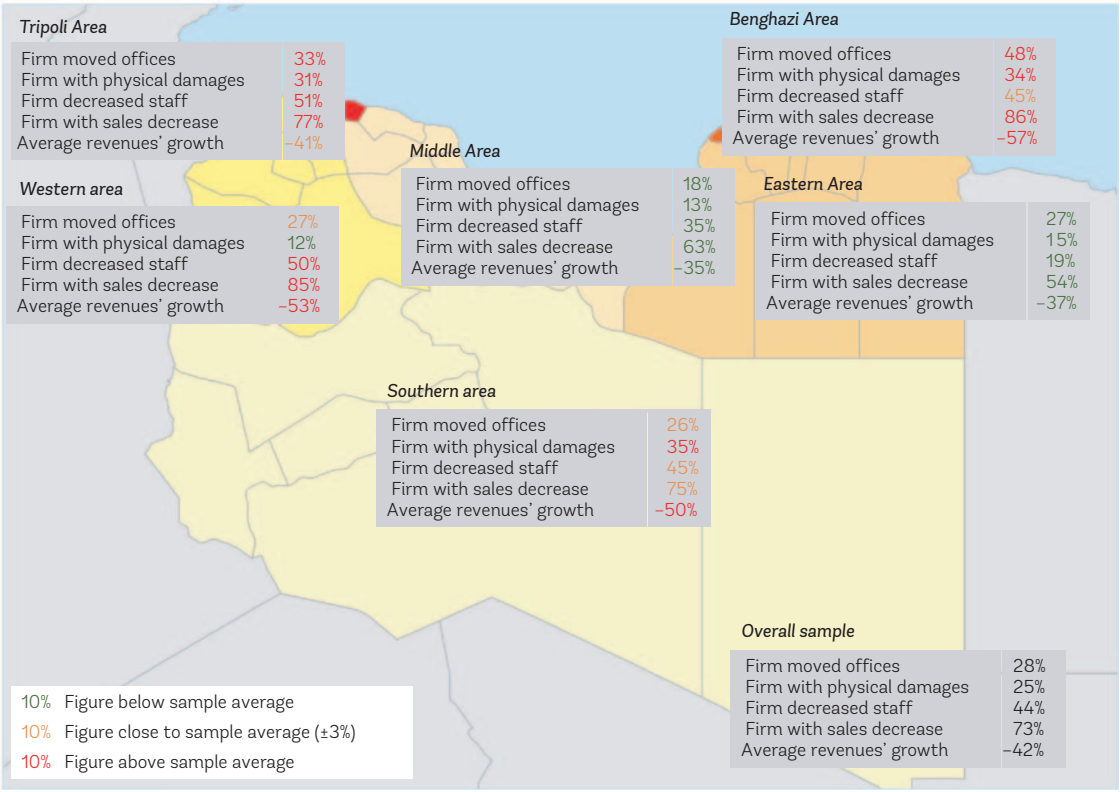
- 37% said that the main impact of the crisis was reduced revenues
- 7% reported that the main impact was work stoppages
- 10% reported that the main of the crisis was issues with the supply chain (e.g., lack of access to imported goods, petrol and raw materials due primarily to disruptions along the supply chain such as closures of seaports or airports)
- 9% reported problems with staff, with foreign workers leaving the country in large numbers and local staff unable to reach their workplace due to poor security conditions

A sharp fall in production capacity—as a direct consequence of labor and supply chain shortages—and the lack of liquidity and problems with inflation (e.g., rise in exchange rates) were also reported as main issues. While nearly a quarter of the sample reported that they did not experience a direct impact as a result of the crisis, this does not mean that these companies did not experience indirect setbacks resulting from the general climate of insecurity and instability.

3.3.1. Regional Overview

Overall, enterprises operating in Tripoli, Benghazi and the South of Libya appear to have suffered the greatest impact from the ongoing political and security crisis compared to enterprises operating in the Middle (particularly enterprises from Misrata) and Eastern regions.[4] Map 3.2 presents key impacts of the crisis by region, focusing on physical damage to establishments or other property, decreased number of employees, decreases sales, and office relocation.

MAP 3.2 Key Findings of the Impact of the Summer Crisis per Region

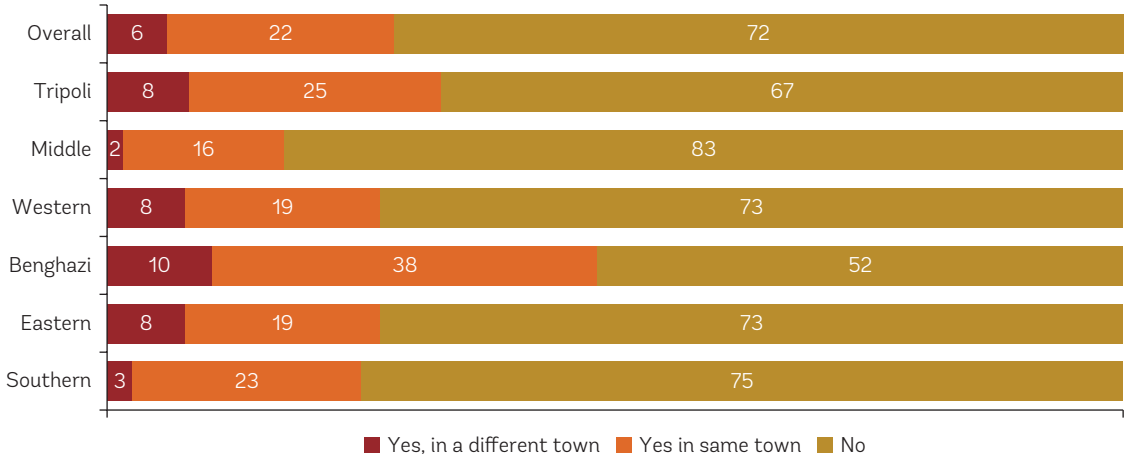


Note: Average revenues' growth is calculated on firms reporting increase, stable and decrease of their sales, not only decrease.

3.3.2. Material Damages

About 30% of the companies had to move their main office or a site of production due to the crisis, demonstrating the intensity of the fighting. A majority of companies moved to another location within the same town (22%) while 6% moved their offices to another town, the latter more likely to concern large companies in Tripoli and Benghazi (see figure 3.16). Benghazi is the city that was the most impacted with this phenomenon given the fierce combats in the city, with about half of the sample declaring they had to move of which 10% moved west, to Misrata or Tripoli. A third of Tripoli-based companies moved offices, most of them to the surroundings of Tripoli (Ain Zara, Azawia Adahmani, Tajoura), but a number of companies also moved to Misrata, Zliten, Khoms and even Sebha and Obari. In the other areas, enterprises that had to move mainly remained in the same city. Micro enterprises appear to have moved less than others—10 points below average at 19%—given the limited buildings, storage or other assets they need to protect. Companies of the trade sector and manufacturing sectors moved the most with 34% and 33% of companies respectively having moved offices or production sites to protect their production

FIGURE 3.16 Has the Firm Moved Offices or Production Sites because of Events Related to the Current Crisis? (*n* = 457)



capacity or inventories that often represented their main assets. Companies of the remaining sectors were averaging at 25% moving offices.

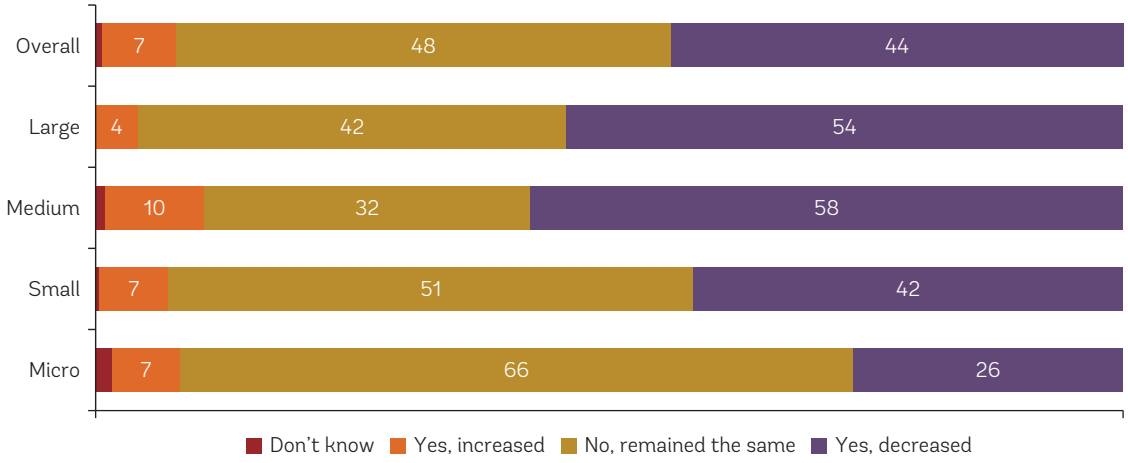
In addition, one enterprise out of four suffered extra losses from material damages such as looting, theft or vandalism since July 2014 in particular in Tripoli, Benghazi and the Southern Area which likely explains why companies of the two first areas were keen to move offices. Companies of the Southern Area had less opportunity to move as they were further away from other economic centers unlike the coastal regions. Enterprises in the construction and real estate sectors suffered 50% more than in other sectors due to the number of physical assets prone to material damage (buildings and construction sites).

3.3.3. Employment and Human Resources

Employment suffered greatly from the crisis, in particular for company employing foreign workers. Forty four percent of companies reported that the number of their employees decreased after the crisis. This reflects different trends as many qualified foreigners left the country in July and August 2014 while some Libyans also preferred to seek protection outside of Libya (mainly moving to Tunisia and the Arab Republic of Egypt). Out of the staff members who had to abandon their positions, 70% of enterprises identified that workers were both foreigners and Libyans, while another 30% identified Libyan only.

In addition, the remaining workforce was often reluctant to travel to the workplace given the ongoing security situation and many companies had to decrease costs of production to reflect the decrease of revenues, hence reducing their staff. Forty eight percent of the enterprises had kept similar number of employees since the summer 2014, of which micro and small establishments were the most numerous. While small companies had less flexibility to decrease their staff, medium and large companies were

FIGURE 3.17 Has Your Number of Employees Been Impacted by the Current Conflict? (*n* = 457)



found to reduce their staff more frequently (58% and 54% respectively for medium and large companies against 42% and 26% for small and micro enterprises) (see figure 3.17). Logically, sectors employing a high number of unqualified workers were the first to reduce their manpower, in particular in the construction and the manufacturing sector. In the trade sector—composed mainly of micro and small enterprises—a majority of companies kept the same employment level (66%).

Companies reported to have decreased their staff by 20% on average, a ratio that was almost doubled to 40% when focusing solely on medium and large companies.

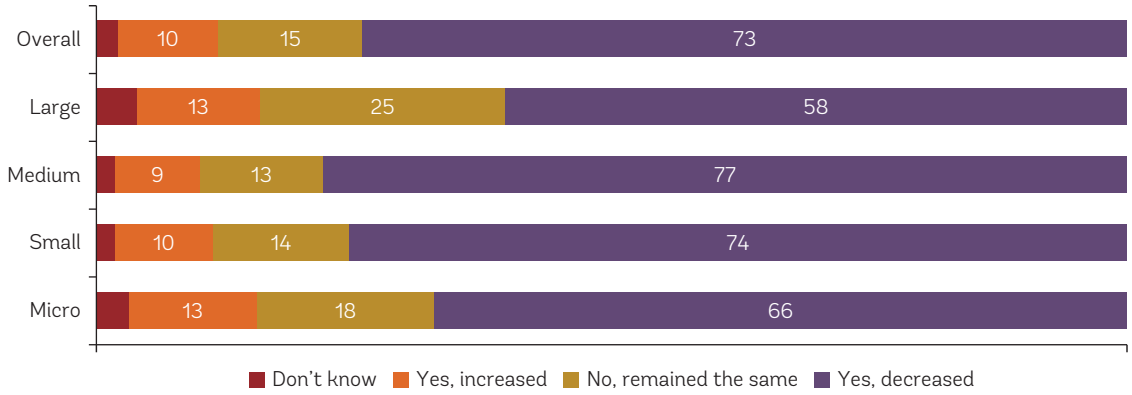
3.3.4. Economic Impact

Since the recent crisis of the summer, about 3 companies out of 4 have experienced shortfall in revenues of sales. The main impact of the crisis is the contraction of both the demand and the production capacity that reflected directly on incomes of companies (see figure 3.18). Seventy three percent of the sample reported the revenue of sales to have decreased in the second semester of 2014. This comes in a context of economic gloom (see section 5.2) but the security situation undoubtedly accelerated losses; only 10% of them have been able to generate more revenues since the beginning of the crisis, mainly companies in the trade sector, the food and beverage manufacturing and the private health industry.

Enterprises in Tripoli and the Middle and the Eastern Areas were performing slightly better than the national average while companies in Benghazi, the Western and the Southern Areas were facing more difficulties. Large companies were more resilient as less than 60% saw their revenues decrease (25% remained the same and 13% increased) compared to medium and small sized companies scoring 77% and 74%.

On average, sampled enterprises have reported their revenues to have decreased by 60%, an average that was slightly less important for large companies for which

FIGURE 3.18 Have Your Sales Been Impacted by the Current Conflict? (*n* = 457)



it decreased by 50%. The total estimated decrease of revenues, including growing and stable companies, was estimated to be –42%.[5]

Level of exports also fell down as a consequence of the reduced capacity of enterprises to produce and given general dysfunction of ports. Exporting companies' (8% of total private companies) level of exports decreased by 66% compared to their level before the crisis. Most of them expected the level of exports to increase (41%) but a large number (33%) were not sure about the future, outlining a lack of confidence towards the future for those companies.

3.3.5. Impact on Production Capacity

A large majority of companies have suffered from disruption of supplies since the crisis. Fifty seven percent of our sample has not been able to receive goods, equipment or machinery, normally because of the disturbance of the main air, land and sea transportation hubs. The attack on Tripoli international airport led to a situation where only one airport remained accessible in the whole Western Area (Misrata airport) before being eventually targeted in turn. Benghazi and Sebha airports remained closed disrupting main supply routes to the main cities in the east and the south. Connection by land was also limited due to the volatile security situation around Tripoli, Benghazi and even Sebha and some border posts have been closed (Ras Jedir has been closed several times by the Tunisian authorities). More importantly, many international companies supplying Libya had stopped their shipping activity to Libyan ports causing extended delays to receive goods. Trade companies were particularly hardly hit by the disruption of supplies (68%) as well as manufacturing companies. Both sectors were very dependent on imported goods and equipment. The majority of construction and real estate enterprises suffered from the problem (about 58%), although continued to perform closer to the national average because they sourced some of the raw materials locally. Services companies were the least impacted as less than half of them suffered from this issue (47%).

The Western Area was the most impacted as most of the enterprises there depended on

the connection with Tripoli, which was repeatedly disrupted during the conflict, and on trade through the main ports. Benghazi and Tripoli came after given the conflict in the two main cities, whereas the Southern Area suffered from the difficult connection of the main routes running south, supplying most of the traders and manufacturers through Sebha. The Middle Area—Misrata in particular—was performing rather well with less than half the sample concerned by the issue. Misrata had been set apart from the fighting for quite a long time, a situation that might have changed after the attack on Misrata at end of December 2014 though.[6] No strong correlation was found between disruption of supplies and size of the company, the phenomenon touching companies from all size.

Three quarters of the managers reported an additional delay of between two weeks and one month (24%), one to two months (24%) and two to three months (24%) to receive supplies and for 19% of them the delay was less than two weeks (10% between 7 and 15 days and 9% less than 7 days) while 8% reported a particularly high waiting process of over three months delay compared to a normal non-crisis situation (see figure 3.19).

Problems of employment and disruption of supplies have decreased the capacity of operation. Capacity utilization of productive equipment (machinery, processing in the manufacturing sector) as well as hours of activity in the trade and service sectors have decreased for 56% of enterprises by an average of 24% compared to pre-crisis level (see figure 3.20). The construction and the real estate sectors experienced the biggest decrease in production (–30%) while some sectors maintained their production levels, especially the private health sector (–2% in average). On average, 77% of companies lost between 30 and 40 days of production or operation due to a dysfunction of some kind relating to key infrastructure pivotal to their business. Insecurity or civil disorder, power shortages and disruption of supplies were particularly cited, while only 23% reported that they kept their business running without interruptions.

Large enterprises reported to have kept the same capacity of production, in particular those in the Middle Area (Misrata) which performed better than the other areas whereas micro, small and medium sized companies had a stronger probability of

FIGURE 3.19 Additional Days to Receive Supplies after the Summer Crisis (*n* = 255)

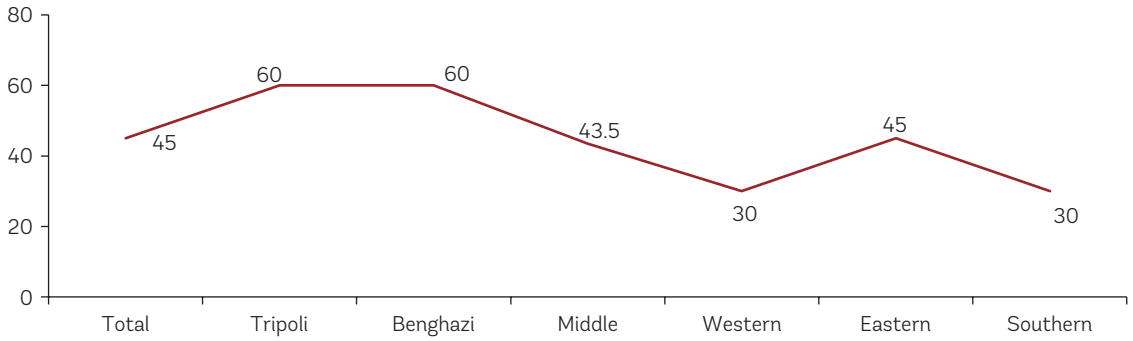


FIGURE 3.20 Percentage Decrease of the Capacity Utilization since the Crisis for Some Selected Sectors

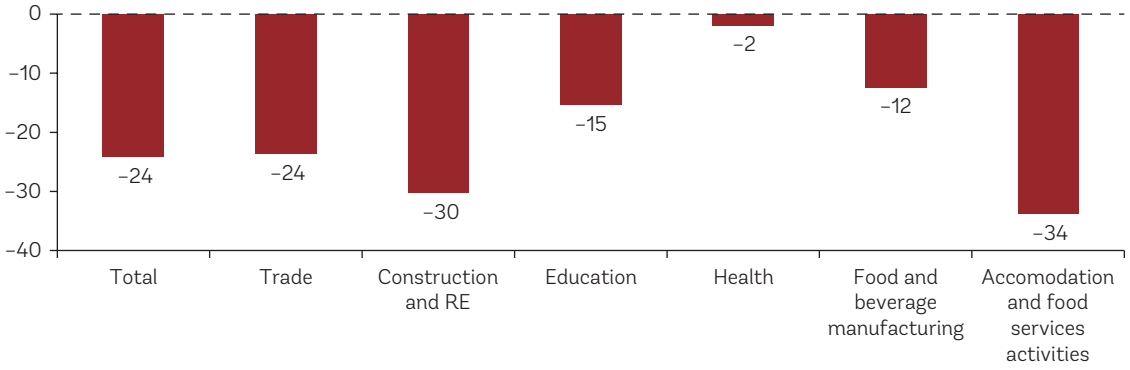
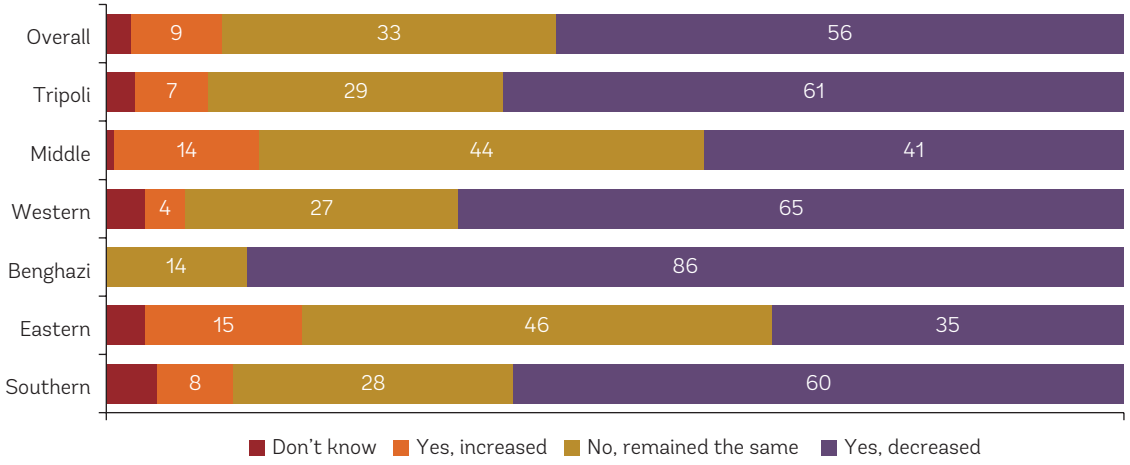


FIGURE 3.21 Compared to Last Year Has Your Capacity Utilization/Hours of Operation Changed? (*n* = 457)



witnessing their production decrease. A small proportion of these companies managed to increase the capacity utilisation[7] after the crisis (10%), in particular in the trade sector (14%). By location, Benghazi was again the most impacted, much more so than the Western, Tripoli and the Southern Areas. The Middle Area resisted the most as only 41% of the companies reported a decreased in their production capacity, while 44% kept the same production levels and 14% even managed to increase it (see figure 3.21).

This sharp drop can be explained by the fact that location sites were often circled by combats, some roads were closed and cars were stolen or broken, preventing working population to go to work and goods to circulate freely.

3.3.6. Impact on Competition

The level of competition weakened by about 50% according to managers due to a contraction of the demand and difficulties faced to maintain activity. The decrease of sales in some sectors forced a large number of companies to put their activity on hold. Large companies reported that they felt the demand decreased by 35% only due to the fact that they mainly compared themselves to peers that were more likely to resist the crisis than smaller actors.

Across the sample, 50% of the enterprises declared that the number of their competitors had decreased by 50% in average, and especially in the construction and real estate sectors where competition decreased by 58% (see figure 3.22). A quarter of the enterprises (26%) felt it remained the same, 14% reported an increase and 10% could not say. Large enterprises were keener on reporting that the competition had remained the same (42%), none reported that it had increased and a large number simply did not know (21%). Small and micro enterprises felt a slightly higher increase of competition than average (16% and 15%) and only 36% of micro enterprises mentioned a decrease showing the relative dynamism of small and often informal actors.

Apart from in the Eastern Area (23%), a majority of enterprises felt the competition had decreased, in particular in the Western and Benghazi Area, for which about 65% of enterprises reported a drop in the number of competitors. In the Eastern and in the Middle Areas, a majority of companies felt that the competition remained the same (respectively 46% and 40%) while this category was particularly weak in the Benghazi, Western and Tripoli Areas suggesting that most companies could feel a change of situation. The Eastern and Benghazi Areas, paradoxically, experienced the highest levels of increase (respectively 19% and 21%), probably due in part to the rise of some informal businesses in the city.

