AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT 2024

LIBYA

Driving Libya's Transformation:
The Reform of the Global Financial Architecture

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LIST OF ABBREVIATIONS

AEO	African Economic Outlook
AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
b/d	barrels per day
CBL	Central Bank of Libya
CFR	Country Focus Report
DFIs	Development Financing Institutions
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GECOL	Libyan General Electric Company
HIES	Household Income and Expenditure Survey
ICTs	Information and commincations technologies
IDPs	Internally Displaced People
IFFs	Illicit Financial Flows
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
LYD	Libyan Dinar
MDBs	Multilateral Development Banks
NDCs	Nationally Determined Contributions
NLFS	National Labour Force Survey
NOC	National Oil Corporation of Libya
PPP	Public-Private Partnership
SDG	Sustainable Development Goal
SDRs	Special Drawing Rights
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
USD	United States Dollar
WDI	World Development Indicators

EXECUTIVE SUMMARY

The Libyan economy remains undiversified. Following a decline of 3.7% in 2022, the Libyan economy recovered strongly by approximately 9.1% in 2023, led by robust oil production performance. The Libyan economy is projected to contract by 3.2% in 2024 before recovering to 6.2% in 2025, contingent upon the resumption of oil production and improvements in political stability. The inflation rate fell to 2.4% in 2023, as domestic supply chains improved. The inflation rate is expected to remain subdued, at around 2.2% in 2024 and 2.6% in 2025. The fiscal surplus fell from 3.1% in 2022 to a nearly balanced fiscal position in 2023, following a decline in oil revenue. The fiscal balance is anticipated to show a deficit of 1.3% of GDP in 2024, primarily due to a decrease in oil revenues. However, it is projected to improve to 8.7% of GDP in 2025 with an expected recovery of oil production and exports and higher global prices. The current account surplus halved in 2023, due to a decrease in global oil prices. It is expected to remain positive in double digits in 2025 due to projected increases in oil and gas exports. The main risks to the Libyan economic outlook are political instability and downturns in the global economy. Political stability is imperative to promote economic growth and macroeconomic stability. It is also crucial to implement measures to increase non-oil revenues and diversify the economy.

Libya's economic performance is closely tied to oil output and earnings, making the country highly susceptible to exogenous shocks. The country has experienced volatile GDP per capita growth rates due to its heavy reliance on the oil sector. Transformation of the Libyan economy is demonstrated by reallocation of labour from low productivity agriculture and industry to services. The industrial sector, led by oil, is the main contributor to GDP, with an average share of 54% since 2006, although this contribution has been volatile. During contractions in oil production, services represent the greatest share of value added, averaging 43.6% since 2006. The share of the agricultural sector remains low, despite a slight increase between 2015 and 2020. The share of manufacturing value added in GDP declined from 4.7% in 2006 to 3.7% in 2011, and only 2.9% in 2019, while its share in total exports is considered low. The expansion of the services sector in Libya has been matched by a gradual decline in the share of employment in the industrial and agricultural sectors, especially since 2011. Transformation is slow, held back by structural challenges which include political instability, a limited contribution of the private sector, inadequate infrastructure, weak governance, over-dependence on the public sector, widespread informality, climate change risks, skills gaps and challenges to leveraging demographic dividends.

Financing structural transformation in Libya will require an estimated USD 39.3 billion annually with a target date of 2030, or 6.9 billion annually with a target date of 2063. Infrastructure is the main area that typically requires significant investment. Reform of the international financial architecture should play a significant role in supporting Libya in overcoming its economic challenges, mainly through the provision of technical assistance, loans on affordable terms, facilitation of market access and risk reduction for the private sector. Benefiting fully from these global reforms requires both a political settlement and a comprehensive national development plan for diversification of the economy away from the oil sector. Libya should also develop a regulatory and institutional framework to improve the business environment and boost investment in manufacturing, to address infrastructure bottlenecks and to invest in human capital. To narrow the financing gap, Libya should mobilise more non-oil revenues and attract foreign investment.

GENERAL INTRODUCTION

The oil sector contributes significantly to the Libyan economic landscape. However, heavy reliance on this sector in exports and budget financing has made Libya highly vulnerable to external shocks. Libya has been plunged into political instability, and faces institutional divisions, predominance of public and informal sectors and climate change risks. This situation has significantly impacted the country's overall development and well-being, delayed major reforms and hindered progress towards economic transformation. Despite these challenges, there are hopes for a better future. Libya is well endowed with natural resources that could serve as a catalyst for development. Recent improvements have sparked interest in the country, such as the glimmer of optimism for future political stability, the commitment to preparing a national strategy for economic diversification and deeper awareness of the role of the private sector in economic development. This context may raise questions on key economic issues such as the major challenges and opportunities for structural change in the Libyan economy to enhance its resilience and its capacity to foster sustainable development.

The theme of the 2024 African Economic Outlook (AEO) was "Driving Africa's Transformation: The Reform of the Global Financial Architecture". This Country Focus Report (CFR) for Libya complements the AEO by focusing on Libya and analysing its recent macroeconomic performance and outlook. It provides an analysis of the Libya's progress in structural transformation, its financing needs for structural change and the need for reform of the international financial architecture. The CFR is divided into three chapters. Chapter I highlights Libya's recent macroeconomic performance and outlook. Chapter II provides a diagnostic of Libya's structural transformation progress, focusing on the key drivers, challenges and opportunities, and the role of private sector. This chapter also provides an overview of financial needs and gaps for structural change in the country, and offers some policy recommendations at the national and international levels. Chapter III discusses the need for reform of the international financial architecture to support Libya in its structural changes while dealing with the threat of climate change. It also highlights aspects of the global financial architecture that require reform, and provides some policy recommendations.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK IN LIBYA

KEY MESSAGES

- Libyan GDP growth reached 9.1% in 2023, boosted by continued oil production as the security situation improved. The economy is projected to contract by 3.2%, in 2024. However, the outlook is optimistic for the year 2025 with a projected growth of 6.2%, if oil prices and production remain stable. The Libyan economy remains undiversified and heavily reliant on oil sector performance.

- Inflation remains benign despite sharp depreciation of the national currency. The fiscal surplus declined in 2023 (0.1% of GDP) and is expected to deline further in 2024 (1.3% of GDP); but is projected to improve in 2025 with an expected recovery of oil production and exports and higher global prices. Despite a decline in 2024, the current account surplus is projected to register a surplus of 22.3% of GDP in 2025, demonstrating a robust external position.

- The main headwinds to the outlook include political instability, climate risks, rising geopolitical tensions and downturns in the global economy. Potential tailwinds include, inter alia, harnessing the high potential for economic reconstruction and diversification, positive prospects for private sector growth and renewed investment and capital accumulation to boost structural transformation and growth prospects.

- In the short term, Libya should implement policies to address rising food prices, exchange rate pressures and the high unemployment rate. Over the medium to long term, Libya should implement strategies to accelerate structural reforms, to build a resilient economy and support efforts to accelerate structural transformation. The country should create an enabling environment to attract and scale up external financial flows.

Introduction

Despite facing significant challenges, the Libyan economy has shown resilience. The objective of this chapter is to provide an updated analysis of Libya's economic performance for 2023, along with medium-term growth estimates for 2024–2025. It evaluates trends in important macroeconomic indicators, fiscal and monetary policies, domestic and international financial flows, investment and public debt. The chapter also discusses the main downside and upside risks to the outlook and provides policy options to foster high and resilient growth, support macroeconomic stability and economic transformation and deal with the shocks that have continued to buffet the Libyan economy.

While Libya has shown strong economic growth with a positive outlook in 2025, there are several vulnerabilities that could potentially hinder its long-term development.

1.1 Growth performance

Libya's real GDP growth is estimated at 9.1% in 2023 after a contraction of 3.7% in 2022. On the supply side, this recovery was driven by sustained oil production, reflecting the country's relative political stability during the year. On the demand side, it was driven by an increase in salaries of 18.1%, which stimulated services growth. The floods that struck the East of the country in September 2023 had a limited impact on economic growth, as the country relies mostly on oil exports. The ongoing political situation has hindered progress and investment in various sectors of the economy. Libya's economy is characterised by heavy reliance on the oil sector, which significantly influences both the supply and demand sides of economic growth. Since 2021, Libya has been able to restore its hydrocarbon production to its level before the blockade of 2020. Oil production averaged 1.1 million barrels per day (b/d) in 2023, an increase of 18.2% from 2022, but still far below the potential production of 3 million b/d. Gross production of natural gas was 932.2 billion cubic feet in 2023, up from 888.5 billion in 2022 (CBL, 2024).