3.3.7. Impact on Investments

As shown in figure 3.23, the recent crisis also triggered a major decrease in domestic

FIGURE 3.22 Has the Number of Domestic Competitors Been Impacted by the Current Crisis? (*n* = 457)

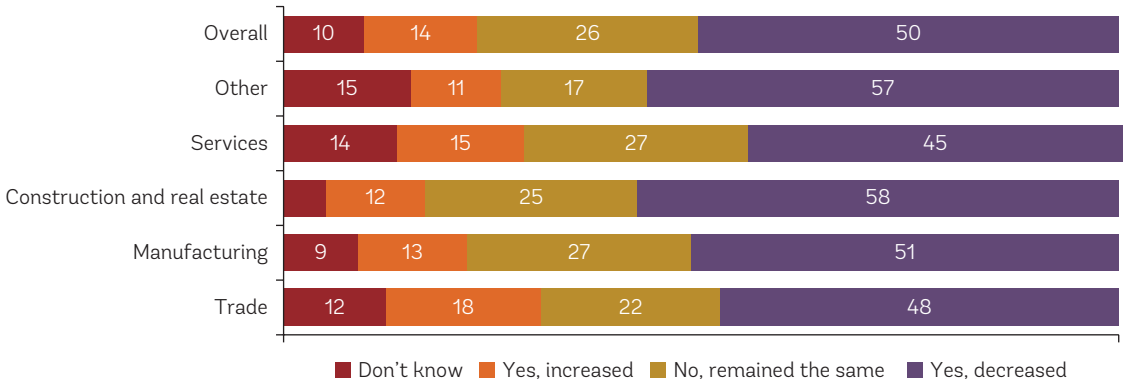
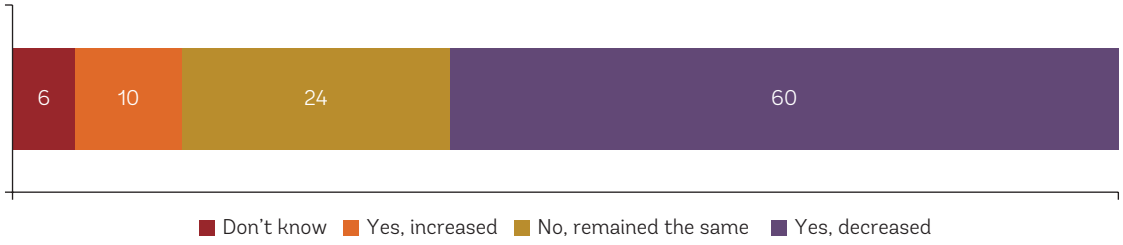


FIGURE 3.23 Have Your Investments Been Impacted by the Current Conflict? (*n* = 457)



investment for private companies. Sixty percent of paneled enterprises decreased their level of investment, on average by 60%, compared to previous levels. A large amount of money was not invested back into the economy, fuelling the further contraction of the activity for suppliers and sub-contractors. Twenty four percent of enterprises declared that their level of investments remained the same while only 10% had increased their level of investment since the crisis. This investment crisis is logical given the lack of stability required for companies to invest. The results were similar across the different sectors, although trading companies were the most likely to invest despite the crisis (15% of them increased their level of investment). A sizable number of large companies had increased their investment during the crisis—in the food manufacturing and the construction sector—probably to compensate for the damage of assets and to keep up with production (higher occurrence of companies increasing investment in Tripoli and Benghazi where fighting was intense). Big regional differences were noticed; Benghazi experienced the greatest investment decrease (72% of companies) while the Middle and the Eastern Areas showed more resilience with 38% and 34% of enterprises keeping stable levels of investments. Overall and across the sample, the investment crisis can be estimated at a 40% decrease of investments compared to the pre-crisis level.

3.3.8. Impact on Financing

For 78% of enterprises, the crisis created additional restrictions in accessing finance and foreign currency. A large majority of companies explained that accessing finance became more complicated since July 2014 (see figure 3.24). Access to finance has always been one of the key constraints for the Libyan private sector and in particular small and medium enterprises (SMEs) to develop. Accessing finance was already identified as a major or severe constraint for 60% of enterprises in the Libyan ICA of 2011. Access to finance has gotten harder for enterprises all across the sample, all of them reported to be equally penalized by the problem no matter the region or the sector (±5% from average), with the exception of large companies which suffered less often from additional difficulties in accessing currency, their financial performance 18 points below national average.

Similar effects were observed on access to foreign currency, a key topic for Libyan businessmen (see figure 3.25). Seventy eight percent of Libyan private enterprises assessed

FIGURE 3.24 Has Your Access to Financing Been Impacted by the Recent Events Related to the Current Crisis? (*n* = 457)

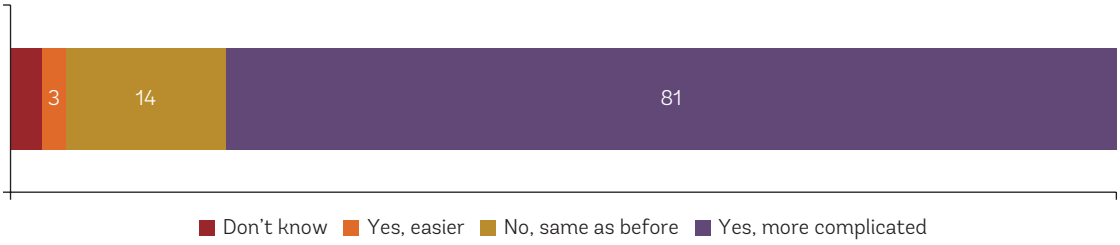
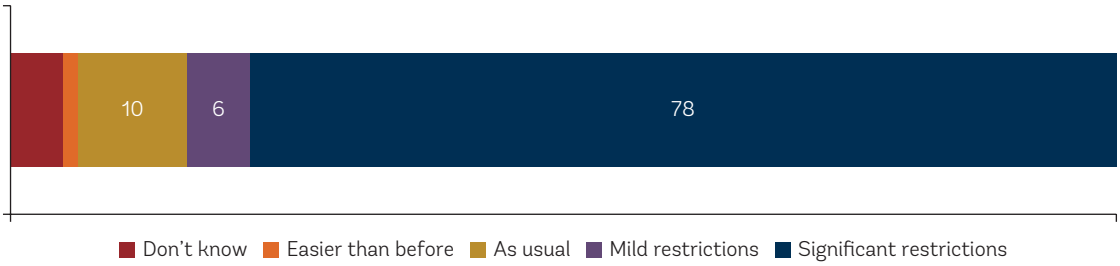


FIGURE 3.25 What Is Your Assessment of the Ease of Obtaining Foreign Currency as Compared to Before July 2014? (*n* = 457)



that there were significant restrictions to obtain foreign currency since the conflict broke out and 10% deemed that the situation remained as before. The situation was reported to be already tricky as Libyan businessmen often get access to US dollars from the Libyan black market rather than through official channels. Very similar results were found on companies of different sizes and of different sectors, to the exception of services companies for which the negative impact of the crisis on foreign currency was slightly less important. The Area of Benghazi reported the highest rate of "significant restriction" (93%) followed by the Eastern and Southern Areas (both 85%) while Tripoli (74%), the Western (77%) and the Middle Areas (79%) performed relatively better (see figure 3.26).

3.3.9. Categorizing Impact

While most companies felt an impact as a result of the crisis, some suffered more than others (table 3.1). By examining several criteria, companies can be classified into three groups, based on the level of intensity with which they experienced the crisis: low, medium, or high. Companies reporting that the crisis did not have a direct impact on their establishment or that reported a direct impact but have not moved offices nor experienced physical damages were classified as "low intensity." Companies reporting to have suffered a direct impact, moved office in the same town but not suffered from physical damages were classified as "medium intensity" while companies that moved offices to different town and/or suffered physical

FIGURE 3.26 Intensity of the Crisis by Region

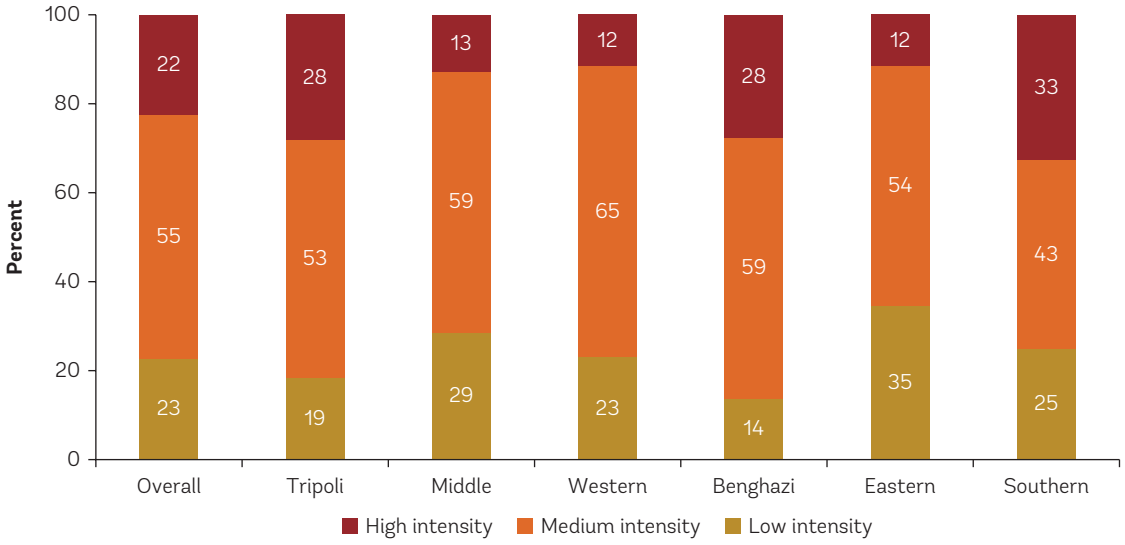


TABLE 3.1 Key Enterprises' Performance by Level of Intensity of the Crisis

Impact of crisis	Firms reporting decreased sales (%)	Firms reporting decreased staff (%)	Additional delay for supplies (days)
Low intensity	54	22	30
Medium intensity	69	39	40
High intensity	70	55	60

damages were classified as "high intensity." The results show that a majority of firms (55%) experience a medium intensity impact from the crisis, as illustrated in figure 3.27.

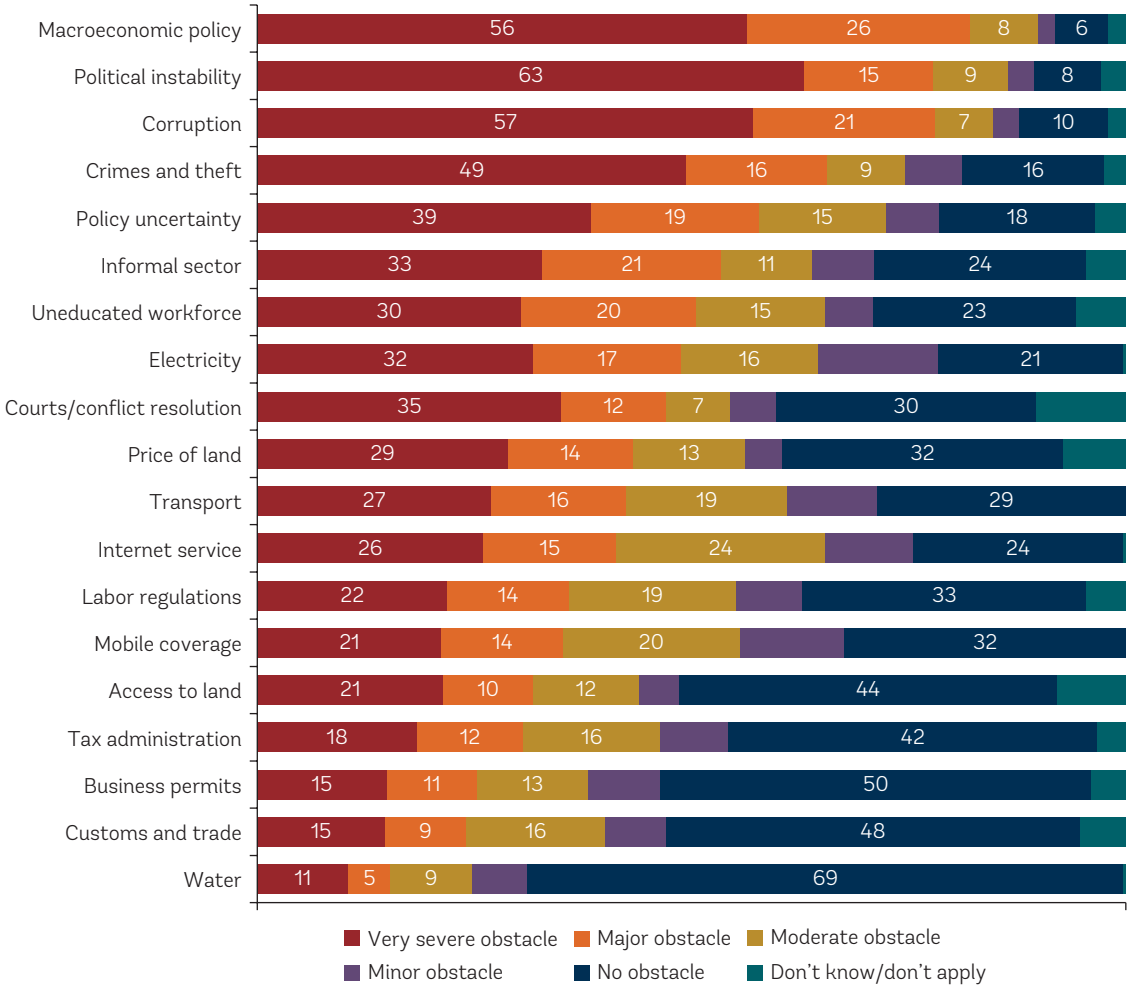
3.4. Main Constraints to Growth

According to managers interviewed, the top three constraints to growth were political and economic instability, corruption, and the high occurrence of crimes and theft. Access to water, customs and trade regulations, and the ease of obtaining business permits were the least reported obstacles.

3.4.1. Political and Economic Instability

The most severe obstacles constraining business in Libya are political instability and macroeconomic uncertainty. Understandably, the recent crisis is still in most managers' mind, and the political deadlock at the time of the survey was also identified by most managers as their main obstacle to developing their business or simply to continuing operations. Macro-economic uncertainty, including the capacity of the Libyan state to control the export of oil, of imports and to manage macro-economic mechanisms (inflation, unemployment,

FIGURE 3.27 Please Rate the Following Factors as Constraints to Your Enterprise's Operation and Growth on the Following Scale (*n* = 457)



reserves in the Central Bank) were also top concerns.

About 80% of the sample ranked the macro-economic uncertainty, political uncertainty and corruption as a major or very severe obstacle. Furthermore, political instability was the factor that had deteriorated the most over the course of the last two years, according to respondents. For 60% of panel firms, political instability worsened given the escalation of the crisis in the country.

3.4.2. Corruption, Crimes, and Theft

Corruption also ranked in the top three factors and it was reported by some businessmen that informal gifts were accepted at ports, airports and at other stages of the supply chain, a practice that seemed to have become normalized due to the absence of strong institutions. The subsidies mechanism, permitted by a poor management,

enabled corruption to develop as confirmed by Al Seddik Omar al-Kebir, Governor of the Central Bank of Libya (CBL) early 2015; "these subsidies are very badly managed, and there is massive corruption" he said.[8] Corruption was the second largest factor that had considerably worsened over the past two years according to sampled firms. A manager in Ajdabiya confirmed that accessing finance was also polluted by corruption "a company can access loans, but it all depends on connection and paying bribes," he reported.

Crimes and theft also appeared to be of critical importance as crimes have skyrocketed in the wake of the summer crisis, with many businessmen reporting robbery, theft, looting, burning and damaging of their assets. This is likely to be worth several million US dollars in assets for the enterprises in Libya. This was confirmed by half of the sample that considered this issue to have worsened compared to two years ago, while 35% reported it to have held steady. By location, it appears that enterprises in the Eastern (81%), Southern (78%) and Benghazi Areas (73%) ranked crimes and theft as a more severe constraint to growth, while companies in the Western and Middle Areas were slightly less impacted (46% and 55%). In Tripoli, about 60% of enterprises reported it as a severe or major obstacle while less than 40% identify it as a constraint of smaller significance.

3.4.3. Informal Sector

The lack of regulations and justice, the poor quality of public services and the lack of skilled labor were also perceived as major obstacles to growth. Results suggest that the lack of regulations impacted private firms as well; 55% of respondents citing the practices of the informal sector and the lack of clear policy as critical or at least major obstacles for them. The lack of policy regulation encompasses the lack of clear land policy, tax and custom laws and even goes against showing a clear will towards industrialization and diversification of the economy. The unfair competition against informal enterprises was leapt up in importance, in particular for small enterprises which suffered directly from competitors that did not pay tax and got access to the same goods; for example imported products through their links at the ports.

3.4.4. Poor Public Services

In addition, most companies encountered difficulties while operating due to the poor public services, in particular electricity, transportation and internet services were mentioned as severe and major obstacle for 40% to 50% of the sample. Power cuts remained frequent and internet services were often interrupted, impacting the operations of the business and productivity of the staff. The range in significance of these factors was identified to be quite different from one enterprise to another, as about a third thought these issues had actually gotten better, another third thought that it had not changed, and the remaining third thought it had worsened. Public services pretty much depended on the location of the respondents, as companies in Misrata and Tripoli mainly thought the situation improved compared to the other areas where it tends to have worsened or not changed. It is worth mentioning that electricity, transport and water were reported to have improved for most enterprises (about 30%) since two years earlier (mainly in Misrata and Tripoli).

Transportation routes were hindered by the closure of airports which limited connections

between major hubs of the country (Tripoli-Benghazi, Benghazi-Misrata, Tripoli-Sebha).

3.4.5. Lack of Skilled Workers

When it came to skilled labor, Libyan managers all agreed that the country lacked a skilled and ready-to-work labor force and deplored the attraction of the public sector for young Libyans (where protection is higher) or non-productive sectors (cafés, importing trade, etc.). Most skilled Libyans preferred to find job in big public companies or travel abroad. The level of education in Libya did not meet with standards to prepare for high-quality engineer or technician professions. Furthermore, Libyans refused to undertake a number of jobs that they preferred to leave to foreign workers. This problem is not new and results suggest the crisis did not have a great impact of this, as about 60% of the sample considered the issues to have remained the same as two years earlier, while only a third thought it had worsened, probably due to the displacement of skilled Libyans abroad.

3.4.6. Access to Justice and Land

Courts and conflict resolution, and the price of land were also reported to be important issues with 47% and 43% of enterprises respectively citing these issues as very severe or major constrains. The main problems with conflict resolution were the current status of Justice which was completely dysfunctional and did not address cases, in particular criminal cases due to the pressure on judges and prosecutors. The recent problems of criminality faced by Libyan businessmen might have pushed some of them to find judiciary solutions but without success. Forty percent of sampled firms estimated the problem to have gotten worst, while another 51% thought it to have remained the same, considering the absence of Justice to be a long standing problem since the 2011 revolution.

As for land prices, the pressure on land, and the uncertainty around land regulation and the existence of a property register has pushed prices up. Surprisingly, access to land was not perceived as a major issue by businessmen (12 points below price of land when cumulating "severe" and "major" obstacles). It is worth noting that these two issues were not widespread across the sample as about 30% of the enterprises did not see them as obstacles at all. Change in significance over two years shows that an equal number of firms considered the problem to have remained the same while the other half believe it to have worsened across time.

Access to land, which was one of the main constraints in the last ICA of 2011, is no longer perceived as a major obstacle; only 31% of the enterprise classified it as a major or very severe constraint while 44% did not consider it an obstacle to business. This constraint was also identified as having held steady by the majority of our sample, therefore Libyans could have become accustomed to it. Getting access to business licenses and permits were not a major problem either, or at least not a main one, as 67% of those interviewed did not ask for any permit recently, and among the one who made a request, a large majority could get it in less than 15 days.

3.4.7. Other Minor Constraints

Regulation of labor, mobile coverage, tax, business and customs institutions were perceived to be minor constraints to the current

development. Enterprises did not associate the lack of skilled workers to the lax labor regulations, viewing them as a minor obstacle. Despite the social protection that they offer to employees, Libyan businessmen participants were not longing for new regulations and seemed to be able to accommodate the existing ones even in the current context. Furthermore, some businessmen do not abide strictly by the labor procedures for all existing staff, in particular low-skilled foreign workers, which are contracted informally. Unlike other public services, mobile coverage and water did not represent major issues for Libyan businessmen, except in the Eastern Area where the mobile network was cut off for several weeks due to armed clashes. Water in particular seemed to work sufficiently well and did not slow down operations despite the fact that a number of water basins were under stress in Libya and the existing water deficit was expected to worsen. It seems that the issue had been relegated from manager's main preoccupation.