Regarding the global context, global oil demand showed signs of recovery in 2022 and 2023, but at a slower pace than before the COVID-19 pandemic. Brent crude oil prices fell from USD 101 per barrel in 2022 to USD 83 per barrel in 2023.

1.2 Other recent macroeconomic and social developments

1.2.1 Monetary policy inflation and exchange rate

Libya has made progress in the reunification of its Central Bank[1]. However, there remains room for improvement in the integration of the payment system and unification of accounting procedures. Liquidity shortages in Libyan banks have emerged periodically, leading to delays in salary payments and deterioration in the value of the local currency. Inflation remains benign despite the sharp depreciation of the dinar. The annual inflation rate[2] reached 2.4% in 2023, down from 4.6% the previous year. This decline was driven by price stability in essential food commodities globally, as Libya imports 75-80% of its food requirements (REACH, 2022). Although global food price increases have slowed recently, they remain high, following the sustained impacts of multiple global shocks[3]. To keep inflation under control, Libya has implemented a price control system on essential products.

Following the 70% devaluation of the official exchange rate in early 2021, the exchange rate of the Libyan dinar (LYD) against the US dollar (USD) fluctuated around 4.8 in 2022–2023, compared with 4.5 in 2021 (and 1.4 in 2020). The exchange rate in the parallel market

[1] The Central Bank of Libya split into separate entities (in Tripoli and in Bayda) following the civil war in 2014. It announced its reunification in August 2023.
[2] The inflation rate is estimated from data primarily collected in Tripoli.
[3] At the end of 2023, the FAO Food Price Index was about 10% below 2022 levels.

hovered around LYD 7 per USD during the first half of 2024. In March 2024, the government imposed a temporary 27% tax on transactions in foreign currency, intended as a stabilisation measure. Access to foreign currency at the official exchange rate has been limited, contributing to a widening gap between the official exchange rate and the parallel market rate (World Bank, 2023b). More than one-third of imports are currently financed outside the banking system by the informal sector using the parallel exchange rate (IMF, 2023).

1.2.2 Fiscal policy and public debt

The fiscal surplus fell from 3.1% of GDP in 2022 to a nearly balanced fiscal position of 0.1% in 2023, mainly due to a decline in oil revenue. In 2023, 47.7% of total expenditure was allocated to salaries and 15.9% to subsidies and price stabilisation. The extraordinary budget of public enterprises (the National Oil Corporation (NOC) and the General Electric Company (GECOL)) represented 19.7% of total expenditure, while development expenditure accounted for only 9.5%. Between 2022 and 2023, development expenditure and administrative expenditure showed declines of 64.4% and 61.4% respectively. Similarly, the extraordinary financial arrangements for the two national companies (NOC and GECOL) declined by 27.8%. It should be noted that a unified state budget has not been approved for several years.

Libya does not borrow externally, as the country has abundant foreign exchange earnings and reserves from hydrocarbons. The capital adequacy ratio was 15.3% in 2023 against 15.7% in 2022, above the Central Bank's threshold of 12.5%. The ratio of nonperforming loans to gross loans is high, estimated at 22.2% in 2023.

1.2.3 External position and external financial flows

The current account surplus narrowed to 9.8% of GDP in 2023, from 21.1% in 2022, due to the decline in global oil prices. However, the current account surplus is still considered high, indicating a robust external position. Fluctuations in global oil prices have a significant impact on Libya's external position. The impact of tighter global financing conditions on the Libyan economy was limited (Box 1). Libya has abundant foreign earnings and reserves from hydrocarbons, standing at USD 78.3 billion or 34.6 months of imports at the end of 2023 (IMF, 2024), providing a buffer against external economic shocks and fluctuations in the global economy.

Despite huge investment potential in many sectors, foreign direct investment (FDI) has not flowed into the country since 2014, due to uncertainties and political instability. In 2021, Libya received an IMF Special Drawing Right (SDR) allocation[4] equivalent to USD 2.15 billion, which bolstered the country's reserves. Official development assistance was around USD 264 million in 2022, compared with USD 344 million in 2021[5], ranking Libya among the non-major recipients of aid in terms of overall volume. While personal remittances often originate from workers in Libya, the country does not receive significant inflows of personal remittances (UN, 2023)[6].

[4] The 2021 general SDR allocation of USD 650 billion globally has been by far the largest in IMF history. However, Africa received only 5% of the total allocation.
[5] WDI.
[6] Personal remittances have a GDP ratio of 0% throughout the period 2016-2021, according to UN (2023).