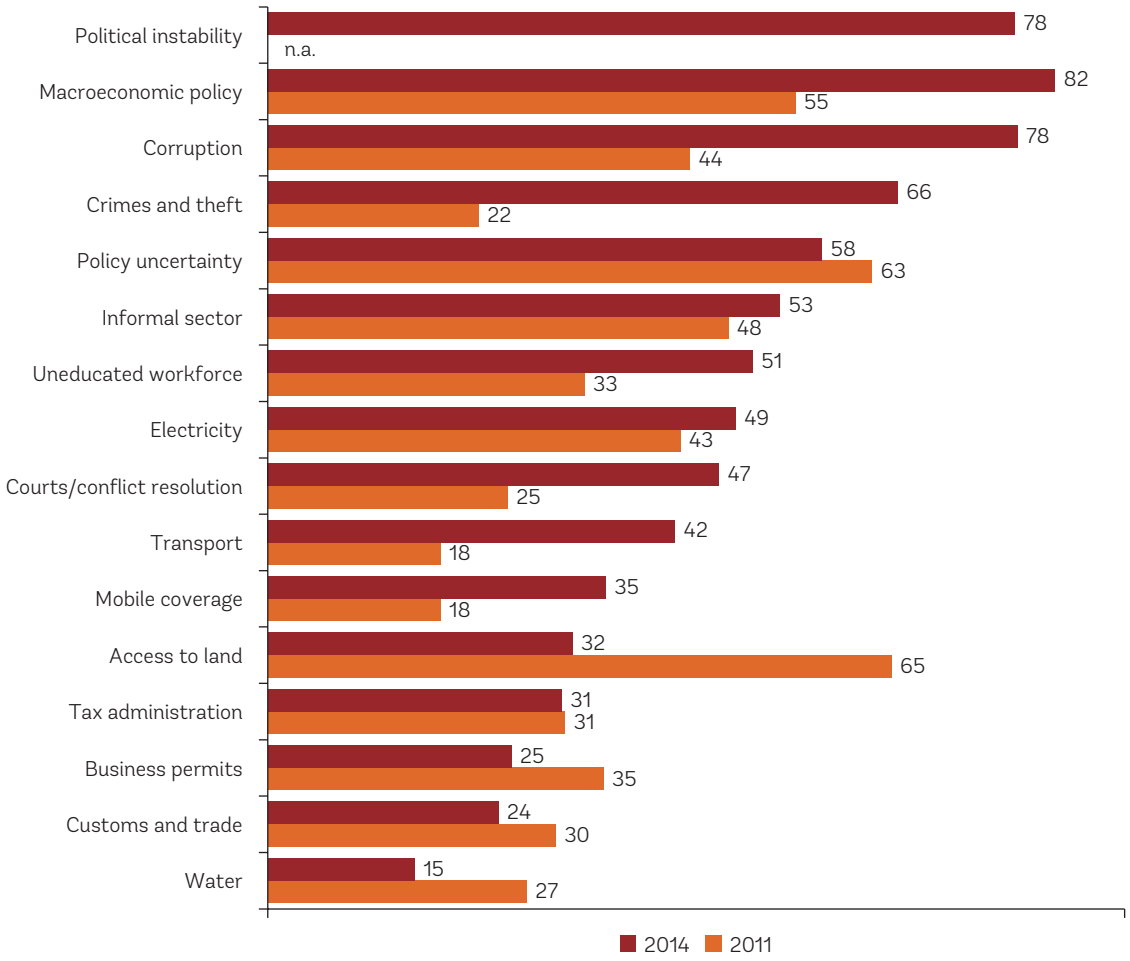
Some institutions were considered to not be hindering business, but be for varying reasons. The regulations on trade and customs were performing rather well despite the various delays in receiving goods. The tax administration was not considered an obstacle mainly because it did not exist per se and did not constitute an additional weight on businesses. Bother customs and tax regulations were considered to have stayed significantly static for the last two years, suggesting Libyans got along with a system that was hardly hit by the crisis. Tax rates in particular were ranking the highest in "remained the same" when asking Libyan enterprises to identify significance of change in the past two years. The tax rate system was modified in 2010 passing the corporate tax to a 20% flat rate, based on self-assessment and risk-based auditing. The stamp duties and the "jihad" tax (4%) rate were completing the tax requirements for companies operating in Libya.

3.4.8. Evolution of Constraints as Compared to Pre-2011 Revolution

When compared with the constraints identified in the 2011 ICA, it was clear that new issues have emerged in the wake of the post-revolution Libyan context that were now the main constraints in businessmen's minds (see figure 3.28). Managers were asked to rank some general constraints in terms of significance to their business growth and when isolating the "severe" or "major" obstacles over time, we observed that crimes and theft had multiplied by three (from 22% in 2011 to 66% in 2014), transport and telecommunication (mobile coverage) more than doubled in terms of significance (from 18% to 42% and from 18% to 35%). Macro-economic uncertainty, which already ranked among the top three constraints in 2011, had leapt up by 27 points from 55% to 82% in 2014.

Corruption, thought to have developed in the absence of strong institutions, also increased quite substantially as a key issue from 44% to 78% of respondents classifying it as a major or severe obstacle. Justice and crimes resolution had also developed to become a major constraint for 47% of respondents in 2014 compared to a level that did not exceed a quarter of respondents' concerns in 2011. This likely goes hand in hand with the sharp increase in crimes and theft, with an unsatisfactory resolution system in place for wrongdoers.

FIGURE 3.28 Percentage of Firms Identifying Constraints as "Major" or "Very Severe" Obstacle Compared to 2011 ICA



Note: n.a. = not applicable.

On the contrary, some constraints were now found to play less of a significant role for business managers, likely due to the rise in conflict specific obstacles linked to security, stability and justice. Indeed, water, business permits and licensing, and customs and trade regulations were seen to be a less severe constraint than previously. More importantly, access to land, which ranked as a top constraint in 2011, was no longer considered as a severe constraint for a majority of companies. Other obstacles, less inherent to the crisis, held steady, such as the practices of the informal sector, the policy regulation uncertainty and the tax administration.

3.5. Perspectives

3.5.1. Employment Perspectives

Perspectives for employment remain rather positive as about half of those sampled were willing to increase their level of employment

in the next year. About 47% of companies were expecting to recruit at least a new employee to compensate the recent staff reduction. Large companies—67% expected their staff to increase, 20 points above average—would likely be the more active on the labor market trying to recruit more to support projects. Companies of the construction and the real estate sectors also expressed their intention to recruit over the coming year, as these companies were looking to develop promising projects and to compensate of the destruction of assets. About 20% of the sampled enterprises did not know if they would recruit in the next year, demonstrating the blurred situation for some companies that struggled to formulate a clear vision of the future; this percentage reached its highest in Benghazi (31% of "don't know") where perspective for the future remained particularly uncertain. Twenty seven percent of the companies estimated that their staff members would stay at the same level in the year following the crisis, and only 6% forecasted a further decrease of their staff (see figure 3.29).

Managers were asked to identify the main constraints to hiring new staff members. The general security and economy situations were noted as the most critical factors as well as the availability of international flights (see figure 3.30). An inflation of salaries and the low availability of skilled workers were also, to a smaller extent, considered as important factors to be tackled to foster employment (70% of the panel ranked these two criteria as of critical or major importance). Regulations on hiring foreign workers appeared to depend on the importance given by companies to this labor force in their business, as well as the level of formality as may companies hired foreign workers without following the regulations; still 57% of the enterprises interviewed considered the issue as critical or of major importance, while 40% considered it to be moderate, minor or have no importance at all (3% did not know). The less important factor is the risk of labor unrest or strike that was deemed as a factor of lower importance; strike are scarce in Libya although several ones burst out in 2013

FIGURE 3.29 What Is Your Expectation for Your Firm's Employment for One Year from Now? (*n* = 457)

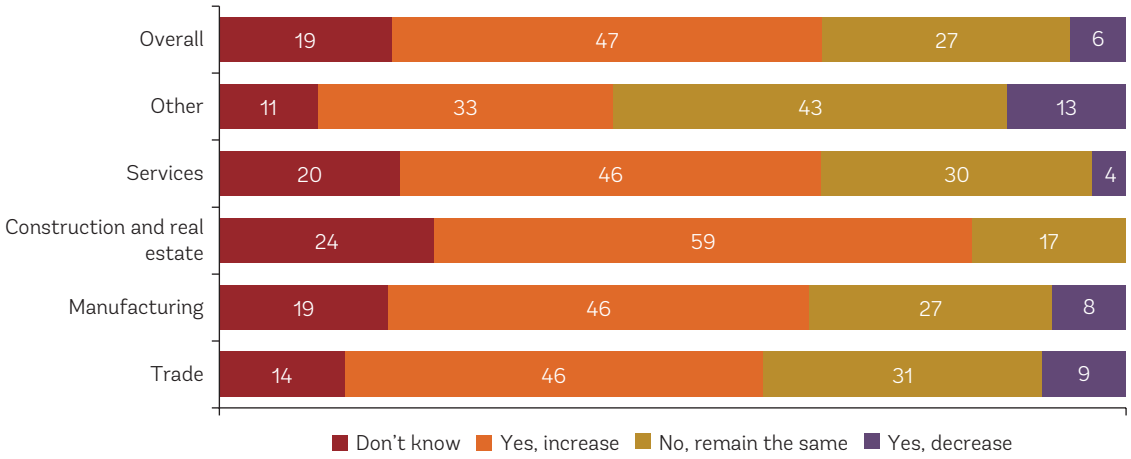
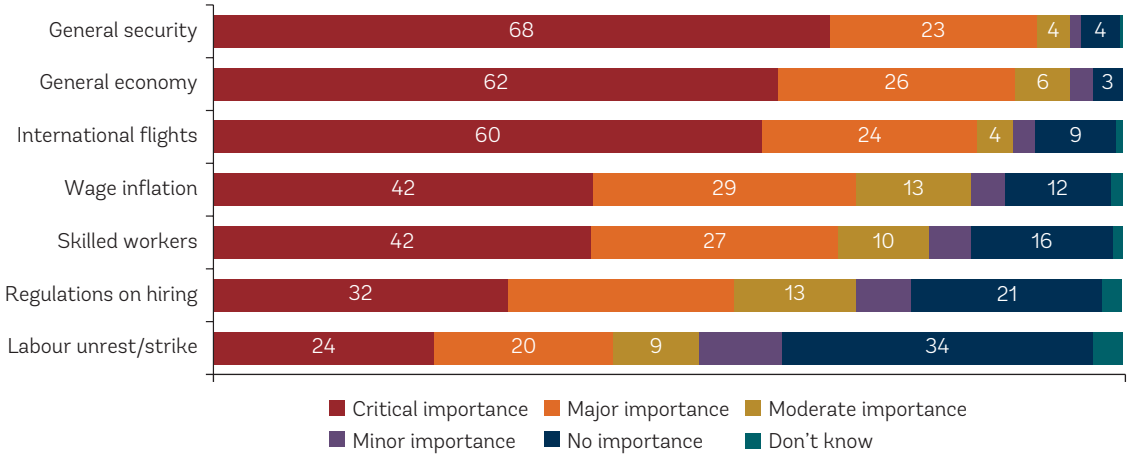


FIGURE 3.30 Over the Next Year, How Do You Think the Following Factors Will Influence Your Firm's Hiring of Additional Workers? (*n* = 457)



mostly in the public sector (in state-run schools in Benghazi, Libyan airlines employees, etc.). But those appear to be of limited impact on investors and almost inexistent in the private sector.

3.5.2. Investment Perspectives

Domestic investment from private enterprises should resume if conditions improve. A bit more than half of those sampled were positive about the ability of the company to increase investments in the next two years. On average, companies were looking forward to increasing their level of investments by 60% and about 10% of the sample forecasted doubling it in the near future. Investment from Libyan private companies should not only increase the production capacity, but also enhance growth if the money is injected in the local economy, in particular in SMEs that are working along the value chains.

Twenty seven percent of the sampled companies did not know yet whether they would be in position to reinvest, probably waiting for the situation to stabilize before developing an investment plan. Large and micro enterprises were the least optimistic of the panel firms; for large companies, investments often represented a lot of money as they worked in businesses that were capital-extensive. Any decision linked to investment needed to be deeply thought about, in particular in a situation where crimes, theft and destruction of assets were frequent. Managers based in the Southern Areas were the most numerous in not knowing about the future of the company's investments as it seemed that the economy in the area depended first on the capacity of trade to resume in the Northern Area; meaning firms in the north having confidence in their own capacity to create growth despite the challenging circumstances. Construction and real estate companies had high expectations when it came to investment as 69% of them forecasted it to develop in the next two years. Manufacturing, trade and other services companies were slightly less ambitious with 51%, 40% and 33% respectively of companies looking forward to increased investments.

Notes

1. This analysis was based on a sub-sample of $n = 224$ interviews as some enterprises refused to communicate their accounting data.
2. Data from the International Trade Center, calculated on an 2009–13 average, http://www.intracen.org/country/lybian-arab-jamahiriya/sector-trade-performance/.
3. Out of a sub-sample of 151 enterprises that started a process to obtain a license.
4. Provided that the sampled cities in the East were Bayda and Tobruk and excluded cities that were probably more hardly hit such as Derna.
5. Calculated on a sub-sample of $n = 439$ as some companies were not in position to estimate, or did not want to share estimate.
6. Most of the interviews have been conducted between November and December 2014.
7. Capacity utilization can refer to production capacity for productive companies or operation capacity for other companies (hours of operation).
8. Interview of Al Seddik Omar el Kebir, Governor of the Central Bank of Libya (CBL), African Banker, p. 52, 1st Quarter 2015 Issue.

4. Private Sector Mapping

4.1. Methodological Note

The following mapping exercise has been conducted based on an extensive review of existing literature on the Libyan private sector (see section 2.2), updated and complemented through key informant interviews (KIIs) with Libyan businessmen. More than 40 in-depth interviews were conducted in Tripoli and Misrata during the last quarter of 2014 and first quarter of 2015, covering the general trends of the private sector as well as the different sectorial patterns. The following areas were discussed during the interviews:

- General Economic Dynamics
- Impact of the summer 2014 crisis in the dynamics of the private sector
- Main constraint to growth
- Sectorial Dynamics
- Regional Dynamics
- Perspectives of growth and investment

The sizing exercise was approached based on the latest reliable data available from different sources, but projected for 2014 and discounted based on interviews. As a result, these estimations do not represent an attempt to replace national accounts, but only a "best-available" estimate of the Libyan economy disaggregated per sector. The resulting figures are based on the author's interpretation of these secondary and primary sources.

While results of the enterprise survey (see section 3) are used to complement the sector mapping analysis, it should be noted that the sectors represented in the following section are not strictly the same as those in the survey, and often have a broader definition of a given sector, sometimes to include public and mixed companies. Nonetheless, some clear links could be found in the quantitative data to buttress the qualitative exercise and have been added to the analysis, although the source of the data is always clearly mentioned. In addition, the sampling methodology used for the enterprise survey does not allow the analysis to be nationally representative of each subsector. Thus, the data shown must be considered as indicative to help formulate the analysis extracted from secondary research and qualitative interviews.

In all of the following:

- *Crisis* refers to the crisis that started in July 2014 around Tripoli and led to the destruction of the main international airport of the city and the evacuation of most international workers; and
- *Revolution* refers to the 2011 uprising against the previous regime of Muammar Gadhafi.

4.2. Background on the Private Sector in Libya

Libya has a medium-sized economy, with a nominal gross domestic product (GDP) estimated at United States dollar (US$) 73.9 billion[1] in 2013. The Libyan economy is characterized by two major flaws: over-dependency on the oil and gas (O&G) sector and a predominance of the public over the private sector. The O&G

sector was reported to account for approximately 66% of GDP and 90% of government revenues in 2012, qualifying Libya as "one of the least diversified oil-producing economies in the world."[2] Accordingly, Libya displays all the symptoms of the "Dutch disease,"[3] with high labor costs, a high social benefits bill and a largely undiversified economy—despite the Gadhafi regime's late recognition of the importance of diversifying government revenues.[4] In addition, the Libyan economy is largely skewed towards the public sector with a total of 1.7 million[5] public employees working directly for the government or for government-owned companies, accounting for a wage bill of US$21.6 billion,[6] or 42% of the Libyan budget.[7] In the 1970s and 1980s, the government's central economic planning policies created state-owned retailers, hotels, cement factories and steel industries that were fundamentally designed to control the Libyan economy.

In the late 1990s, the Gadhafi regime realized the importance of diversifying the economy and the need to open some sectors to private interests and foreign investors. The Libyan Economic Transition inaugurated the withdrawal of the state from some economic areas, just as new regulatory policies (for example Law n°5 of 1997 for encouragement of Foreign Investment) opening the country to more Foreign Direct Investment (FDI). The first wave of privatization began in 2003 and Decree No. 171 in 2006 increased this trend by allowing foreign enterprises to invest in up to 65% ownership of joint ventures with Libyans, for a minimum capital of 1 million Libyan Dinars (LYD) (approximately US$0.75 million). Law No. 9 of 2009 for investment promotion established the Privatisation and Investment Board (PIB) and increased foreign investors' rights to enter a wider range of sectors (excluding the sectors of distribution, importing services and legal services). It also provided for tax exemptions and other advantages for specific projects, but this law was not fully implemented before the revolution began in 2011.

Nonetheless, the liberalization process was slow before being halted altogether by the onset of civil war. The Libyan Revolution and the protracted conflict that followed froze the economy, limiting the production and export of hydrocarbons and triggering the withdrawal of many foreign oil sector stakeholders (e.g., British Petroleum, Total, Statoil, OMV).[8] The unclear regulatory framework that followed discouraged new investors and accelerated the development of the informal economy. It seems that after the Revolution there was a slight return towards a more protectionist mentality, of which Decree 22 of January 2013—which reduced maximum participation of foreign companies to 49% (as opposed to 65% since 2006)—is an example.

Since 2011, statistics on the Libyan economy have been largely unreliable due to the limited capacity of government services and the rise of informal activities. Despite the lack of actual data, it seems from previous empirical studies[9] that the private sector experienced strong growth in 2012 and 2013, mostly driven by construction and trading companies focusing on retail of consumption goods—largely informal—or the import/export of construction materials. The Libyan private-sector is driven by consumption of a population with a high disposable incomes (US$20,076 per capita in 2013[10]), giving rise to strong demand for consumable goods, in particular food and beverages and house equipment. Libya's Gini coefficient,[11]

although perhaps poorly estimated, is not very high (Libya ranked 55 out of 187 countries in 2013), suggesting that GDP per capita is rather well distributed amongst the population. In addition, incomes have grown since the revolution, with an increase of 200% of the minimum public sector state salary supporting growth after the Revolution.

The domestic construction sector has also been growing, led by small scale entrepreneurs, while the tourism and catering sectors were identified as sectors with the highest untapped potential, both relying strongly on foreign workers (Egyptians, Tunisians, Bangladeshis, etc.).[12] Small and Medium Enterprises (SMEs) in the import/export sector—in particular on the northern coastline—showed a trend towards horizontal diversification, and focused on trading different types of goods with few synergies between the range of products offered.

In addition to small enterprises, a few large private-sector champions coexist, demonstrating the possibility of creating and sustaining large private enterprises in Libya. The Husni Bey Group (HB Group), Al Medina Misrata for painting products, Al Naseem for Food Industries or Al Rayhan for juices and food, are examples of private firms performing well in their given sectors while international firms were traditionally mostly concentrated around the energy (Total, ENI) and construction sectors (Turkish, Korean and Brazilian companies, albeit with most large projects currently on hold).

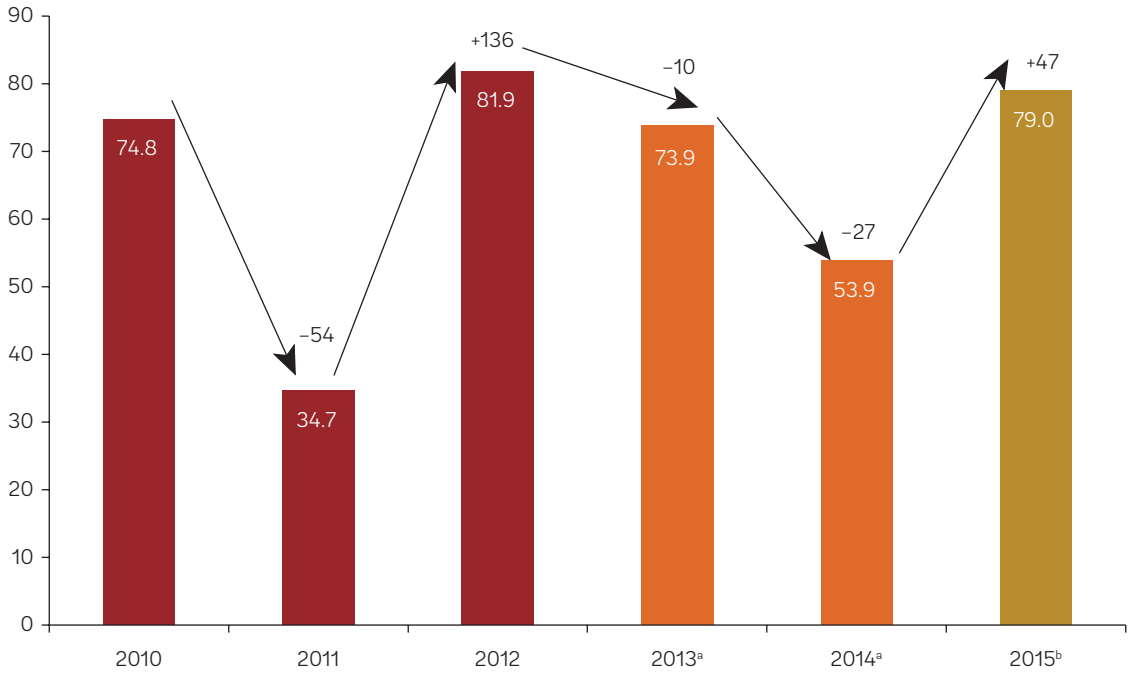
Nevertheless, employment continues to be driven by state-owned bodies, as the private sector is estimated to employ only around 350,000 people,[13] representing 20% of the total workforce.

Libyans still tend to prefer the employment security and social benefits typically offered in the public sector to the limited job security and benefits of the private sector, despite the potential for higher salaries. It is common for Libyans to work in parallel to their government job, typically complementing their main activity with a family business (mostly trade) or as an individual or small-scale and informal enterprise. Previous studies[14] have shown a general lack of entrepreneurial spirit and an aversion to risk taking: this, coupled with the extreme difficulty in obtaining loans, has stifled growth in innovative start-ups and micro enterprises. Mainstream business culture instead steers Libyan entrepreneurs towards projects with low-risk and low-capital requirements, mainly trading activities or food services (restaurants, cafés, etc.). In addition, the private sector is in need of foreign workers, the percentage of which varies across sectors. Nonetheless, construction, trade and tourism enterprises reported using between 60 and 70%[15] foreign workers, with Libyans only accepting and holding key positions such as managers, accountants and engineers.

4.3. Sizing the Libyan Economy

The Libyan economy has experienced several setbacks since the 2011 revolution. In 2010, real GDP was growing at a rate of 5%, with a fairly even balance between the hydrocarbon (6.1% growth) and non-hydrocarbon sectors (4% growth) (figure 4.1). The 2011 revolution caused the economy to contract dramatically by 54%, only beginning to recover in 2012 with restarted oil production

FIGURE 4.1 Libyan GDP from 2010 to 2014
US$ billions



a. World Bank estimates.
b. Forecasts/data on GDP are based on IMF estimates.

and export trade, which in turn enabled other sectors to grow (non-hydrocarbons growth was estimated at 43% in 2012). The GDP decreased moderately in 2013, but the non-oil sector kept growing by 10% in 2013, mainly boosted by domestic construction and trading, driven by a relaxation of previously restrictive building laws and codes, as well as wage increases (which had a positive impact on disposable income and therefore domestic consumption). In the meantime, political turmoil in the third and fourth quarters of 2013 led to reduced oil revenues of 32% and a 10% decrease in overall GDP. The private sector continued growing until early 2014, which led the Libya Herald Business Eye magazine stating in March 2014 to state that "the private sector [was] not merely flourishing, it [was] growing exponentially as it moved into areas hitherto the remit of the state."

Since then, the worsening security situation has prevented a return to growth and investment, a trend confirmed by the results of the enterprise survey. The reduction of oil production capacity in the east combined with reduced international oil prices (about US$60 per barrel (Bbl) by end of November 2014) contributed to a 51% reduction in hydrocarbon revenues in 2014, while related activities were estimated to have decreased by 12% mainly due to a diminished production capacity and the general contraction of global demand. Libya's GDP is estimated to have decreased by 27% in 2014, but may rebound by 47% in 2015 if the general

situation stabilizes and oil exports reach 500,000 Bbls per day at an average price of US$53 in 2015.[16]

In November 2014 and January 2015, the Central Bank of Libya (CBL) released statements emphasizing the country's fragile financial position. The sharp fall in oil production and exports combined with reduced international prices also had a negative impact on Libya's foreign exchange reserve and savings. According to the CBL, "the Libyan economy is reaching a critical point," where expenditures are no longer covered by revenues and the level of subsidies was reduced by about 25% compared to 2013.[17] This will increase the costs of subsidized goods (energy, basic food, raw materials, etc.), and negatively affect the accessibility and price of foreign currencies, creating a difficult cash position for companies with significant international exposure.

4.4. Structure of the Libyan Economy

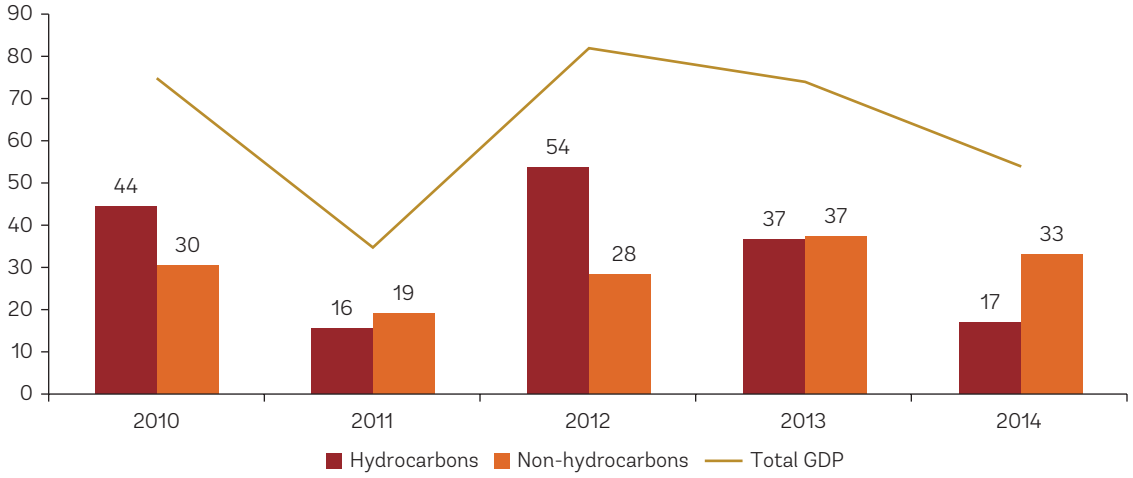
As previously mentioned, the Libyan economy is dominated by the oil sector (representing 59% of GDP in 2010 and 45% in 2011), controlled by the state through the main public company the National Oil Corporation (NOC) and several smaller subsidiaries. Nevertheless, international private actors do contribute to and participate in the Libyan O&G industry. Such participation is often through consortiums, with the State maintaining control as the majority stakeholder. Table 4.1 illustrates the heavy dependence of the Libyan economy on oil, but it also shows that the oil crisis has given more space and importance to non-hydrocarbon economic activities. While these sectors have likewise suffered from the crisis, they have also shown a higher degree of resilience.

TABLE 4.1 Proportion of 2012 GDP per Broad Sectors ('000 US$)

Broad sectors	Percentage	Contribution to GDP in 2012
Oil and natural gas extraction	50	53,659,933
Public services, defense and basic social services	22	12,151,847
Real estate, and promoting activities	7	4,063,037
Wholesale and retail of vehicles and personal or domestics goods	6	3,281,152
Manufacturing industries	5	2,636,318
Transportation, storage and telecommunications	4	2,480,680
Construction	2	1,068,749
Electricity, gas and water supplying	2	1,001,641
Financial services	1	744,676
Agriculture and fishery	1	648,390
Hotels and restaurants	0	122,523
Private health and social care	0	97,781
Private education	0	78,955
Other social and personal services	0	68,517
Mining	0	49,747
Indirect financial services	0	–253,946

Note: Altai Consulting analysis based on data from the CBL for repartition of sectors, and IMF figures for 2012 GDP.

FIGURE 4.2 Evolution of the Part of Hydrocarbons in the Libyan GDP
US$ billions



Note: Data on GDP are based on Libyan Central Bank 2012 Annual Report. Data from 2013 to 2014 are based on IMF estimates. Data for 2014 are from January to November.

The second most important part of the economy after the O&G sector is the public services sector—which is also under state control—including the defense sector, public health, education and basic social services sector, accounting for US$12.1 billion and 22% of GDP in 2011. The public services sector is followed by real estate and promotional activities, which have been impacted to a degree by the crisis but have shown resilience, accounting for US$3.2 billion in 2011 and US$4 billion in 2012.

Trading activities rank in fourth position, representing 6% of GDP, but also account for the largest number of enterprises. As outlined by the enterprise survey, most trading companies from the sample are small or micro enterprises located along the Libyan coast, and only 18% of them are medium or large enterprise, 10 points below the sample average (28%). The sector is driven by consumer spending, and encompasses retail and wholesale of personal or domestic goods and vehicles. This sector has proven to be quite resilient in the years following the Revolution and resulting crisis, driving an important part of the moderate growth experienced by Libya from 2012 to the two last quarters of 2013 (see figure 4.2).

Despite its fifth position in 2012, the manufacturing sector remains quite small and under-developed in Libya, despite the fact that the country benefits from favorable conditions for processing activities, in particular access to cheap energy. In 2010 manufacturing was estimated at US$4.2 billion and fell to US$0.7 billion in 2011 before rebounding to US$2.6 billion in 2012. Most of the added value of the sector was generated by state-controlled enterprises active in heavy industry such as the Libyan Iron and Steel Company (LISCO). The sector has two strong sub-sectors driven by private establishments: food processing and building materials production, both of which have been driving private sector growth. Notably, manufacturers in Benghazi and the Eastern

region appear to have weathered the crisis, with 41% of surveyed (i.e., relatively accessible and active) firms from the region being manufacturing companies, 10 percentage points above the other regions.

In sixth position, the transportation, storage and telecommunications sector represented US$2.5 billion in 2012, with respondents reporting that telecommunications was the largest among these three sectors. The size of the Libyan telecommunications sector, dominated by two state-controlled operators (Al Madar and Libyana),[18] decreased by 28% in 2011 due largely to damaged assets (it is estimated that more than US$1 billion worth of telecom infrastructure has been destroyed, including 20% of the country's cell sites and towers). The sector has recovered fairly quickly since the Revolution, and is deemed to be driving a large portion of non-hydrocarbon growth in the country. LAP Green, a communications solutions provider and subsidiary of the Libyan sovereign fund Libya Africa Investment Portfolio was awarded "the growth story of the year" in May 2014. Further, there are plans to privatize one of the operators, creating the first private mobile network in the country. In addition, about 25 Internet Services Providers (ISPs) and 23 VSAT operators have been licensed to compete with the state's former monopoly, clearing the way for dynamic private-led growth in the sector.[19]

The construction sector, composed of a mix of public and private companies, is the sector that suffered the most from the 2011 Revolution, decreasing from US$5.9 billion in 2010 to US$0.9 billion (−83%) in 2011 and rebounding to US$1.1 billion in 2012. The sector used to be the second biggest in the country before many projects were abandoned following the fall of the Gadhafi regime. There has been strong growth in domestic construction, most of which is constituted by household-sized construction and repairs (often relying on non-declared foreign workers, mainly Egyptians). This is a key sector for growth in the Libyan economy as it has direct links to domestic manufacturers and import companies who supply construction materials.

In total, electricity, gas and water supplies, the financial sector, and agriculture and fishery represented between US$0.5 billion and US$1 billion in 2012, accounting for less than 2% of GDP, and are dominated by state-controlled companies. These industries saw their value reduced by 3% after the Revolution as added value in agriculture and fishery has previously been driven by the government supporting bodies and big projects such as the man-made river project, while the 70,000 or so privately-owned farms had limited productivity due to the lack of support for private enterprise. As outlined in a 2012 fact-finding mission[20] on agriculture small and medium-scale agribusiness, development has not been supported in the past. Consequently, most farmers (with perhaps a few exceptions) have not engaged in processing and other value-added activities. In addition, the limited availability of arable land and the uncertainty of rainfall in the country limit the sector's potential. Main produce includes vegetables, fruits, poultry meat, cereals and potatoes but production is insufficient to cover Libyan consumption, meaning that about 75% of food is imported. Nonetheless the sector employs between 6 and 8% of the workforce (in comparison, the oil sector only employs about 2%).

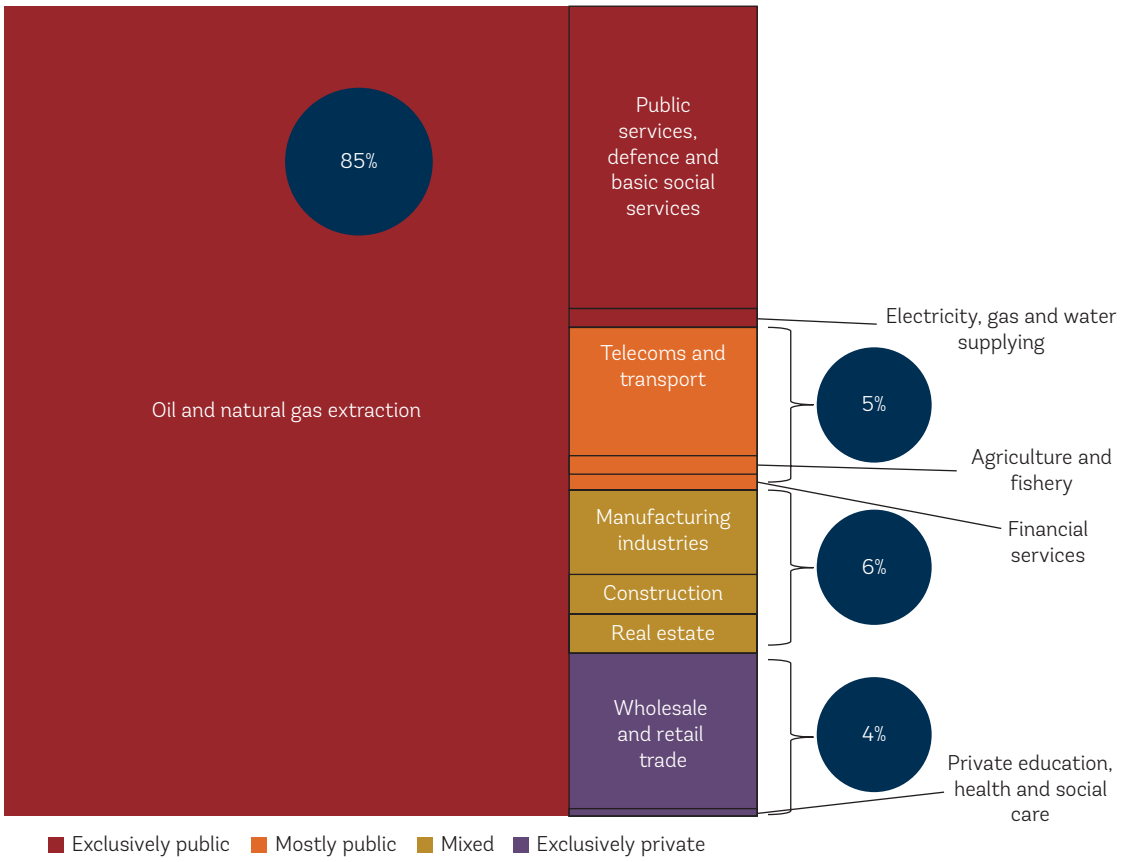
The remaining sectors of the Libyan economy all accounted for less than US$0.1 billion in 2011, representing less than 1% of GDP. These small industries include mining, hotels and restaurants, private health and social care, and other social and personal services.

Apart from the mining activities, almost all of them depended on private enterprises that struggled to achieve sustainable growth in a state-dominated market. Nonetheless private education and private health have shown encouraging signs of growth since 2011, driven by the purchasing power of Libyans and the weakened state of public services.

4.5. Sizing the Private Sector

THE STRUCTURE OF the Libyan economy in 2014 can be compared to the Libyan economy in 2011, following the onset of civil war. At that time, oil revenues had decreased by 14 points from 59% in 2010 to only 45% in 2011, while they decreased by 16% in 2014 (from 50% to 34%). Today, non-hydrocarbon activities drive private sector activity, although new enterprises are being created in some sectors. Of the main sectors mentioned above, wholesale and retail trades are mostly composed of private companies (see figure 4.3), as are private education and private healthcare centers (hospitals, clinics, etc.). Real estate and construction activities are distributed between large public and private companies that

FIGURE 4.3 Representation of the Libyan Economy in 2012 and Part of the Private Sector



Source: World Bank estimation based on CBL 2012 Annual Report and KIIs with private sector stakeholders.

sometimes work together on projects. Manufacturing companies are also spread between big state-owned enterprises (like LIDCO) and private industrial enterprises (Rayhan group, for instance). The financial sector is dominated by public banks and most of the value in agriculture is derived from large projects dedicated to the export of goods (see table 4.2).

It is estimated that the private sector represents between 4% and 15% of the economy,

TABLE 4.2 Multi-Criteria Summary Table of Different Broad Sectors

Sector	Estimated value in 2014 (US$ billions)	Average number of employees	Average number of domestic suppliers	Main source of financing	International exposure
Retail and wholesale trade	3.7	Large enterprises: 100 and more Medium enterprises: 10–15 Small enterprises (wholesale): 2–5	Retail: 15–20 Wholesale: 3–5	• Self-financed	Retail: High Wholesale: Very high
Transportation/ shipping	0.4	Large enterprises: Above 100 Medium enterprises: 20	20	• Self-financed • Letters of credit	Very high
Construction	1.1	Large: 200 Medium: 30 Small: 5–10	5–10	• Investors (large projects) • Loans (large projects) • State equity (large projects) • Self-financed (medium and small projects)	Medium
Real estate	3.8	Large: 300 Medium: 15–20	N/A	• Investors (large projects) • Loans (large projects) • State equity (large projects) • Self-financed (medium and small projects)	Medium
Building material manufacturing	0.2	Large: 200 and more Medium and small: 10–25	5–10	• State equity (large enterprises) • Self-financed (medium and small enterprises)	Medium
Food and beverage manufacturing	0.4–0.8	Large enterprises: 200 and more Medium: 30–100 Small: 5–10	2–7	• Self-financed	High
Private health	0.14	Large enterprises: 100 Medium enterprise: 30–50	20	• Self-financed	High
Private education	0.13	Large enterprises: 100 Medium enterprises: 10–15	1 or 2	• Self-financed	Low
Accommodation and catering	0.1	Large enterprises: 100 Medium enterprises: 10–15 Small enterprises (cafés only): 5	6–10	• Self-financed	Low
Finance	1.1	Large: 500 and more Medium: 50–100	1 or 2	• State equity (large) • External equity (including foreign) • Loans	High

TABLE 4.3 Dashboard of the Per-Sector Performance in 2014

Percent

Sector	% Private Sector in total value	2014 Growth
Trade	90	-15%
Transportation/shipping	60	-25%
Construction	65	-25%
Real estate	45	-30%
Building materials manufacturing	80	-50%
Food manufacturing	80	n.a.
Private healthcare	100	+5%
Private education	100	-40%
Accommodation and catering services	50	-40%
Finance	10	-5%

Note: n.a. = not applicable.

which would represent between US$2.2 and 8.1 billion in 2014.[21] Husni Bey, founder and chairman of the HB Group, considers "the private sector to be worth 15% of GDP, while Mr. El Seddik, Governor of the CBL estimated it to be worth 5% of GDP, figures that are hard to verify in the absence of national accounts, and which account for a small share when compared to other world economies"[22] where it can reach 40%. This emphasizes the role to be played by private enterprises in the country in the coming years (see table 4.3).

4.6. Per Sector Analysis

Key Takeaways

- Retail and wholesale trade is driving most Libyan private sector dynamism.
- Libya is reported to import 70% of all it consumes making the transportation and shipping sectors a cornerstone of the private economy.
- Most large-scale construction projects have been stopped due to the political situation but the sector continues to show signs of growth driven by smaller—and often informal—companies.
- Real estate companies tend to be rather large, and many foreigners are attracted to invest in the sector given the relatively large amount of money Libyans spend on housing
- Building materials manufacturing is one of the two main industrial activities in Libya, along with food processing, and focuses mainly on ceramics

and cement. Food manufacturing companies are composed of both large national champions and smaller pastry and flour manufacturers.

- The private health sector, private education and the catering services sectors have been growing exponentially, although they have been hit hard by the destruction of assets and lack of access to supplies, and these sectors remain comparatively small.
- The financial sector remains largely dominated by state-owned banks over the newer private banks. The lack of links between the financial industry and private enterprises is one of the main constraints facing the Libyan economy.

The following chapter will focus on the main industries driving the private sector in Libya, and reflect on the unique dynamics that characterize each of those industries. It is by no means exhaustive of all economic activities in Libya, in particular the ones with no or little involvement of the private sector such as O&G, telecoms, energy supply, mining, or defense.

On all of the following, estimation of size and growth per sector is not based on recent national data but on World Bank Group's own calculation and estimates based on a combination of previous Central Bank data, interviews with Libyan professionals and literature reviews on each sector. The following estimates do not represent official data on national accounting, and do not replace World Banks estimate on overall growth of GDP.

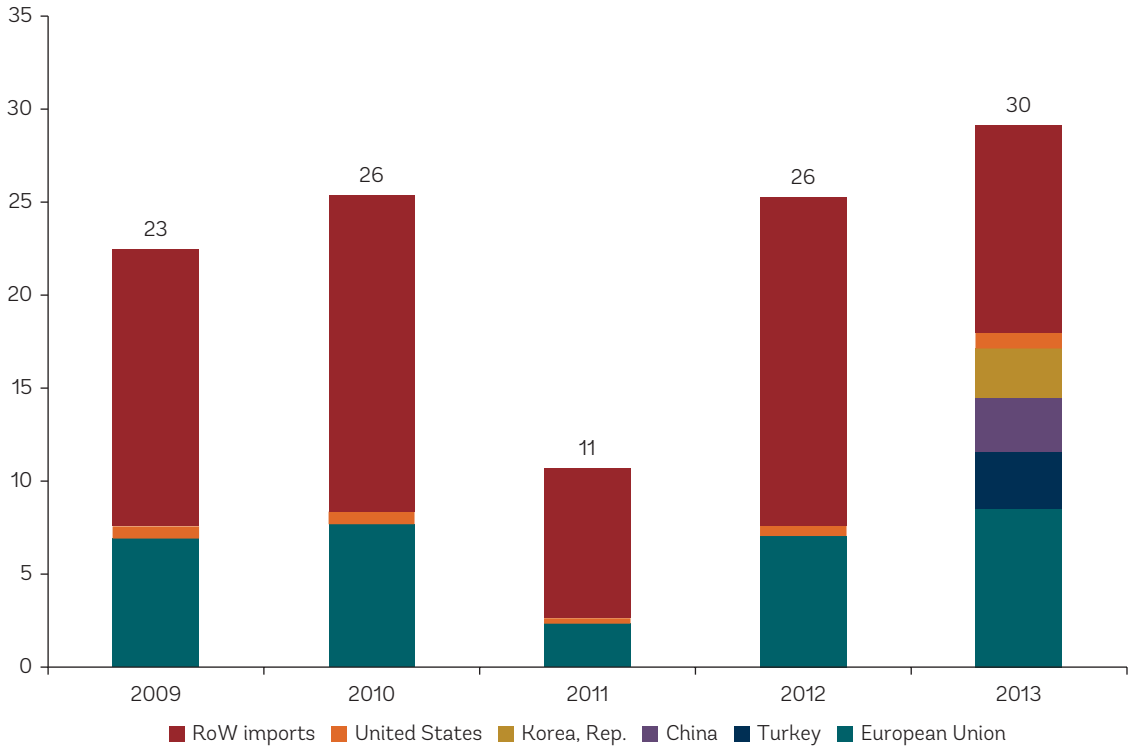
4.6.1. Retail and Wholesale Trade

BACKGROUND ON THE SECTOR. This sector includes import, export, wholesale and retail trading and is composed of a very large number of individual informal traders, a small number of small retail companies—including medium size grocery stores—and about five large actors (above 100 employees). Trade includes all types of personal, domestic or professional processed goods that are made available by traders on the Libyan market, without any (further) processing activity. This sector is key in a country that imports about 70% of what it consumes. According to the International Trade Centre, main products imported were non-electronic machinery (e.g., gas turbines), basic manufacturing goods (cement), transport equipment (automobiles), minerals (light petroleum), processed and fresh food and medicaments.[23]

Wholesale trade has been boosted by imports from the EU that reached a record level of EUR 7.0 billion (US$8.5 billion)[24] in 2013, outclassing their pre-revolution level and showing the dynamism of Libya during the post-revolution period. Italy in particular, Libya's biggest European partner, was reported to have trebled its exports since the revolution. Imports from the United States also grew to US$837 million in 2013, a 25% increase compared to their 2010 level (see figure 4.4).

SIZE OF THE SECTOR. Nonetheless, the value of imports is likely to have dramatically decreased in 2014 as Libyan companies reduced their level of activity due to the ongoing crisis. Libyan imports from the US decreased by 38% (Year to November) compared to the same period in 2013 and this trend is likely to be similar with other key trading partners. Main imports that have been hit are services, machinery and equipment and food and raw materials.

FIGURE 4.4 Value of Libyan Imports per Country of Origin
US$ billions

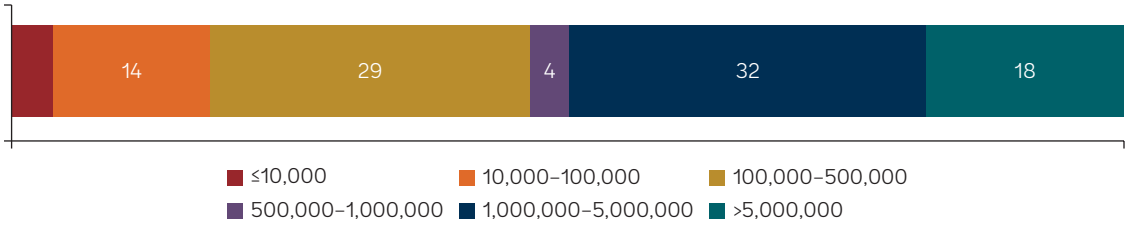


Source: Data from Eurostat, the WTO Libya database, US Census Bureau on Exports and Imports and European Commission Directorate General for Trade. Data for the Republic of Korea, Turkey and China only available for 2014.

Trading companies, while generally small in terms of number of staff (based on findings from the enterprise survey, with 82% being small or micro enterprises), tend to report relatively high revenues compared to their small size, with half reporting revenues over US$1 million for the 2013 fiscal year (see figure 4.5).