Table 1: Macroeconomic and social indicators

Indicators	2019	2020	2021	2022	2023 (e)	2024 (p)	2025 (p)
Real GDP growth (%)	-11.2	-29.5	28.3	-3.7	9.1	-3.2	6.2
Inflation (%)	-2.2	1.4	2.8	4.6	2.4	2.2	2.6
Overall fiscal balance, including grants (% GDP)	11.9	-22.3	12.5	3.1	0.1	-1.3	8.7
Current account (% GDP)	7.0	-9.0	13.7	21.2	9.8	-2.6	22.3
Total population (million)	6.6	6.7	6.7	6.8	6.9	-	-
Life expectancy at birth (years)	72.5	72.5	71.9	72.2	73.3	-	-

Source: Data from domestic authorities; estimates (e) and predictions (p) based on authors' calculations. AfDB Statistics Department, October 2024.
Note: There is a lack of data collection and processing in Libya. All figures are approximate, based on estimates, and may change significantly in the next CFR.

1.2.4 Social developments

More than 320,000 people in Libya need humanitarian and food assistance[7]. Multidimensional poverty represents 2% of the country's population, and 11.4% of people are vulnerable to multidimensional poverty (UNDP, 2023). The preliminary results of the Household Income and Expenditure Survey (HIES) 2022-2023 found a Gini coefficient for household income of 33.43%[8]. The number of internally displaced people (IDPs) was reported at 125,802 as of December 2022 (IOM, 2023a). There were 44,862 IDPs in the North-Eastern region of Libya following Storm Daniel in September 2023 (IOM, 2023b). Libya is a major transit country for migrants attempting to travel to Europe via the Central Mediterranean route, where the number of registered refugees and asylum-seekers reached 65,099 in January 2024 (UNHCR, May 2024). In 2023, there were 706,509 international migrants of 45 nationalities in Libya, representing around 11% of the country's population. The main difficulty for these migrants is finance. They also have limited access to basic services such as health care, clean drinking water and education for their children (IOM, 2024a). According to recent statistics, 49% of female migrants are actively seeking work, compared with 14% for male migrants (IOM, 2024a).

Unemployment in Libya is high, and those who work are mostly in the public and informal sectors (World Bank, 2023a). According to the preliminary results of the National Labour Force Survey (NLFS) 2022, the unemployment rate in Libya was 15.3%, with a higher rate for females (18.4%) than males (13.3%), reflecting the broader social and economic challenges facing women in Libya. Young people aged 15-24 have an even higher unemployment rate of 23.1% (39.2% for young women and 18.4% for young men)[9]. The high unemployment rate in the country is due to the weak private sector and limited skills among job seekers.

[7] https://www.wfp.org/countries/libya
[8] According to HIES (2023) a Gini coefficient between 25% and 35% indicates justice in the distribution of income. Above this range, justice in the distribution of income is low.
[9] According to the World Bank's World Data Indicators, the unemployment rate reached 19.3% in 2022 (24.7% for females and 15.9 for males), while youth unemployment was 48.8% (69% for females and 42% for males).

Box 1: The impact of tighter international financial conditions on the Libyan economy

With core inflation still high, many central banks kept monetary policy tight, the Federal Reserve in the United States raising interest rates eleven times between 2022 and 2023. Since July 2023, however, the Federal Reserve continued to hold the line on interest rates, maintaining a target range of 5.25-5.50%. The three key European Central Bank interest rates (those on the main refinancing operations, the deposit facility and the marginal lending facility) increased after 2022, but have remained unchanged more recently. China's central bank left a key policy rate unchanged, as the yuan limits room for manoeuvre.

Libya is heavily reliant on hydrocarbons for its economic stability and government revenues. The formal financial sector, primarily composed of state-owned banks, meets little of the financial needs of the private sector. Tighter monetary policy globally did not result in higher real interest rates in Libya, the Central Bank keeping the rate unchanged at 3%. Domestic credit to the private sector was reported at 10.13% of GDP in 2022, according to the World Bank, compared with 9.8% in 2021 and 21.9% in 2020. Commercial bank credit to various economic sectors was reported at USD 5,890 million in 2023 compared with USD 4,746 million in 2022 (CBL, 2024)[i].