The value created out of trading activity represented US$3.2 billion in 2010 and dropped to US$2.0 billion in 2011. The sector then witnessed a steady growth, and the import volume boomed by 10% compared to the pre-revolution volumes, according to a representative of the Misrata Free Zone (MFZ), representing the biggest commercial port of the country. The number of supermarkets, malls and shops skyrocketed in Tripoli and Benghazi and Libyans continued spending their relatively high available incomes on domestic products. Sustained growth in 2012 and 2013—aided by the reduction of the customs tax—pushed trading volumes up by 10%. In Benghazi, for instance, there used to be no malls, but since the overthrow of the regime five have been built and appear to have flourished. Three (Venice Mall, Hayah Mall and the Mazaya Mall) opened in May 2014, while three others were under construction. Indeed, according to the Benghazi city council[25] more than 200 shops opened in the city between 2012 and 2014.

FIGURE 4.5 Revenues of Sampled Firms in the Trading Sector—Brackets of US$ (*n* = 65)

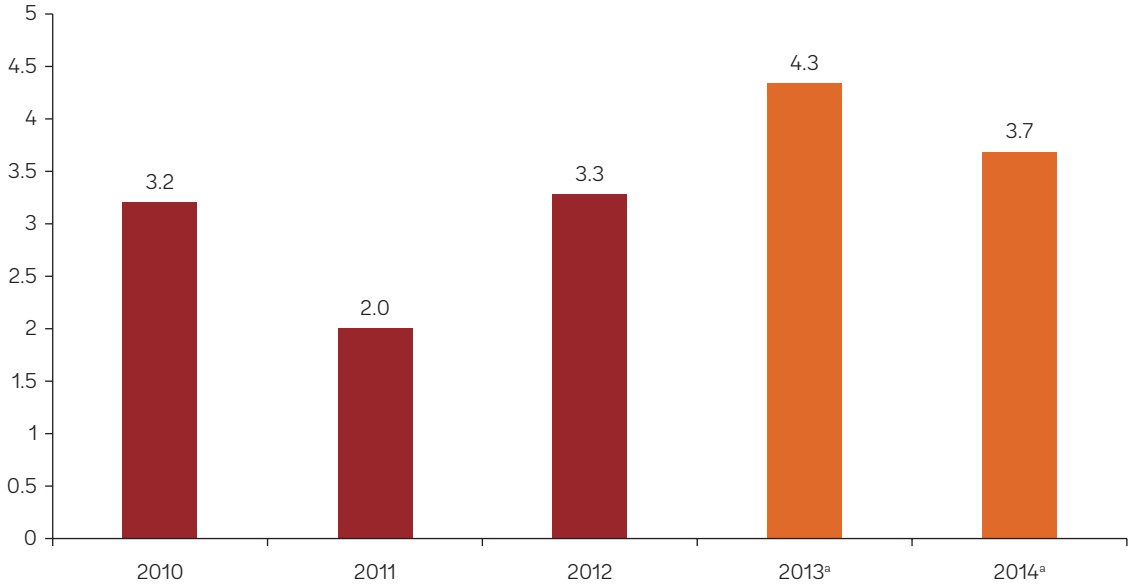


The 2014 crisis has also touched a number of trading companies, malls or supermarkets that have remained closed during the conflict, resulting in reduced trading volumes. In the Western Area, managers interviewed reported a slight decrease of revenues in 2014 partly compensated by increasing prices. A manager of the Husni Bey Group mentioned the closure of two stores and the loss of a storage room that was burnt during the fighting; "we lost LYD 410,000 during fighting due to robbery and damaged assets," he added. In the East Area, businessmen reported that the activity is almost frozen for the majority of retail shops.

But the sector is one of the most resilient as Libyans are heavy consumers and retail traders continue to cater to the basic needs of the population, including foodstuffs and domestic products (home appliances, air conditioners, etc.). This is confirmed by data from the enterprise survey, with 28% of firms in the trading sector reporting that they did not experience a direct impact from the crisis, the highest percentage by sector. Nonetheless, as salaries are often not paid on time due to the crisis, the demand has been reduced and supermarkets have reported to have reduced their margin to keep clients "satisfied."[26] The decrease in revenues can be estimated at only 15% across 2014 and the perspective for growth is good. If the situation stabilizes, growth compared to 2014 could reach 35%—a 15% increase compared to 2013 levels (see figure 4.6).

STRUCTURE OF THE MARKET AND COMPETITION. Stakeholders of the trading sectors show differences from one subsector to another; there are a high number of individual traders that use networks in Europe, Turkey or in the Gulf to arrange imports and wholesale. These small businesses represent a very attractive activity for Libyans who see the opportunity to sell high added-value products with a minimum required capital. Trading agencies of this kind exist for almost all kinds of products, including air conditioners, spare-parts for automobiles, construction materials and equipment or foodstuffs. Small retail companies aim at representing a larger company or a brand to become its official agent in Libya taking advantage of the legislation that obliges foreign firms to enter into a partnership with a Libyan national. The agency system is very suitable for Libyans as it allows them to avoid hiring highly skilled personnel for processing transactions (technicians or engineers, for example), who are provided by their international partners. The lower number of required staff as well as limited required initial capital and

FIGURE 4.6 Estimated Value of the Trading Sector
US$ billions



a. Estimates made by World Bank.

the existence of a large demand—when not perturbed by conflicts—makes the environment highly favorable. These companies typically have less than 15 employees.

On the retail side, private supermarkets and grocery stores are multiplying all over Libya, offering a large diversity of foodstuffs and domestic products. Clothing stores are growing at a similar pace, focused more on big cities and offering more and more garments from international brands. A clothing retailer in Tripoli highlighted that despite the boom in the supply of garments, the demand is still not met, as Libyans have a large appetite for clothes. In textile retailers as in supermarkets, Libyans often work in management positions, while the remaining employees come from the Arab Republic of Egypt, Tunisia, Bangladesh or sub-Saharan Africa.

Bigger players in the retail industry—the HB Group or El Ajmal Company—are present in many sub-sectors and own several shopping centers across the country. The HB Group, often quoted as the biggest private company in the country, operates with 480 distribution vehicles in its business to consumer branches and acts as the distributor of many international brands for Fast-Moving Consumer Goods (FMCGs), pharmaceuticals (Procter and Gamble), commodities and clothing (the wider group also has financial, real estate and industrial activities). The clothing retail branch however mentioned the necessity to close 2 out of the 15 stores they distributed between Tripoli and Benghazi due to the crisis and the slight contraction of the demand since July 2014.

FINANCE AND INTERNATIONAL EXPOSURE. Based on the findings from the enterprise survey, trading companies are the least likely to take out loans or credit

(only 2% of establishments reporting having taken out a loan). Nevertheless, international exposure is greater for wholesalers than for retailers as they are sometimes required to purchase imported goods in foreign currency (US dollars or Euros mostly) but are paid almost exclusively in LYDs. This creates treasury problems and led Libyan traders to report that the availability US dollars was a main obstacle as the currency is getting harder to obtain through a formalized and legal process through banks. Most Libyan businessmen regretted the difficulty of obtaining foreign currency and explained they would likely have to purchase it from the Libyan black market.

Specific opportunities

- The sector cannot yet meet demand, despite the number of competitors and recent crisis.
- The sector is easy to enter with limited capital and attracts many young Libyans.
- There are a few national champions (e.g., HB group) that are supporting growth and employment, mainly in Tripoli and Benghazi.

Specific constraints

- Libya is dependent on imports but exports very few processed goods, demonstrating the weakness of the manufacturing industry, hence wholesalers are often only importers.
- A large base of the trade sector is constituted by companies that do not contribute greatly to employing a well-paid Libyan workforce.
- Many small retail shops, wholesalers or "individual businessmen" are not registered and work informally.

Existing interventions

- The American-Libyan Council for Trade and Investment was created to enhance commercial exchanges between the two countries, to regulate commercial issues between the parties and remove constraints to trade.

4.6.2. Transportation/Shipping

BACKGROUND ON THE SECTOR. The transportation sector includes shipping companies, land carriers and air transporters of which shipping companies represent most of the added-value, while land transportation remains mainly informal and air transportation still offers limited opportunities for private enterprises with public companies leading the sector. The sector had been booming until the Libyan revolution, reflecting the exponential demand for consuming products. After it had dramatically decreased in 2011, the Libya Herald reported from interviews with shipping agents that the latter recorded a quick return to growth; the volume of exchanged products in ports even outclassed pre-revolution levels, explaining that "their best year before the revolution was 2010 but now they are doing double what they did then"[27] according to Michel Cousins, a journalist specializing on the Libyan economy. In 2012 and 2013, growth was driven by the need for reconstruction material (cement), consuming goods (including processed food and garments) and medical and electric equipment.

Nonetheless, the sector was reportedly still inefficient. Libya's ports, with the exception of Misrata, were often congested and ships had to wait between 5 and 10 days to find a berth, making Libya's ports the slowest and most expensive in the Mediterranean.

The manager of Boatni, a soft drinks manufacturer in Benghazi explained that poor port management was one of the main constraints for the company's development and criticized this mismanagement. He added that many companies were tempted to bribe people at the ports to accelerate the process.[28]

SIZE OF THE SECTOR. The transportation industry—classified with telecommunication and storage activities in the Central Bank's annual reports—was not accorded an estimated net value worth by the authorities. Based on reports and discussions with managers of the sectors, calculated estimates give a total of US$370 million in 2014 (approximately LYD 500 million). According to a shipping company in Misrata, the sector kept growing in 2014 and was surprisingly resilient during the crisis,[29] despite many reports from companies of merchandise being blocked at ports and large delays in the supply process.

STRUCTURE OF THE MARKET AND COMPETITION. The sector is concentrated across the main coastal cities of Libya, with Misrata's port—located in the MFZ—representing 60 to 70% of the country's total exports in 2013. In 2014, the port was extended—work was carried out by the Turkish company TML—with a new 804 meter long quay enabling 19 ships to berth simultaneously and the ability to accommodate larger vessels. The objective of the expansion is to turn Misrata into a regionally competitive hub to attract more volume to Northern Africa and redistribute goods to Sub-Saharan Africa. As MFZ is managed as an independent structure, it is not mandatory for handling services to be undertaken by the state handling company, opening the way for private suppliers. Tripoli and Benghazi ports are also busy, but their management problems have led to the development of secondary ports (such as Zuwarah port). Indeed, some companies reported that they preferred to dock at ports other than Tripoli due to repeated negative experiences, such as port management and customs asking for heavy fees and slowing down the process. A free zone project is on-going at Benghazi port to replicate Misrata's model, but development remains slow due to administrative procedures and the current conflict.

The biggest shipping companies frequenting Libya's shoreline are often large international line agents like Farwa Shipping that represents the Danish Maersk Group. Smaller enterprises and trading companies like Al Mashloun, a small shipping company that operates with one or two rented ships, are also present.

Since the revolution, there have been a number of new entrants in the shipping industry, attracted by the resilience of the trading activity. Relatively high initial capital is required, but the license to operate is considered easy to obtain, leading to reportedly fierce competition in the Western Area. The Eastern Area is less attractive to shipping lines—excluding hydrocarbons exports—and has been impacted by the security problems in Benghazi, whose port had to be closed in November 2014 due to heavy fighting. It seems that some of these new entrants have folded due to the current crisis and the market is once again coalescing around a smaller number of firms.

The shipping industry does not provide many jobs, as shipping agents do not usually employ more than 20 staff members (mostly Libyans). Nor is the associated value chain a

serious employer, as shipping companies deal with only a few Libyan suppliers who provide handling services, cleaning services and land transportation, the latter often being informal. In most companies, female staff are limited to support functions.

FINANCE AND INTERNATIONAL EXPOSURE. The shipping sector is logically very exposed to foreign currency both in terms of fluctuation of prices and availability of external currency, in particular to US dollars. There is a huge need for foreign currency and liquidity to pay for goods in advance and load the ships, including ship leasing when needed. Access to finance is limited (most companies in the sector are self-financed) and dealing with banks to obtain foreign currency has been cited as problematic.

Specific opportunities

- The sector is the cornerstone of Libyan private sector growth, fueling the trade system that relies on imported goods. The sector is very attractive to young Libyans and could attract even more talent at a management level in large distribution or import companies.
- The sector is likely to draw more investment to ports. MFZ followed by the Benghazi Free Zone could create a new dynamism in port management in Libya.
- The sector is quite resilient to crisis, supported by the continuous need for building materials, food and domestic products.

Specific constraints

- The sector depends highly on old and overwhelmed port infrastructures. Other regional ports, in Tunis for instance, are developing quicker and therefore are more attractive to shipping companies.
- Libyan ports cannot keep up with demand for imported goods and synergies are not created between ports to compensate shortfalls.
- Obtaining a license to enter the market was reported to be too easy. As a consequence, poorly managed companies often enter the market.
- Growth in the sector does not trigger direct large employment opportunities for Libyans.

Existing interventions

- The port of Misrata has been upgraded and the Benghazi Free Zone is being developed by authorities; this should improve receiving conditions and shorten delays for ships looking to berth in the east.

4.6.3. Construction

BACKGROUND ON THE SECTOR. Until the 2011 revolution, the construction sector was booming due to large state-funded projects in housing, education, tourism and infrastructure. Gadhafi considered the latter to be a number one priority, and set aside US$200 billion for spending in infrastructure between 2007 and 2008.[30] In 2010 the sector was estimated to represent US$5.9 billion before its total value was divided by six in 2011 due to the cancellation of large public contracts following the revolution. Throughout the following years, in particular 2013, demand for construction increased due to political decisions to re-launch state-led projects and the need for new housing and reconstruction. In Benghazi alone, 247 projects in housing and utilities, water and sanitation, transportation, education, etc. worth US$75 million were implemented in 2013 alone, according to the Benghazi Local Council.[31] The finalization of many of these

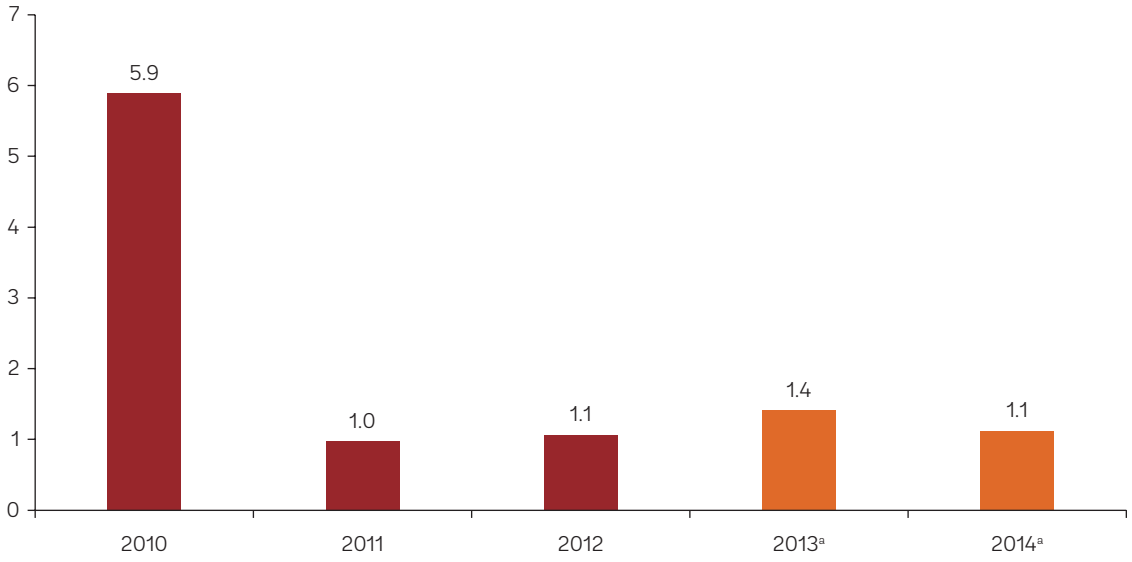
projects was to come in 2014 but the recurrent fighting in Benghazi and Tripoli and the evacuation of many foreign companies triggered a major backlash.

SIZE OF THE SECTOR. It is estimated that the sector lost 25% of its value in 2014, but is in a position to rebound by up to 55% in 2015, representing a 16% growth compared to 2013 levels.

Construction is the sector with the highest percentage of medium and large enterprises, with 46% of the construction firms sampled reporting having above 20 employees, 18% more than the sample average. This is due to the necessity of having large numbers of staff to operate and also to compete for relatively important development project (house, building, resorts, etc.). Unlike trading companies, a majority of construction firms (64%) reported revenues below US$1 million (see figure 4.7).

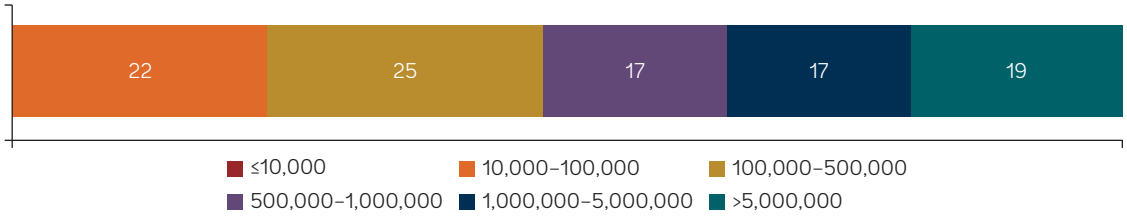
Until mid-year 2014, projects like the Tripoli and Benghazi metro system and the Libyan railways project, under the supervision of the Housing and Infrastructure Board (HIB) and the Ministry of Transport respectively, were still on the negotiating table for a total value of US$16 billion. Both projects very much depend on strong political will and on state capacity due to the unpredictable political and security climate. The railways project plans to develop a 3,170 km network with lines linking the Tunisian border to the Egyptian border and a north to south line linking Misrata to Sebha. Other big developments included sport infrastructure projects to be built for the Africa Cup of Nations (Libya has aspirations to host in 2017). Most contracts have been granted to foreign companies—through joint ventures controlled by the state or parastatal institutions. In 2014, the CBL appointed a Danish company to build its new

FIGURE 4.7 Estimated Value of the Construction Sector
US$ billions



a. World Bank estimates.

FIGURE 4.8 Revenues of Sampled Firms in the Trading Sector—Brackets of US$ (*n* = 54)



headquarters in Tripoli for US$96 million. Libyan firms can enter the market as distributors of building materials and construction equipment for international brands. In Benghazi, big projects include the Benghazi Free Zone, the refurbishment of the Corinthia and Ouzo Hotels, the Tatwir Towers and the new terminal of the Benina airport. Outside main cities, a US$530 million contract has just been signed with a large Indian company to install water systems, drainage, and sewage and water treatment in Zliten. The company has five other projects in Libya valued at between US$70 and 380 million in Souq el Jomaa, Zwarah and smaller towns (see figure 4.8).

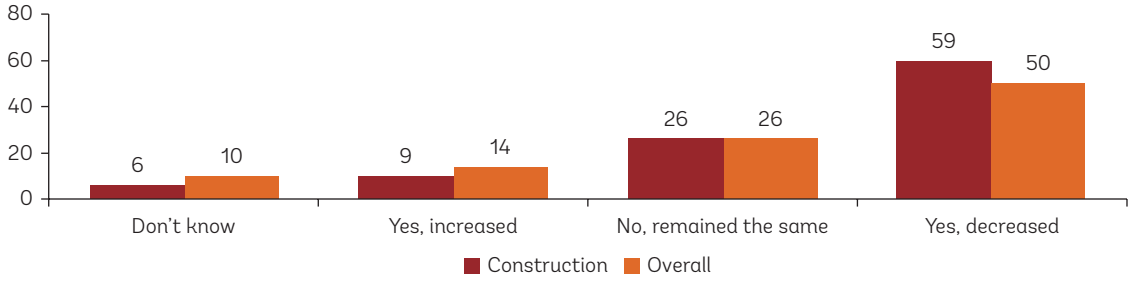
STRUCTURE OF THE MARKET AND COMPETITION. Most of these contracts are granted to international companies like the German Gerkan Marg und Partner that will be in charge of the construction of stadiums in Tripoli, Misrata and Tajoura even though Turkish and Italian firms are leading the market. The problem is that Libyan construction companies are not competitive enough to win bids over large projects. Domestic employment can still be supported by the sector as foreign promoters are bringing Libyan engineers, workers, site managers, legal consultants etc. on board.

Apart from the big projects, the housing sub-sector was also growing thanks to a relaxation of the property and building laws and the need for housing and office reconstruction following heavy fighting. Maged Mahfoud, Managing Director of ATEX International, explained that growth was driven mainly by the private sector.[32] He added that the domestic private sector is growing despite little to no state support, showing that if there was a development in government planning capacity, the sector would be subject to a boom.

Construction companies come in four broad types:

- Large state construction companies like the LIDCO often enter in joint ventures with international companies, possibly due to a lack of know-how and transparency on projects;
- Large private international construction and engineering companies often led by foreign, high-skilled staff supported by Libyans while the on-site workforce is often foreign (Egyptians, Bangladeshi and Sub-Saharan Africans);
- Small and medium Libyan companies, like AL Ramlah, building high-specification villas, residential compounds or malls; and
- Individuals or *muqawaleen* contracting to private investors and domestic clients are often working in the informal sector,

FIGURE 4.9 Perception of the Evolution of the Number of Competitors after the Summer Crisis (*n* = 457)



Source: Data from the 2014 Enterprise Survey.

undertaking most of the unregulated domestic construction and reconstruction efforts; they are using simple designs and local materials.

Results from the enterprise survey show that competition in the construction sector has dropped more than in other sectors, with 59% of construction companies reporting a decrease in the number competitors, 9% above sample average (see figure 4.9). Construction companies tend to be less resilient to the crisis as the lack of development projects triggers a contraction of the number of actors.

FINANCE AND INTERNATIONAL EXPOSURE. International exposure depends largely on the type of contract signed with foreign companies: smaller projects can source building materials that are available in Libya through importers or local manufacturers and rarely employ highly-skilled foreign staff that require salaries in foreign currencies. Bigger companies, including joint-ventures, are more likely to need US dollars or Euros, but are less at risk as the international partner is not short of foreign currency and the Libyan state has enough reserves to guarantee large public contracts.

The enterprise survey data confirm that access to finance is similar to other sectors as small companies and individual promoters rely on their own funding means, whereas the biggest groups or state enterprises have access to public funding and international investors, making the requirement for credit institutions less significant.

Specific opportunities

- The sector can represent large revenues (US$5 billion in 2010) and is likely to drive most of Libyan growth under the condition of a greater political stability; contracts signed are large and long-term and likely to create synergies with other sectors (trade, retail, sports, telecoms, etc.).
- There is room for SMEs, in particular down the value chain for building materials manufacturers and importers, as well as legal consultants, architects and engineering companies.
- Construction projects represent an opportunity for educated Libyans to find well-paid and strategic jobs in the sector as well as complete training with international companies subject to high-standards.

- Developing public-private partnerships (PPPs) could be an opportunity to finance big development programs involving international actors for their expertise and complying with Islamic finance principles.

Specific constraints

- The sector relies on large state contracts that require political will and are dependent on a stable security context. As a direct of result of the current crisis, funds for infrastructure development projects have been all but frozen for the time being.[33] The summer 2014 crisis and the political confusion created by the recent conflict stopped the new dynamic towards large state projects and repelled most international actors.
- The sector has a high potential for employment but mostly depends on foreign labor for on-site construction; there is still a skill mismatch at the technical and management level that prevents large projects from being led solely by Libyans.
- Property and building law remains uncertain and unclear, the absence of a property register discourages international investors.

Existing interventions

- Government has shown clear interest in launching big projects again such as the Tripoli and Benghazi metro project and the large railway project, or the new central bank headquarters. These are signs of the state interventionism to create growth in this particular sector

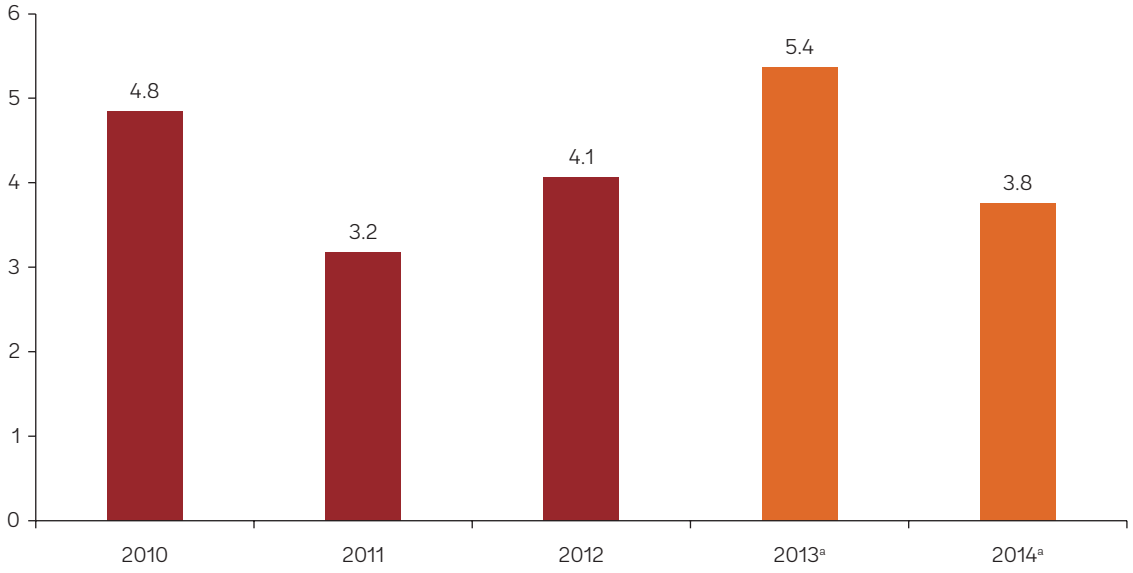
4.6.4. Real Estate

BACKGROUND ON THE SECTOR. Before the 2011 revolution, Libyan real estate was attracting foreign investors from Europe and the Gulf aiming to develop large construction projects. A decade ago, Maltese companies invested in developing large-scale real estate projects in Tripoli such as the Palm City Resort in 2005 and hotels like the Corinthia. Both projects have proven to be smart investments and continue to be the flagships of Tripoli's modern real estate development. In 2010 in particular, a building boom saw the inception of a dozen projects for apartment complexes to meet the growing demand for housing. Large contracts were granted to Chinese companies that remain, until today, uncompleted.

The sector represented the biggest non-oil activity before the revolution with a total value of US$4.8 billion according to the CBL's 2010 report. It seems clear the real estate sector has suffered greatly from the succession of crises in Libya, with many houses destroyed and families displaced. But the steady return of people to Libya, the massive displacement of Libyans from their cities of origin and the lack of readily available housing created an immediate increase of 10% in housing prices just after the revolution, in 2011. Most state-led projects have been frozen and international investors have withdrawn their money from big development projects, leaving construction sites empty (some of them became IDP camps) triggering a sharp fall in real estate to US$3.2 billion in 2011. The following two years showed signs of a relative return to stability and dynamism pulling investors again into Libya and driving real estate up to US$4.1 billion in 2012 and to US$5.4 billion in 2013, reaching record levels due to the high demand and slow speed at which construction projects progressed creating a lack of housing units for a greater demand.

SIZE OF THE SECTOR. It is estimated that the sector decreased by 30% in 2014 (see figure 4.10), but is expected to bounce back

FIGURE 4.10 Estimated Value of the Real Estate Sector in Libya
US$ billions



a. Estimates made by World Bank.

by growing 50% in 2015—representing a 5% growth compared to 2013's level—if substantial development is undertaken by the HIB and a political solution to the national crisis is reached.

Recently, new projects have been designed such as the Palm Waterfront—a large real estate project with hotels, apartments and malls close to Palm City—and Medina Tower, close to the Corinthia, for which construction was planned to start early January 2015. In Misrata, a massive investment of US$500 million was made in coordination with the HIB, the Maltese MIH Group, and Misratan businessmen *to build a resort with villas, apartment, a clinic, a school, new shops, a 5-star hotel and* a marina. Benghazi also showed dynamism in 2013, as outlined by the manager of Elhassa Construction who when interviewed in 2013 stated that his firm was more successful than at any point in its history taking on simultaneously the Juliana Tower project on the Benghazi seashore, and two luxury villa complexes, employing some 300 staff members. Elhassa is in the privileged position of having land and substantial capital, and the manager contrasted the company's high performance post-revolution with its pre-revolution performance. Other projects such as the renovation of the Grand Hotel are still to be started. In parallel, a number of businessmen have recently launched a major property investment fund worth US$132 million, the first of its kind and *Sharia*-compliant that is expected to be oversubscribed.[34] In addition, the Ministry of Housing and Utilities launched 131 contracts with Libyan contractors for a total of 30,000 housing units across Libya.

STRUCTURE OF THE MARKET AND COMPETITION. The sector is highly concentrated into internationally promoting companies (the American AECOM for instance) and public-private partnership with a mix of capitals, including foreign investors. The size of projects and the required capital leave very limited space for small companies or informal businesses. Nonetheless, private companies are called on to play a bigger role through their own investment, when land is available. Indeed, Law 4 passed during the Gadhafi era limited ownership, and until now, the lack of clear property title and recognized property rights remains a significant constraint to private sector development. Access to finance is also linked to the legislation under accessing land, rights of property and clear legislation, hence the limited fund available for big promoting projects.

Of the five real estate companies interviewed[35] in for the enterprise survey, all of them reported revenues above US$1 million in fiscal year 2013, confirming that this sector tends to have a concentration of large firms.

Specific opportunities

- Many construction projects are still on hold and require a more stable environment to be launched, although demand for housing is high, pulling pulls prices up.
- There is a strong political will to launch nationwide and local real estate projects. Libyan investors expressed their trust in the sectors and readiness to invest.
- There is a large room for public-private partnerships to develop housing units and villa complexes.

Specific constraints

- The high demand for housing might trigger a real estate bubble and there is a risk for over construction of housing units that do not line up with demand in the future, in particular in the scenario of a succession of crises.

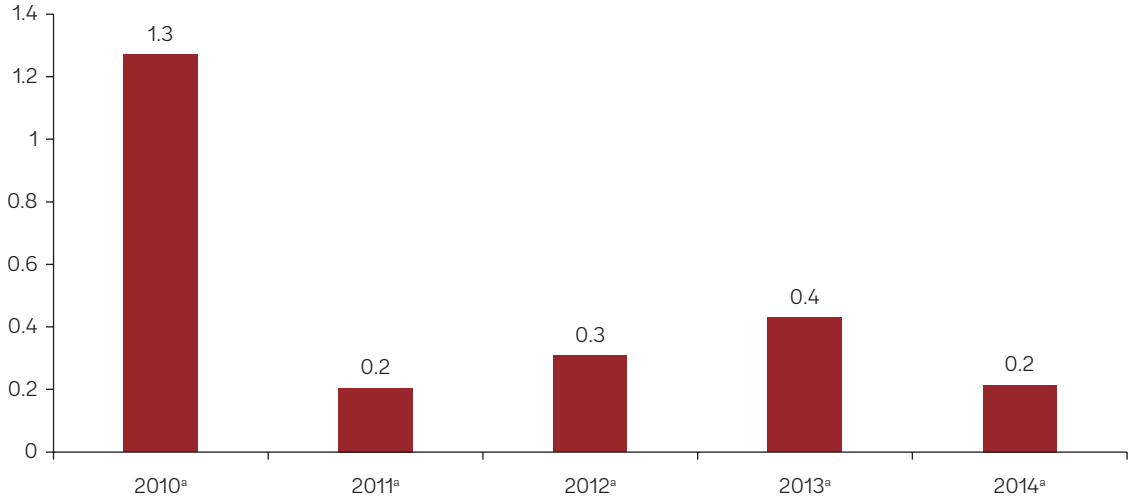
4.6.5. Building Materials Manufacturing

BACKGROUND ON THE SECTOR. Building materials is one of the largest subsectors of the manufacturing industry in Libya. The building material manufacturing sector was estimated at US$1.3 billion in 2010—driven by large construction projects—before its size shrank after the revolution to US$200 million (see figure 4.11). The sector grew the following years due to renewed growth in the construction sector, in particular domestic construction leading to a strong 30–40% year on year growth for manufacturers. By mid-2013, a small tiles manufacturer reported a daily production of 1,500 square meters of tiles with all products being sold on a daily basis, proof of the dynamism of this national market and the unutilized potential for Libyan manufacturers.

> *At the beginning of the year, the demand reached 12,000 square metres of marble but all orders were cancelled due to the crisis.*
>
> Manager of a Marble Manufacturing Company

SIZE OF THE SECTOR. Managers interviewed from building materials firms for the enterprise survey'[36] reported a 50–70% decrease following the summer 2014 crisis; enterprises of the Eastern Area were the most impacted. Across the country, enterprises faced difficulties in obtaining a supply of raw materials as shipments were being blocked at ports. The sector was estimated to have been

FIGURE 4.11 Estimated Value of the Building Material Manufacturing Sector
US$ billions



Note: World Bank estimates.

worth US$200 million in 2014, although businessmen and local investors were optimistic that this technical industry could fuel the potential reconstruction of the country. In the last years, demand for construction, including ceramic, paints, cement and bricks was answered by small and medium sized manufacturers across the country.

STRUCTURE OF THE MARKET AND COMPETITION. The private building material sub-sector is composed of about six large partly-privatized cement factories, seven large marble processors and around four major paints manufacturers and a large number of family-owned ceramic, tile and brick manufacturers. The marble, ceramic, tiles and brick production is largely carried out by family-owned SMEs, employing between 10 and 25 employees (Libyan or Tunisian technicians) and supported by foreign workers. In the marble industry alone, the number of small producers was reported to be above 600, a trend confirmed by the enterprise survey, where all building materials firms reported to have less than 20 employees. The sector stimulates a number of sub-sectors that provides further employment such as handling, transporting materials or water supply.

The sector faces domestic competition from state-owned factories that can import raw materials at lower prices due to better foreign currency rates obtained from the government, which decreases competitiveness of private companies. Steel and iron production is also under state control through the LISCO plant in Misrata; this production site was recently attacked by Operation Dignity's forces, showing the desirability of controlling the plant. International manufacturing companies are not present in Libya, although a Chinese company recently showed interest in establishing a two-part cement plant in Misrata and Zliten in order to compete

with the national iron and steel plans, but these plans were put on hold due to recent events.

Production of building material is insufficient to meet the Libyan demand, leading to the presence of a number of building materials import agents. The sector is deemed to be promising in Libya thanks to low production costs (subsidized energy and water) and the availability of local raw materials (sand, rocks, etc.) but the quality of Libyan building materials is reported not to be high enough to compete on the international market. Libyans continue to import cement and other building materials that meet higher quality standards (from Italy, Turkey, Egypt) and where specifications are respected.

The building paints sub-sector is dominated by large companies such as the Misrata-based Al Medina Misrata group (about 70% market share in Libya in 2013[37]) who appear to be the only suppliers able to export in non-negligible quantity overseas. A ceramic producer in Tripoli mentioned that Brazilian and Italian companies expressed interest in Libyan marble, but that Libyan companies were unable to send the materials due to the sporadic closure of ports. Overall, the sector remains dependent on domestic demand while remaining tied to foreign suppliers for technical equipment and specific raw materials. Large construction companies such as El Hassa reported that they imported most of the raw materials they need from Turkey, Italy, France and Egypt, except for cement which was produced locally.

FINANCE AND INTERNATIONAL EXPOSURE. As building material companies must pay international suppliers to obtain raw materials, they have a strong need for foreign currency. A big ceramic producer (with 240 employees) reported that loans were accessible for large companies of the sector, for which access external finance is a necessity. "All companies of the sectors can have access to loans, because any business our size needs it" he added. Nonetheless, and Enterprise survey confirmed that access to loan remained limited as small and medium companies of the sector manage to self-finance their activities.

Specific opportunities

- The sector is attractive to Libyans and composed of many SMEs. In addition, some big domestic players exist and seem to be able to compete with imported products although they do not have a sufficient production capacity to meet the demand.
- The government has placed higher tariffs on imported products that should enhance local production.
- The sector employs a small number of educated Libyans (technicians, engineers, etc.).

Specific constraints

- The building material industry suffers from unfair competition from public enterprises that have a larger access to foreign currency and at a better rate (facility of access at US$0.3 for one LYD).
- Power shortages and a rise in the price of fuel penalize production capacity and increase cost of production.
- Formal and large manufacturers dependent on government contracts are doing little due to the government budget restrictions and political issue leading to the government not issuing large contracts for a long time.

- Access to foreign currency will continue to be an issue so long as businesses must depend on imported materials.

4.6.6. Food and Beverage Manufacturing

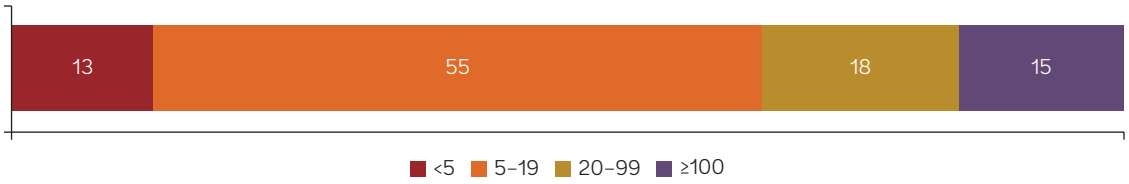
BACKGROUND AND SIZE OF THE SECTOR. The food and beverage manufacturing industry is quite dynamic in Libya, despite the weak agricultural production sector. The food manufacturing sub-sector is one of the main processing industries implicating private enterprises. No accurate estimates of the sector are available, but several businessmen of the sector, including pastry and flour manufacturers, valued it at between US$400 million and US$800 million in 2014.

STRUCTURE OF THE MARKET AND COMPETITION. There are six large private companies with important production capacity in Libya, mainly beverages (Judi, Pepsi and Rayhan), dairy products (Al Nasseem, Mezraa) and edible oils. The sector has experienced strong and consistent growth since the revolution, obliging a company like Al Nasseem—for dairy products—to open a new plant in 2013 that effectively tripled its capacity to meet demand.

According to several businessmen, current production has reached a capacity close to the demands of the domestic market, although the sector is still growing moderately. Further, FMCG companies are facing international competition with products coming from Algeria, Tunisia and Europe. The development of large supermarkets and malls should bolster the currently weak distribution networks. A number of medium size manufacturers exist, in particular water and juice companies (Al Jafara) and sweets and pastry factories (Al Aalem, Assahel, Beit Al Demashqi) employing between 30 and 100 people to produce and market their products regionally (see figure 4.12). Results from the enterprise survey confirm that the food and beverage manufacturing sector is rather balanced, with firms targeting different markets at different levels: national, regional or local.

New entrants are penetrating the market, especially medium-sized juice and flour processing companies, while the more established companies also continue to grow. The number of private flour manufacturers leapt to 54 in 2014 compared to only 18 in 2010, according the manager of a flour factory, suggesting that while competition has largely increased demand may not yet have been met despite the series of crises. These findings are mitigated by the results of the enterprise survey, where only 30% of enterprises reported a decrease in competition, 20% below the average, suggesting

FIGURE 4.12 Repartition of Sampled Firm of the Food Manufacturing Sector per Size (per Number of Employees)



that competition in the sector has been slightly more resilient to the crisis than in others.

A manager of Al Jafara Company explained that the company had decided to market their product to the west and had opened a new store in Janzour in 2013, although this store had to close after the recent conflict. Aside from dairy and juice, other food processing activities include pasta and bread production and water desalination plants in Tobruk and Sousa, but these facilities appear to be state-run. Many food manufacturers also sell directly to the state, which remains the biggest client altogether (around 80% of commands). To succeed and indeed to survive, some depend on the capacity of the state to pay its debts, and have been negatively affected by the cash-flow issues faced by the government in 2014.

Larger food companies have 6–7 domestic suppliers on average, including raw material importers (when not directly imported), packaging, distribution, cleaning services, security services and transportation, while SMEs rarely have more than 2–3 and purchase raw materials on local markets or import it from Eastern Europe (wheat for instance). Juice producers have to import specific concentrated juices and vitamins from the European Union.

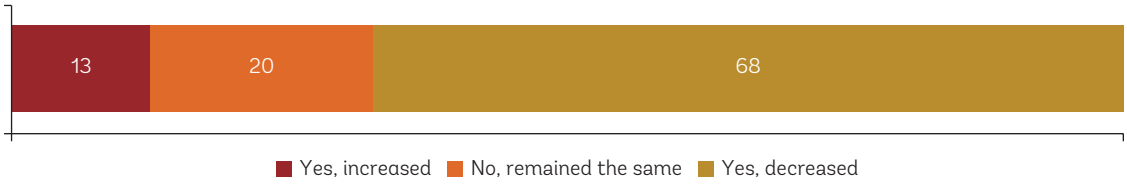
Libya imports 75% of its agricultural produce[38] but it has a great potential for exporting foodstuff, especially dates, olives, olive oil and fish. The export of dates in particular could develop a promising value chain in non-coastal cities.

Women are not many to work in this subsector confirming that industrial production remains rather exclusive for female staff in Libya. A professional of the sector interviewed by World Bank estimated the number of women working in food manufacturing companies to be less than 10% and restricted to administrative tasks.

IMPACT OF THE CRISIS. Food processing SMEs have suffered significantly from the crisis as they have less capacity to respond to emergency situations given their large dependence on foreign workers; distribution networks and the smaller shelf life of products. A pastry company mentioned it lost 17 out of its 33 workers (mainly foreigners) and had to stop production during two months, representing a shortfall in revenues of US$1.2 million. Sixty eight percent of food processing firms paneled in the enterprise survey reported a decrease in sales (on average a 35% decrease), with only 13% and 20% stating that their business had grown or saw no change in revenue, respectively.

The rise in the price of raw materials and the additional cost of power generators (to compensate for lack of public electricity) considerably decreased their margins (see figure 4.13). Representatives from the

FIGURE 4.13 Evolution of Revenues of Sales for Companies in the Food and Beverages Industry



Note: Out of a sub-sample of 40 establishments sampled in the enterprise survey.

company also highlighted that they had to buy flour from the black market as there was a shortage at the time of the interview. Another company interviewed in Sebha mentioned that in the south the situation had degraded significantly: the plant was robbed, two Turkish employees were badly injured and 6 technicians were forced to leave the country.

FINANCE AND INTERNATIONAL EXPOSURE. The sector is capital intensive (especially regarding sanitary equipment) and access to finance was reported to be accessible for medium sized companies, as banks trust the food industry for which demand has been continuously increasing and whose margins have been consistently high. Nonetheless, most small companies prefer finance themselves for the sake of simplicity and the lack of readily available capital in the banking system.

Specific opportunities

- The sector includes national champions with readily-identifiable brands such as Al Nasseem and Rayhan that are growing fast and creating synergies with local SMEs.
- Large companies employ about 30% of educated Libyans in management and technical positions.
- There are potential synergies with existing food production such as dates or olives that are exported internationally.

Specific constraints

- Food processing companies have restrictive regulations on raw material import; the government controls parts of imported foodstuffs.
- There is a fierce competition among international brands—often of a higher quality—despite the tariffs on imported goods.
- A significant amount of capital is required to modernize factories, bring quality up to international standards and avoid public health problems.

4.6.7. Private Health

BACKGROUND ON THE SECTOR. The Libyan health system is mainly public. The state provides comprehensive health care services to all citizens free of charge through primary health care units, health centers and district hospitals.[39]

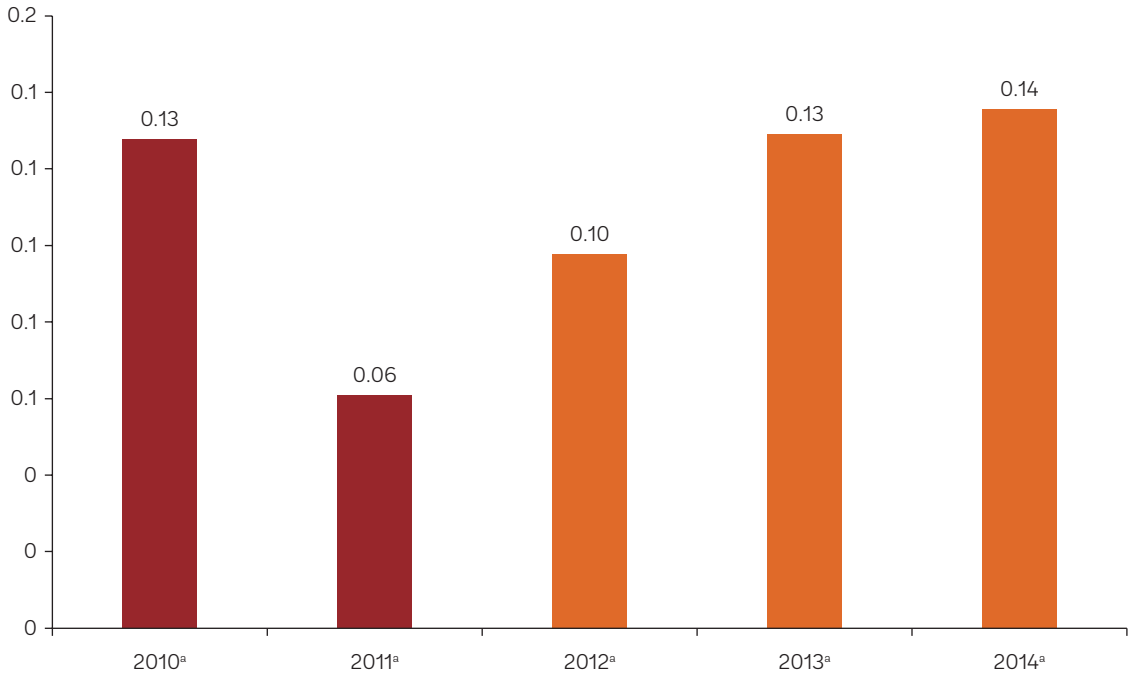
The key piece of legislation which governs hospitals and clinics is Law No. 106 of 1973 (the "Health Law") that enacted the Libyan Public Health Code and governs the establishment and operation of hospitals and the practice of medical professions. The development of privately-held hospitals or private centers started in the late 1990's, encouraged by the foreign investment law of 1997. Two hospitals are fully-owned and managed by foreign healthcare providers, including the St. James Hospital in Tripoli, which opened in 2003 and is run by a Maltese company, treating about 5,000 patients a month. In addition, the Libyan government created a body, the Libyan Company for Investment and Operation of Medical facilities, to foster public-private partnerships and manage operations of a number of medical institutions. The sector is highly regulated: the establishment of a private medical institution requires a license from the Ministry of Health (MoH) and prices are capped in application of the Decree N°63 of 2008. Despite these barriers to entry, a number of private medical institutions were established and the sector continues to attract investors.