When financial conditions tighten globally, it affects borrowing costs and investment decisions. In Libya, however, FDI has not flowed into the country for many years, due to the political situation. Since the country also does not borrow externally, there are no higher borrowing costs for businesses or consumers. While tighter financial conditions could also impact on exchange rates, the depreciation of the Libyan dinar primarily reflects political instability, liquidity problems and reliance on oil revenue. Inflation rates remain low, as most goods and services are either subsidised or administered. Thus, the impact of tighter international financial conditions on the Libyan economy is limited.

Source: AfDB (2023: Country Brief Libya), AfDB (2022 &2023: AEO), World Bank (2020).
Note: [i] the exchange rate against the US dollar was reported at LYD 4.84 in 2023.

1.3 Macroeconomic outlook and risks

1.3.1 Macroeconomic outlook

The Libyan economy is projected to contract by 3.2% in 2024, due to declining oil production especially in the third quarter of the year. However, the outlook for 2025 is optimistic with a projected growth rate of 6.2%, subject to sustained oil production. According to the NOC, oil production is expected to exceed 1.5 million b/d by the end of 2025 and could reach 2 million b/d within 3 years[11].

Inflation is projected to remain subdued, at around 2.2% in 2024 and 2.6% in 2025, reflecting the expected stability of global supply chains. However, prices could rise further if the national currency is devalued. During 2024, a fiscal deficit of 1.3% of GDP is expected, mainly due to lower oil revenues and higher expenditures. By 2025, with the resumption of oil production, Libya could see its fiscal surplus rise to about 8.7% of GDP. However, if the government response plan to mitigate the impact of floods and support recovery efforts in the city of Derna materialises, this could increase capital spending. The current account is estimated to narrow further and register a deficit of 2.6% of GDP in 2024 due to an expected decrease in oil export. In contrast, the projection for 2025 indicates a remarkable turnaround with an expected surplus of 22.3% of GDP. This substantial increase

[10] Countries are ranked in three categories: green for good performers, yellow for fair performers and red for weak performers. For more information on the criteria of this ranking, see AfDB (2024: AEO).
[11] https://libyaherald.com/2024/03/libyas-oil-production-will-exceed-1-5-million-bpd-by-2025-and-2-million-by-2027-noc-head-bengdara/

suggests an expected increase in oil and gas exports following the extra budget allocated to the NOC and agreement with foreign companies to increase gas production.

1.3.2 Headwinds and tailwinds to the growth outlook

Several dynamics are expected to influence Libya's economic growth trajectory. Political instability, climate change risks, rising geopolitical tensions and downturns in the global economy pose potential threats to the country's positive economic outlook. Limited economic diversification and reliance on hydrocarbons continue to weaken the Libyan economy, which remains highly vulnerable to shocks. These major challenges are compounded by several underlying development challenges, including weakened institutions and infrastructure damaged by years of armed conflict and political instability and division, and a weak economic governance and business environment.

Despite these headwinds, there are also tailwinds that could potentially have positive impacts on the growth forecast. Libya has a high potential for economic reconstruction and diversification, backed by considerable natural resources. The authorities are optimistic about potential political settlements and national reconciliation. Recently, there has been recognition of the importance of economic diversification to increasing resilience, and greater awareness of the role of the private sector in reducing dependence on the public sector and in generating employment.

1.4 Policy options to foster high and resilient growth by supporting macroeconomic stability and economic transformation

While Libya has realised strong economic growth, its heavy reliance on oil production has made the national economy vulnerable to external shocks. To progress towards macroeconomic stability and resilience, it is essential for Libya to implement a comprehensive set of recommendations that address short-term and medium- to long-term goals.

In the short term, Libya could implement the following policies.

(i) In order to implement a more coherent monetary policy, the Central Bank should enhance its reunification process. In the meantime, Libya should promote investment in the agricultural sector, particularly focusing on wheat production to address rising food prices.

(ii) To address exchange rate pressures, the authorities should implement measures to improve management of the demand for foreign exchange and to control public expenditure. It is also important to promote financial stability through regulatory and governance reforms in the banking sector.

(iii) To address the high unemployment rate, the authorities should focus more on unlocking opportunities for the private sector and promoting entrepreneurship, enhancing workers' skills, improving infrastructure, supporting migrant workers and ensuring fair market practices.

Over the medium and long term, several key policies could be implemented.

(i) Libya is in dire need of strategies to accelerate structural reforms to build a resilient economy. Such strategies should first tackle political and security issues.

(ii) To support efforts to accelerate structural transformation, Libya should implement a unified budget and diversify domestic revenue

sources to generate more stable revenue. Encouraging private sector growth would generate additional tax revenue, while implementing a climate change preparedness plan could reduce unexpected increases in spending.