SIZE OF THE SECTOR. The private health and social care sector was valued at US$127 million by the CBL in 2010 before its size was divided by two the following year. Interviews conducted by World Bank with private health centers' managers led to estimate that the sector has grown by 60% in 2012, 30% in 2013 and about 5% in 2014 despite the losses due to the current conflict. Almost half (45%) of private health firms[40] from the enterprise survey reported a decrease of revenues (45% of them), far below the sample average at of 73%, and the sector was valued at around US$136 million in 2014. According to the manager of a large private hospital in Misrata, private health centers represented about 40% of the health market (see figure 4.14).

This slight growth masks the difficulties faced by hospitals, clinics and pharmacies that have suffered physical damage and destruction during the 2014 fighting and experienced a shortage of some medicine. The lack of medical supplies hampered the capacity of private clinics to respond to a stronger demand for drugs. Nevertheless, increasing needs for medication driven by the fighting, and the incapacity of many Libyans to travel abroad for treatment meant that health centers remained busy. The sector remains very dynamic due to the high amount that Libyans are happy to spend on healthcare services.

Further, private investors are attracted by a sector that is able to compete with the weak infrastructure and low-skilled staff

FIGURE 4.14 Estimated Value of the Private Health Sector
US$ billions



Note: World Bank estimates.

associated with the public health system, pushing some Libyans to find better treatment abroad. "Anyone who falls ill at present in Libya and who can afford it gets on the first plane to Istanbul or Tunis. No one trusts Libyan hospitals" confessed Dr. Fatima Hamroush, former Minister of Health in 2012.[41]

The Maltese company managing the St. James hospitals was planning to open a new 50-bed private hospital in Hay Demashq in Tripoli with outpatient facilities, radiology and a surgery ward. The company prefers to remain focused on developing in the capital city and has no expansion plans in other cities. It seems that in Tripoli, the number of hospitals and clinics (Al Fatah and Al Khowa clinics) is enough to meet the local demand, but outside the capital quality healthcare remains rare. In Misrata, there are three small private hospitals with only a limited number of practice areas, and in Benghazi there is reportedly only one. The recent project to build a 35-bed private hospital in Misrata specializing in gynecology and obstetrics is a noteworthy development, but more investment is required in smaller towns. It was once the MoH's plan to bring foreign groups to manage hospitals and clinics or to propose co-administration—to attract higher-skilled staff by proposing a higher salary than the state-restricted remuneration—but the project was not allowed by the Prime Minister. It could have benefitted secondary town such as Tobruk, Ajdabiya, Sebha and the Jebel Nafusa.

STRUCTURE OF THE SECTOR AND COMPETITION. Private healthcare is one of the top employers in the private sector, needing between 30 and 50 employees to run an average medical center, with bigger centers counting well above 100 employees, such as the Hospital Al Amal in Misrata that employs 150 people of which 60% are women and 30% foreigners (Filipino nurses, Egyptian staff, etc.). Jean-Claude Muscat, manager of the St. James Clinic, confessed that finding "nurses and care attendants (was) the biggest challenge," emphasizing the need for training and vocational centers to be able to replace foreign staff with locally trained employees. For example, 27 nurses (almost all from the Philippines) at the Al Amal hospital quit due to the current crisis; the hospital managed to continue operations with reduced staff.

The private healthcare value chain implies a large number of suppliers—a minimum of 20 on average—such as drugs and medicine wholesalers (Al-Dawlya company for instance), medical equipment importers, laboratories that provide diagnostics and medical analysis (in Libya and abroad) and ambulance services. Most of the equipment is imported from Italy, Germany, Greece, Spain, Tunisia, Egypt, Serbia, the United Arab Emirates or Turkey. Sector's professionals complained that the services provided by Libyan hospitals were weak,[42] forcing many patients to find ambulance services themselves and to conduct analysis and blood samples outside the main hospitals. Many services could be improved along the entire value chain, including the ongoing enhancement of training. Sub-sectors like medical training centers and private universities are also doing well. The Libyan International Medical University of Benghazi reported training about 600 students in 2013, making it the biggest private medical training center in the country,[43] but for demand to be met more training is required.

Based on results from the enterprise survey, competition remained strong in the private health sector, with only 25%

of companies reporting a decrease in the number of competitors, far below the average of 50%, confirming that new hospitals and health centers are being established in Libya.

FINANCE AND INTERNATIONAL EXPOSURE. Most private hospitals are privately financed by Libyan businessmen, while a limited number of them manage to get credits through personal or business relationships. Starting-up a large hospital (with about 100 employees) represents a US$15 million investment. None of the firms from the enterprise survey reported having taken out a loan in the recent past.

Private health companies are very much dependent on foreign currency to be able to pay for medical equipment and imported medicine (although some are also supplied through commercial intermediaries), while revenues are in LYDs (local clientele). As a result, private clinics suffer a difficult cash position and a strong demand for foreign currency from banks or from the black market.

Specific opportunities

- In the public health system, salaries are restricted by law but foreign companies can run Libyan hospitals with their own salary structure, hence they can attract doctors and nurse with higher standards. Fatima Hamroush, a former Minister of Health, explained that "the salary of a nurse in Libya is below the social welfare minimum in Ireland."[44]
- Medical faculties are full of young Libyans, in particular women. The sector is a good example of gender inclusion.

Specific constraints

- Medical infrastructure has experienced two waves of serious destruction, in 2011 and 2014, caused by armed conflicts. The reconstruction of medical facilities and equipment requires technical support and significant capital.
- There is an increased demand in war-related treatment that hospitals cannot cope with and need specific equipment and technical expertise (trained surgeons for instance) to deal with.
- Libya is still in need of essential medicines and other medical supplies due to the closed supply routes through air and sea.
- Medical education is deemed poorer than regional standards (compared to Turkey, Tunisia, Jordan or Egypt).
- Public hospitals are free of charge for Libyans and drugs are covered by government health insurance, meaning the quality of public healthcare is determined by cash flow and the availability of public funds.
- The government is funding a system for medical treatment abroad which is facilitating Libyans to get treated outside the country and creating a shortfall of revenues for Libyan private centers.

4.6.8. Private Education

BACKGROUND ON THE SECTOR. As with the health system, the education sector depends overwhelmingly on the state which provides all forms of basic education. It manages schools, universities, higher technical centers and vocational centers for about 1 million students. The education system was approved in 1984 and Law 18 for Education was adopted in 2010, opening education to private establishments and setting standards for opening public and private institutions.[45]

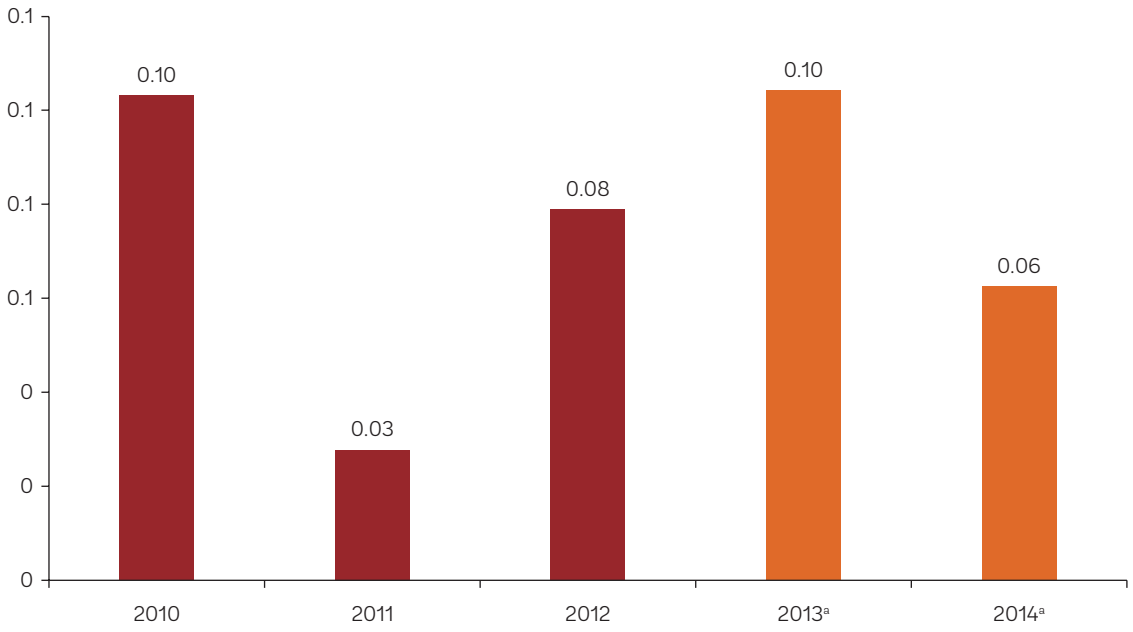
Most Libyan managers interviewed judged state education as incapable of

bringing young Libyans up to professional standards and called for an urgent reform of the education sector. The state budget for education is about US$3.2 billion and about 92% of this goes towards salary and training[46] as opposed to university development, equipment and scholarships. According to 2012 national figures, education spending still represented less than fuel subsidies.

In parallel, the country is experiencing a rapid development of private schools, colleges and universities. English-language classes are a best-seller for young Libyans that are fully aware of the necessity of speaking foreign languages to access better jobs. Private establishments target Libyans interested in investing in a higher quality education, conscious of the limitations of the national education system. In general, private schools offer modern facilities, better trained teachers and bespoke content with smaller classes. The private education market is estimated to have enrolled 100,000 students by the end of 2013, according to the Ministry of Education.

SIZE OF THE SECTOR. The sector was estimated to represent about US$103 million in 2010 and US$28 million in 2011, but has grown rapidly in the years following the Libyan revolution. Interviews conducted by World Bank with stakeholders led to estimate that the private education sector contracted by 40% in 2014, due to a reduction in the number of students applying for private education, with the security situation preventing mobility and a lack of funds. The market is currently estimated to be worth US$125 million (see figure 4.15).

FIGURE 4.15 Estimated Value of Private Education Sector
US$ billions



a. Estimates made by World Bank.

In Tripoli, the trend toward moderate growth of the sector compared to 2013 levels (+20% in Tripoli in 2014) resulted in enrolment levels reaching full capacity, particularly in English-class schools. Private schools were also hardly hit by the summer 2014 crisis, a school manager reported that 8 of their teachers—from the UK, and the US—left the country fearing a deterioration of the security situation. Problems of electricity and fuel made it difficult to provide continuous lessons during the period. There remains a large growth potential in other cities, including Benghazi and Misrata, and even more so in the south of Libya driving a forecast of 100% growth throughout 2015.

This is confirmed by enterprise survey, where only 8% of private education firms reported an increase of their sales after the summer 2014 crisis, while 69% reported a decrease and 15% a stable level of revenues. Thirty one percent of these companies have suffered from material damages, 5% above the sample average, also because they tend to have bigger buildings to accommodate classes.

STRUCTURE OF THE MARKET AND COMPETITION. Although the quality of education is perceived to be better in the private sector, Libyan private establishments still have low standards—aside from international institutions such as the British Council or Education First—and suffer from regional competition. Libyans are tempted to go to Europe, especially Malta, but also elsewhere in the Middle East such as Jordan and Egypt where standards are higher, but so is the cost. Further, there is the possibility of obtaining generous scholarships from the state to support them making it abroad.

Starting-up in the sector does not require large capital as few technical pieces of equipment or material are needed to invest. Most establishments prefer local resources to run businesses, and hire Libyan teachers to cut costs. As a result, the need for foreign currency is low and international exposure is limited.

Private education centers have a very diverse number of staff members depending on the size of the institution. The average number of permanent employees is thought to be around 20 but with higher employment capacity through the hiring temporary teachers and instructors. The enterprise survey confirmed this finding, where 30% of surveyed firms were medium-sized and 60% were small, suggesting that most have between 10 and 30 employees. The sector recruits a higher number of female staff than the average Libyan company, as teachers or in support functions.

Specific opportunities

- The demand for courses is very high and it seems that Libyans are aware of the necessity to improve their level of education. The evacuation of many trained internationals could be an opportunity for Libyans to take positions in key sectors with the necessary training.
- Starting up a school requires limited capital and presents high margins.
- The sector presents a high work inclusion for women and could drive female employment in the future.

Specific constraints

- The crisis has forced many young Libyans to review their priorities and abandon private education for other critical spending

(health, travel, reconstruction, etc.), hence the market was less dynamic in 2014.

- Private education can propose higher quality education than public institutions, but often at lower standards than international institutions that compete to attract Libyans (Malta, Jordan, etc.). Accreditation and a quality insurance system is necessary for new private institutions to meet with quality requirements.
- The number of schools in Tripoli is high and the competition is fierce to attract students as some school already benefit from a good branding.

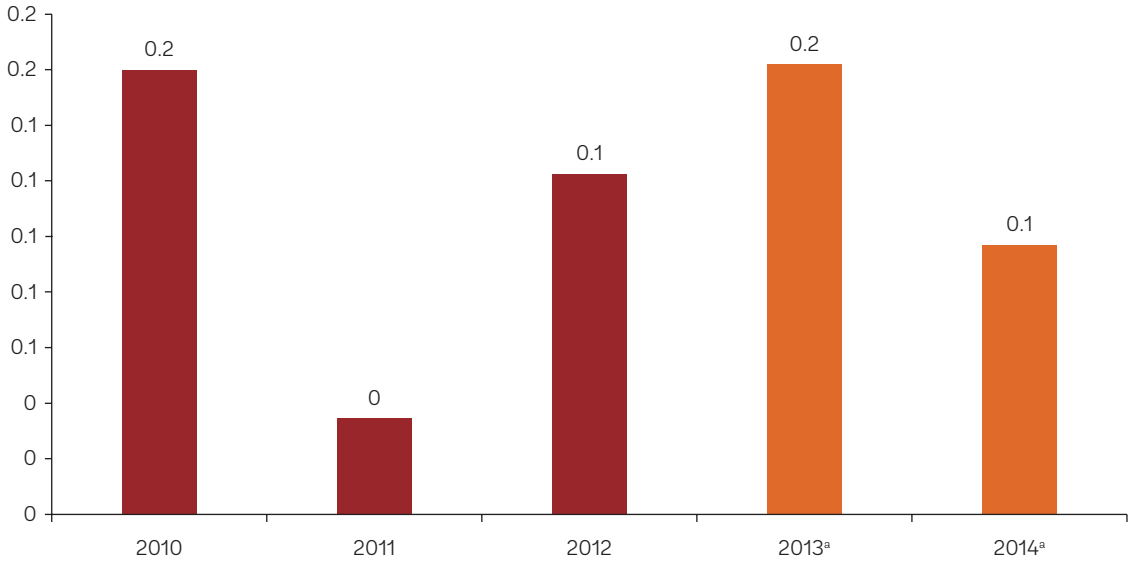
4.6.9. Accommodation and Catering Services

BACKGROUND AND SIZE OF THE SECTOR. The sector encompasses hotels, restaurants and cafés in the country and was estimated to have a very small size before the revolution, with only US$160 million in 2010 before being reduced to a fifth of this in 2011 in the wake of armed conflict (see figure 4.16). In 2012 and 2013, the sector witnessed growth in terms of investment in tourism and the catering sector that were reported to be promising. An estimated 60% of hotels are public, the remaining private, and their number remains limited therefore often full of Libyan businessmen.

The number of hotels remains limited and therefore often full of Libyan businessmen. Tourism in the sense of foreign visitors has not yet taken off due to the security situation in the country and the poor infrastructure to receive tourists, resulting in many travel agencies converting themselves into business travel agents. The sector is not very

FIGURE 4.16 Estimated Value of the Accommodation and Catering Services Sector

US$ billions



a. Estimates made by World Bank.

resistant in times of crisis and has from the lack of flights and the limited movement of Libyans during the fighting period. The manager of the Haroun Hotel mentioned an 85% decrease compared to 2013 as the hotel was damaged and the small attendance rate. "When the country is stable, we are always full" he added.

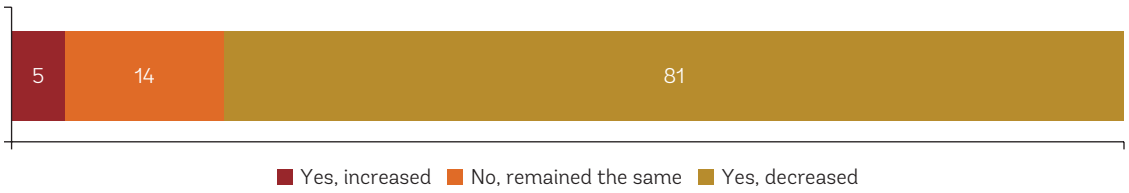
Even though the sector is anecdotic in the Libyan GDP (0.2%), is has been a source of optimism among Libyan businessmen that saw in Libya a great potential to welcome large numbers of domestic and international tourists thanks to the largest coastline in the Mediterranean Sea, its ancient Roman and Greek ruins, and the Sahara. The resort projects in Misrata were reportedly the biggest foreign investment scheme that remained active by the end of 2013, with a US$400 million value. The renovation of the Grand Hotel of Benghazi is also a sign of the will of professionals in the sector to adapt their infrastructure to a future market.

Accommodation and catering firms interviewed in the enterprise survey clearly outlined the difficulties experienced by the sector following the summer 2014, with 81% of them reporting a decrease of their revenues, 8% above the sample average, due to the contraction of the demand and limited circulation during several weeks or months, depending on location.

STRUCTURE OF THE MARKET AND COMPETITION. Before the crisis, the number of cafés and restaurants dramatically increased in larger cities, in Tripoli and Misrata in particular, where many young Libyans have started cafés and small catering services often with family capital. The results of the enterprise survey suggest a reduced level of competition in the sector, with 76% of companies of the subsector reporting a decrease in the number of competitors; nonetheless the demand for cafés and fast food restaurants is expected to increase again as meeting in cafés is an important part of Libyan culture (see figure 4.17).

Investing in the sector could be key to boosting Libyan employment in the private sector as this industry is in need of a large number of trained staff. Accommodation and tourism is often described as one of the easiest ways to create quick jobs—in particular for unemployed youth. The Haroun Hotel in Tripoli mentioned it employed 85 people, while the biggest hotels of the city can account for over 100. There are 5 large hotels in Tripoli, 3 in Misrata and 3 in Benghazi, and about 10 to 15 small hotels in each city employing at least 10 to 15 employees. The main obstacle to employment are Libyans themselves, that show little attraction towards servicing jobs and prefer

FIGURE 4.17 Evolution of Sales after the Summer 2014 for Firms of the Accommodation Sector



to leave those to foreigners, mainly from the Philippines, Bangladesh, Tunisia, Egypt or Syria.

Tourism will likely have to wait another 5–10 years before really taking its expected place in the Libyan economy as one of the spearheads of diversification. Until then, the main challenges facing professionals of the sector is to improve the quality of their services and existing infrastructure to attract domestic and international businessmen in secondary cities such as Sebha, Zliten, Ajdabiya or Zawia which suffer from a lack of quality accommodation.

FINANCE AND INTERNATIONAL EXPOSURE. Access to finances is limited for small cafés and restaurants but a larger proportion of hotels have access to loans (an estimated 20%), in particular well known hotels that are easily generating revenues in normal times.

In addition, the sector does not suffer too much from a lack of foreign currency as most of the revenues and costs are spent in LYDs. In addition, the presence of a foreign clientele of businessmen (Turks, Indians, and Europeans) gives them direct access to foreign currencies.

Specific opportunities

- The sector is able to create employment directly and all along the value chain including catering, delivery, cleaning and transportation, although training is required and the industry need to be able to attract young Libyan workers. Women are a non-negligible part of the workforce.
- Libyans are in demand for family spots to spend holidays rather than go to Tunis, Egypt or Turkey. Large local resorts in Misrata or in the Western Area could be promising.
- The cafés and restaurant boom witnessed in Tripoli could be repeated in other cities (Misrata, Benghazi, Zawia, Sebha).

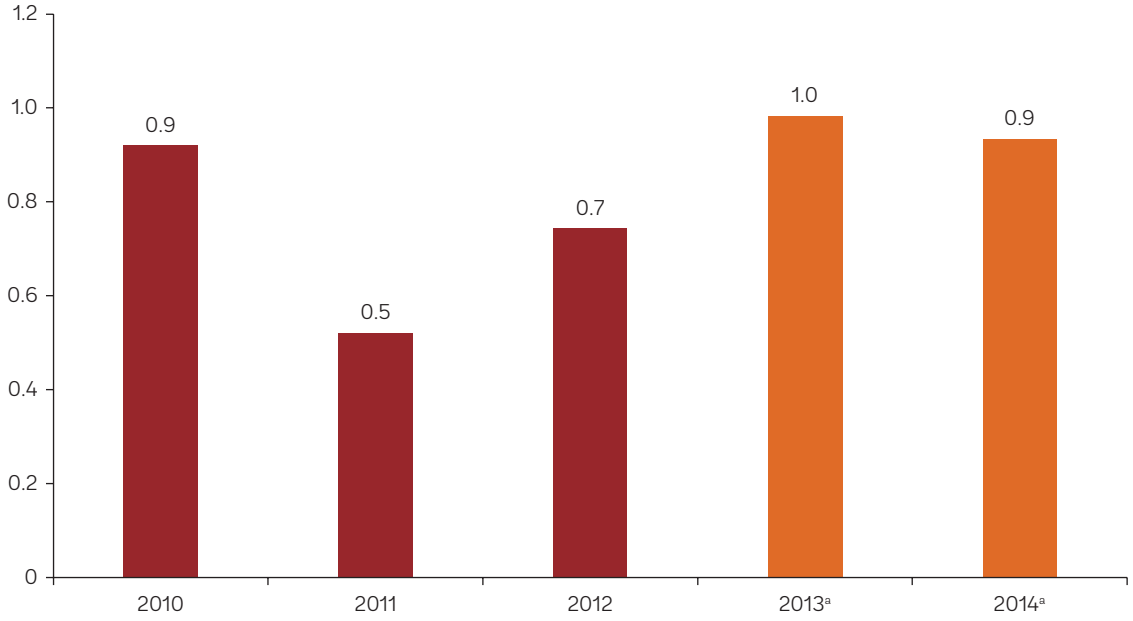
Specific constraints

- The sector generates few revenues and represents less than 0.5% of the GDP.
- The sector is not currently able to attract Libyans to work in hotels, restaurants and even cafés, hence the sector is heavily reliant on foreign labor.
- Persistent insecurity means regional destinations remain more attractive to tourists (Tunisia, Egypt and Morocco) hence the market remains focused on nationals (hence a limited growth) or businessmen.
- The sector suffers directly from the poor infrastructure of the country in particular roads, power cut and slow internet speeds.

4.6.10. Finance

BACKGROUND ON THE SECTOR AND STRUCTURE OF THE MARKET. The financial sector counts 17 operational banks and 4 state-owned specialized financial institutions but is dominated by 5 state-owned commercial banks. It remains under-efficient but is progressively modernizing; some banks (Sahara and Wahda) have been partially privatized (respectively to BNP in 2007 and Jordan Arab Bank in 2010) while foreign stakes is increasing while fully privately-owned banks (Sayara Bank for instance) remain small (see figure 4.18). The financial sector is governed by the Banking Law N°1 of 2005 that allowed creation of private banks. The law has been amended by the Law N°46 of 2012 on Islamic Banking and in accordance with sharia-compliant finance, Law N°1 of 2013 stated the prohibition of interests

FIGURE 4.18 Estimated Value of the Financial Sector
US$ billions



a. World Bank estimates.

in all civil and commercial transactions starting January 1st of 2015 (it remains unclear whether the Law has become effective given the situation).

As expressed by the Libyan British Business Council, "the creation of new banks with international backing and no socialist legacy challenged the established institutions in Libya and encouraged the process of modernization with the introduction of new ICT systems, the launch of new products and services, and the development of a sales and marketing culture."[47] There is room for private investors to take larger stakes in the financial sector, in particular in insurance companies.

The main obstacle to growth is the lack of clear political strategy to modernize a sector that is largely dependent on the Central Bank's vision, a body in the center of country's the political struggle. Finance is a sector employing a lot of women, mainly at support functions. Aman Bank for instance, reported that their workforce was comprised of 60% women in 2012.[48]

SIZE OF THE SECTOR. Financial services (both public and private) were estimated to be US$900 million in 2014, representing 3% of the total GDP. Since 2013, most of the credit system has been frozen and very few or no credit has been allocated to private companies, in particular to SMEs. The public banks do not really inject liquidity into the market through loans, but only play the role of savings banks. Commercial banks have US$65 billion in assets of which half is held in certificate of deposit.

The main problem remains the disconnection between the banking system and the private sector where an inability to finance exists. "When we look at our banking sector, one of the biggest challenges is the credit department" said the deputy governor of the CBL, Sadiq Abdulkareem. Banks do not trust the private sector, in particular since the laws inherited from the Gadhafi era prevent them from serious measures to recover assets in case of problems with recovering loans. On the other side, Libyan entrepreneurs do not show great confidence in banks and credit-institutions either. The private sector has about US$12 billion held in cash at home or in the souk[49] therefore Libyans have a greater capacity to self-finance their projects than regional peers.

Regulation of the finance sector remains unclear; very few laws have been passed to regulate the sector since the revolution and several committees are still working on these regulations. The CBL announced that many of them were to be issued in 2014 but the political mayhem stopped the process (the CBL still had two competing governors at the time of writing this report).

Political will seemed intent on introducing an Islamic Finance system to the country when the National Transitional Council (NTC) of Mustafa Abduljalil passed Law No. 46. The perspective of having all banks converted to the *Sharia*-compliant system in 2015 was stated as an objective that is now judged far too ambitious as experts believe that converting the entire system will undoubtedly face technical difficulties and needs time. The different options evoked are the full conversion of the banking system (like in the Islamic Republic of Iran, Sudan and Pakistan) or to keep a conventional banking system in parallel (such as in the United Arab Emirates for instance). The system conversion would ban any conventional bank from applying interest rates starting in 2015, despite interest constituting the main revenue of banks to date.

Specific opportunities

- The introduction of Islamic compliant financing could create room for new services and liberate *Sharia*-compliant credits to support the private sector.
- The sector has a small number of actors but with high employment levels, well-trained and inclusive of female staff.

Specific constraints

- The banking sector lacks efficiency; no link exists to support the private sector; hence, it is creating little value.
- Privately-owned banks remain very small compared to state-owned banks,
- Regulations, in particular the application of Islamic Financing, remain unclear. Even newly created regulators target the entire finance sector except for banks. Hence, regulations do not help to create a link between the banking system and the private sector.
- Laws inherited from the Gadhafi era do not enable banks to take actions to recover assets, resulting in an understandable aversion to risk, in particular for private SMEs which are deemed too risky compared to state projects.

Existing interventions

- Several programs have been developed, in particular by the French embassy, but results are still to be demonstrated.

Notes

1. Data from the International Monetary Fund (IMF) and the World Bank based on early 2015's estimations.
2. Libya Investment Climate: Enhancing Private Sector Performance for Diversification and Employment, World Bank, 2011, p. "i."
3. The concept of "Dutch Disease" refers to a negative correlation between the development of natural resources exploitation and that of other sectors (e.g., industry) and issues in exchange rates.
4. Libya Investment Climate: Enhancing Private Sector Performance for Diversification and Employment, World Bank, 2011, p. 10.
5. From Interview with Ahmed Elumami, former Ministry of Planning, Libya Herald Business Eye Issue 7, p. 20.
6. Exchange rate used 1 US$ (United States Dollar) = 1.25 LYD (Libyan Dinar).
7. Data from a conference organized in Tripoli in December 2013 by the Ministry of Planning and Institute of Planning.
8. http://www.reuters.com/article/2011/02/21/us-bp-libya-idUSTRE71K1WY20110221.
9. Private Sector Research and Future Project Scoping in Misrata and Benghazi, Altai Consulting, 2013.
10. World Bank Data, gross domestic product (GDP) per Capita, public-private partnerships (PPP) (constant 2011 international dollars) http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD.
11. "Measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution." http://hdr.undp.org/fr/content/income-gini-coefficient.
12. As of February 2015, foreign workers keep on living the country, in particular Egyptians following attack on their community.
13. Rapid Assessment of the Libyan Labor Market, World Bank, July 2012.
14. Private Sector Research and Future Project Scoping in Misrata and Benghazi, 2013, Altai Consulting and Rapid Assessment of the Libyan Labor Market, World Bank, July 2012.
15. From Key Informant Interviews (KIIs) with Businessmen in Benghazi and Misrata in July 2013, Altai Consulting.
16. World Bank's estimations: these estimations are hypothetical assumptions made by the World Bank, taking a bullish perspective on the capacity of the Libyan state to resume producing and exporting in larger quantities.
17. CBL Statement on Public Finances, November 2014.
18. A third operator, called Libya Phone was launched by the state-owned LTT in 2011 but has a very limited number of users.
19. Libya, Telecoms Mobile and Broadband, Market Insights and Statistics, 2014.
20. Agribusiness Development in Libya, A fact-finding mission, Centre for Development and Innovation, W. Heemskerk, E. Koopmanschap.
21. Using an exchange rate of 1 US$ = 1.25 LYD.
22. Interview of Husni Bey, Business Eye Issue 7, Libya Herald, April/May 2014, p. 32.
23. International Trade Centre data calculated on a 2009–13 average. http://www.intracen.org/country/lybian-arab-jamahiriya/sector-trade-performance/.
24. Exchange rate used was a fixed rate as per 31 Jan 2014, 1 EUR=1.215 US$.
25. http://www.aawsat.net/2014/05/article55331793.
26. Reported by a supermarket manager in Tripoli, early 2015.
27. Business Eye Issue N°7, Libya Herald, March 2014, p. 1.
28. Interviewed by World Bank in Benghazi during the summer 2013.
29. Note that the interview was conducted before the Shelling of Misrata by Operation Dignity forces.
30. Business Eye Issue 8, Libya Herald, p. 5, 2014.
31. Benghazi Local Council quoted by Business Eye Issue 8, Libya Herald, p. 6, 2014.
32. Business Eye Issue 8, Libya Herald, p. 4, 2014.
33. Interview with Al Seddik Omar el Kebir, African Banker, 1st Quarter 2015 Issue, p. 53.
34. Business Eye Issue N°8, Libya Herald, March 2014, p. 1.

35. While five companies from the Enterprise Survey reported that their main activity was real estate, these companies have been merged into the broader sector of Construction and Real Estate for the analysis of the section 3.
36. Three companies reported this activity in the enterprise survey sample.
37. From interview conducted with chairman of the company in July 2013.
38. Libya 2010, Oxford Business Group, p. 216.
39. Libya Country Cooperation Strategy, World Health Organization, 2012.
40. Out of the enterprise survey's sample, 20 enterprises fell into this sub-sector.
41. Libya's Investment needs 2013, Libya Herald, p. 12, November 2012.
42. From interviews conducted for this study and also from a 2014 Altai Consulting study analyzing constraints in the healthcare labor market.
43. From Altai Consulting's interview conducted with the Libyan International Medical University in 2013.
44. Extract from Interview with Fatima Hamroush, Libya Herald Supplement, November 2012, p. 12.
45. Libyan Review of Higher Education, p. 2.
46. Business Eye Issue N°8, Libya Herald, March 2014, p. 2.
47. http://www.lbbc.org.uk/display_event.php?event_id=45#sthash.ZL5nezun.dpuf.
48. Libya's Investment Needs 2013, Libya Herald, 2013, p. 14.
49. According to Mr. Akari, head of reserves at the CBL interviewed by the Libya Herald, April/May 2014.

5. Conclusions and Recommendations

As was the case with the February 2011 revolution, the current crisis has had a severe negative impact on the Libyan private sector. While the economy recovered quickly following the revolution, and will likely recover once the current political and security situation stabilizes, the impact of the current crisis may be broader and more lasting due to damaged and destroyed infrastructure and even weaker state institutions. Further, the economic crisis will likely be compounded the longer a political solution remains out of reach.

Despite the current dire context, several areas of opportunity can be identified to support the Libyan private sector. The first and most important step for Libya is the development of state institutions and a government capable of taking effective and enforced decisions. The challenge faced by this government and the country's institutions, in particular the Central Bank, will be to reassure citizens, companies and investors of the capacity of the Libyan economy to return to a positive trajectory.

Policymakers will need to promote a positive investment climate that can fast-track national and international investment, generate growth and foster job creation, in particular for the Libyan youth. In this sense, addressing uncertainty about political power, regulatory policies and the capacity of the state to provide basic services and ensure security will be a priority. All managers and owners interviewed were confident in the capacity of the country to develop quickly if the political situation is settled, an optimism that is shared by international development actors. Nevertheless, such a resolution must be accompanied by the removal of existing barriers to growth by reforming the current regulatory framework.

The challenge for the Libyan government and its international supporters such as the World Bank is significant. The following recommendations are intended as a first step to addressing the inherited structural issues facing the Libyan economy, as well as to address more recent issues that have developed to the current crisis. However, strengthening the investment climate in Libya cannot come only from changing national-level governance policies and introducing further technical advisory to a country that has already benefitted from various types of technical support. Like several other countries in the region, Libya benefits from a wealth of advice on policy reforms, and a large body of recommendations, plans and strategies from consultants on various elements of its economic reforms. Regional experience suggests that even where there is the political will to reform, expert diagnostics are not enough to succeed in strengthening the investment climate. Reform initiatives often lose momentum due to the lack of institutionalized inter-ministerial coordination, open public-private dialogue, efficient project management, and effective monitoring.[1]

As a result, the success of the interventions proposed below is largely dependent on finding effective counterparts within Libya, who have the capacity to take decisions, the ability to manage these interventions from beginning to end, and the support of high-level policy makers. In parallel, civil society,

prominent business owners and entrepreneurs, and youth also have a role to play in promoting a more modern business spirit and in developing creative ways to stimulate an economy that requires serious diversification, with the goal of promoting, as one Misratan business owner stated, an economy where "all sectors are likely to succeed." Thus, the interventions in table 5.1 focus largely on organizing and coordinating activities to build trust and coordination between private and public actors.

Note

1. Libya ICA 2011, the World Bank, p. 71–72.

TABLE 5.1 Conclusions and Recommendations

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
State and institutional level				
Political instability and insecurity	The current protracted conflict has a strong negative impact on the Libyan business climate. It is weakening the state, polarizing its institutions, and limiting public services	- Provide continuous support to Libyan State and institutions emphasizing the decisive role that the economy can play in the return of stability in the country - Continue capacity building efforts to help build strong institutions that can better resist a political struggle, in particular the Central Bank and the National Bureau of Statistics and Census - Draw from rigorous impact evaluations of insurance schemes in comparable countries (e.g., Egypt, Arab Rep.) to test the merit of a similar scheme in Libya with the goal of reducing the impact of political risk	An economic crisis can only worsen the political crisis experienced by Libyans on the ground. The lack of financial resources and the recession of the economy will have further consequences on the conflict (risk of shortage, incapacity to pay for salaries and subsidies)	The International community, including UNSMIL, The World Bank, Political Advisors
Macroeconomic policy	Inflation and access to foreign currency are major obstacles for enterprises' growth. US dollars can mainly be found via informal channels	- Support the government to take strong fiscal and monetary policies encompassing current difficult situation and the need for growth and inflation control. Policies should be clearly enunciated and pedagogically explained to companies - Support efforts to link tax collection to the National Identification system to increase fiscal revenues	Controlling high inflation and regularizing access to foreign currency would help private companies to regularize their situation and develop trade overseas	Ministry of Finance, Central Bank, Technical Advisors
Private sector development	Current regulations and laws have limited impact on reducing barriers to private sector growth and on attracting international investors	- Conduct Regulatory Impact Analysis (RIA) to assess the real impact of previous interventions and post-revolution laws provided the government officials have enough technical capacity - Support different Ministries with technical advisory to review and propose performance regulations to encourage private initiatives and a fair environment between competitors	Improving investor confidence will attract more international and national actors to fund and develop large-scale projects	Ministry of Economy, Ministry of Planning, Ministry of Labour, The World Bank

table continues next page

TABLE 5.1 *continued*

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
		- Develop other independently-managed "misrata free zones" (MFZ) to attract investors and create synergies between manufacturing, transportation, shipping and international investors		
Regulatory uncertainty	The current situation prevents policymakers from developing long-term strategic plans There is a lack of clear vision at the top level to steer economic development	- Develop a public e-registry of all regulations and design specific booklets for investors in cooperation with the different ministries to encourage knowledge about existing laws and regulations. The return of political stability is a prerequisite to the success of such an intervention - Set-up a mechanism to routinely monitor the gap between de jure regulations and de facto implementation to design a transparent and accountable system in which government officials are accountable for the service they provide to the private sector	- Greater knowledge of regulations and sanctions would encourage enterprises to abide by it - Free access to public information in particular laws, executive regulations and data would increase transparency and reassure investors	Ministry of Economy/ Planning, PIB, the World Bank
Corruption/lack of transparency	Heavy corruption sends negative signs to investors and create an unfavorable business climate	- Support the state in strengthening control mechanisms, provide technical advisory on how to control corruption and enforce laws - Advocate among companies on the benefit of a transparent mechanism and the constraint created by corruption at a larger scale	Corruption and lack of legal enforcement create cuts into state revenues and generates a climate of unfairness for investors	Ministry of Finance, Ministry of Economy, The World Bank, Technical Advisors and Corruption Experts
Informality	Private companies suffer from the practices of informal actors that create unfair competition	- Propose simplified mechanisms for registration, reduce registration duties and provide tax incentives to freshly registered companies to encourage informal enterprises to enter the formal system - Assess the impact of new tax rates (20% flat rate) and the self-assessment collection system - Assess the impact of the "one-stop-shops" of Tripoli, Misrata and Benghazi on actual delays to register and capacity to fast track investors and informal companies to register	Simplified registration and tax procedures and reduced bureaucracy—combined with more systematic sanctions—have a lagging effect on both international investors and domestic informal enterprises	Ministry of Finance, Tax department, General Authority for Investment Promotion and Privatisation Affairs, The World Bank

TABLE 5.1 *continued*

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
Overwhelming public sector	State-owned companies are driving most of growth in the country and private champions as well as private small and medium enterprises (SMEs) are scarce	- Support the PIB in identifying key sectors where further privatization could help private enterprises, in particular SMEs - Conduct value chain analyses and capital needs studies for sectors with strong potential for growth	- Further privatization benefits transitional economies when it promotes free and fair competition - Higher concentration of SMEs triggers an improvement of quality services and drives employment growth	PIB, Ministry of Economy, Libya Enterprises, The World Bank, External Consultants and Researchers
Overwhelming public sector	State-owned companies are driving most of growth in the country and private champions as well as private SMEs are scarce	- Encourage Public-Private partnerships (PPP) through advocacy to the state and propose conferences and working groups to develop awareness - Assess the existing regulatory framework for PPPs and develop or overhaul it to offer attractive conditions to encourage private and public companies to enter into PPPs	- PPPs contribute to strengthen links between the state and private companies and to creating public-private synergies - Transferring ownership of State owned companies to private actors generates employment in transitional economies	National Champions, Housing and Infrastructure Board (HIB), public companies, Ministry of Economy
Lack of skilled labor	Lack of Libyan skilled labor with good knowledge of business practices Mismatch between Libyan graduates' skills and available employment in Libya	- Support the emergence of high standard business schools—including private schools—and create working groups to develop links with national champions and students (internships or graduate programs). Prestigious international and regional education institutions could oversee and sponsor some of these programs	- Increasing and optimizing the skillsets would drive employment growth and stimulate company creation among newly trained Libyans	Ministry of Education, Ministry of Labour, Big enterprises, Foreign Education Institutions
Access to finance	Although Libyan banks have begun to modernize, they are still far from exhibiting best practices, which hinders further growth of the private sector.	- Develop projects with the Central Bank to support the Islamic Finance component and to integrate it in the current banking system - Pursue projects to amend Banking Law No. 1 to attract more investors	- The private sector often benefits from a performing financial sector and vice versa - Improved competition would lead to better banking services and help modernize the sector	Ministry of Finance, the World Bank, Banks

table continues next page

TABLE 5.1 *continued*

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
	The Banking Law No. 1 (2005) was to be amended but banks reported that they still were not allowed to contribute to more than 10% of a private company's capital Access to foreign currency is limited	- Pursue the Banking Modernization Program for public and private banks through a global and detailed assessment of the financial sector to reduce key barriers - Support and identify further possibilities for privatization in the banking sector to improve competition - Allow banks to participate to more than 10% of company's capital (change regulation)[a] - Support the development of private foreign currency exchange companies		
Access to land	Access to land was the main constraint for managers just before the 2011 revolution, and the absence of clear mechanisms continues to hinder businesses	- Support the creation of an up-to-date property registry (public e-registry) and create a working group to develop a more transparent and effective system to grant land - Support the creation of a working group for the mapping and marketing of unutilized land based on cost of opportunity	Transparent access to land and clear regulation is key to attract investors back in Libya	Ministry of Planning, HIB, Technical Advisory
Access to supplies	Access to supply has been disrupted at different stages of the value chain, in particular at ports, airports and during land transportation	- Advocate for independent protection of transport infrastructure to further isolate the economic poles from the political crisis - Develop private and modern land transportation companies to transport goods	Independence of ports—including airports—and economic infrastructure is a perquisite for economic stability, to keep businesses running and to reassure potential investors	Political stakeholders, security stakeholders including militias, line ministries, ports and airport management committees
Access to supplies	Delays to receive goods from ports is reported to be one of the largest in the Mediterranean area	- Stimulate more competition between ports to increase capacity and quality of services. Follow the example of Misrata ports in developing infrastructure and support the development of a Free Zone in Benghazi to create a second trading hub in the East	Competition drives the quality of services and free zones have proved to be a successful way to fast track investment in Libya (e.g., Misrata and Zawia)	Ministry of Economy, Ministry of Planning, local city councils, port authorities

TABLE 5.1 *continued*

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
		- Simplify and streamline the customs clearance process to accelerate access to goods for Libyan companies and to attract more international companies to Libyan ports	Simplifying the process will support the reception of goods and encourage foreign companies to export to and invest in Libya	
Business practices	Libyans have few incentives to start private businesses	- Learn from impact assessments of entrepreneurship development programs in other countries to understand what can be successfully implemented in Libya with rigorous piloting - Encourage government entrepreneurship programs to create incentives for start-ups (tax exemption, funding) and advertise such benefits in much needed sectors such as quality manufacturing; a clear set of rules and a transparent mechanism need to be in place to monitor these incentives so they are used as intended - Stimulate a "start-up" spirit by encouraging workshops, conferences and support scholarships and internships in countries that have developed similar business mind-sets	Stimulating a business creation spirit among Libyans can encourage the young generation to start companies and boost the private sector	Ministry of Economy, Ministry of Education, Libya Enterprise, peer countries Ministries, The World Bank
Data management	Need for further sectorial analysis to understand specific barriers to growth for each sub-sector	Develop specific needs and barriers assessment for specific sectors that are likely to support strong growth and employment (e.g., private health, private education, manufacturing)	Sector by sector analyses, particularly for key sectors, would give stakeholders concrete next steps to reduce barriers and encourage growth	Ministry of Economy, Ministry of Industry, The World Bank, research companies
Data management	The last comprehensive business Census was undertaken in 2006, before the revolution and the recent crisis, both of which have greatly influenced the economy	- Support the National Bureau of Statistics and Census in undertaking a new business census to update data on enterprises and comprehensively map Libyan economy post 2011 revolution	A up-to-date enterprise database would help policymakers to tailor their efforts towards specific sectors and locations; the census could be used as an updated base for tax collection and to fight informality	National Bureau of Statistics and Census, the World Bank

table continues next page

TABLE 5.1 *continued*

Theme	Identified constraint(s)	Potential intervention(s)	Rationale(s)	Partners
Enterprise level				
Lack of skilled labor	Few Libyans meet with international standards and big Libyan companies, in particular in the processing and manufacturing sectors, prefer to recruit foreigners	- Coordinate with large enterprises to develop nationally-recognized and prestigious graduate/internship schemes in industry, possibly sponsored and supported by international companies or organizations	Internship and graduate programs are key for Libyans to acquire international standards in education and good business practices	Ministry of Higher Education, National champions (including in the oil and gas [O&G] sector)
Access to finance	Neither state-owned companies nor private banks managed to fill the finance gap and create links between the financing system and the private economy	- Hold workshops with relevant government officials and banks to encourage private actors in the financing industry to develop specific funds for SMEs, in accordance with specific needs. A panel of SMEs could be interviewed to identify these needs	Private sector initiatives are necessary to avoid an overdependence on the state and to promote a private economy mentality	Private Banks, Ministry of Finance, the World Bank

a. Article 77 of the Banking Law N°1 of 2005 specifying "the acquisition of the shares of another joint stock company in excess of 10% of the company's paid capital."

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