(iii) By leveraging the opportunities presented by reform of the current global financial archi¬tecture, Libya could diversify its economy through increased financial and capacity building assistance, address challenges more effectively and pave the way for long-term macroeconomic stability.

(iv) To create an enabling environment to attract and scale up external financial flows, Libya should strengthen its governance and institutional frame works, develop the financial sector, develop basic infrastructure, enhance investments in human capital and exploit its numerous advantages to profit from regional integration initiatives.

2

TAKING STOCK OF LIBYA'S PROGRESS TOWARDS STRUCTURAL TRANSFORMATION

KEY MESSAGES

- Libya has been transforming weakly, without any marked industrialisation in non-oil sectors, through a low-skilled services sector, notably in public, personal and retail services, mainly because of limited manufacturing activity.
- Key bottlenecks to rapid structural transformation include, inter alia, political instability, the limited contribution of the private sector, inadequate infrastructure, weak governance, over-dependence on the public sector, widespread informality, the skills gap and climate change risks.
- Achieving economic transformation requires political stability, a comprehensive development plan, good governance, strong institutions to enhance the business environment and development of infrastructure and human capabilities.
- Financing structural transformation in Libya will require an estimated USD 39.3 billion annually with a target date of 2030, or 6.9 billion annually with a target date of 2063. Infrastructure is the main area that typically requires significant investment. To fill the financing gap, Libya could emphasise expansion of non-oil revenue. At the regional and international levels, external assistance will be crucial, and could take the form of technical assistance, grants or concessional loans to bridge the financing gap.

Introduction

The Libyan economy is heavily reliant on the oil sector. Structural transformation in the country has intertwined with the interdependence of political, economic and social dynamics. This chapter presents a comprehensive overview of recent progress in Libya's economic transformation, identifies its key trends, outlines its characteristics and estimates the financing needs to fast-track structural transformation. It takes both a historical perspective on structural transformation and a forward-looking approach, drawing lessons for the future. The chapter estimates the impact of a wide array of socio-economic, financial, governance and external factors on Libya's structural transformation, and estimates the associated financing needs and financing gaps, with the objective of highlighting the main pull and push factors and guiding both evidence-informed policymaking and investment opportunities.

2.1 Taking stock of economic performance and transformation in Libya

Libya's economy has historically been heavily reliant on the performance of the oil sector. In 2023, oil exports accounted for approximately 95% of total export earnings, 92% of revenues and 60% of GDP (CBL, 2024). In 2000–2021, the average share of oil and natural gas in total natural resources rent were 95% and 4.8% respectively[12].

The average Libyan real growth rate between 1980 and 2022 was reported at only 1.5%, compared with an average of 3.1% for Africa as a whole (Figure 1). Libya's economic growth has been volatile, due to its heavy reliance on the hydrocarbon sector, whereas Africa's overall economic performance has been strong, especially across the four decades preceding the COVID-19 pandemic. During the 1980s, the Libyan economy contracted by 3%, due to unfavourable international conditions and the imposition of sanctions. Through the 1990s, Libya experienced an economic recovery of approximately 1.7% pa, due to high global oil prices and increased foreign investment in the oil industry. The country registered substantial economic growth of 5% in the 2000s, due to high global oil prices, inflows of FDI and exploitation of new oil fields. However, the outbreak of the revolution in 2011 interrupted the positive economic growth trend, growth moderating to an average of 2.8% in the 2010s. Following a severe contraction of 29.5% in 2020, due to an oil blockade and a decline in global oil prices, the economy rebounded by 28.3% in 2021, before contracting by 3.7% in 2022 due to increasing conflict and weak performance of the oil sector (AfDB, 2023: AEO). Thus, the Libyan economy has been characterised by growth fluctuations, reflecting over-reliance on a single good. Libya's economic vulnerability has been exacerbated further by large migration flows, including flows of refugees (IOM, 2024b).

Libya is an upper middle-income country[13] with 6.8 million inhabitants. Its GDP per capita growth rate has evolved in a similar manner to its overall growth rate (Figure 2). This highlights the considerable impact of the performance of the oil sector on per capita income, although population growth gradually slowed from 1.9% in 2013 to 1.1% in 2022[14]. In per capita terms, neither Libya's nor Africa's growth performance has been encouraging or followed a sustained positive trend, despite the rapid rebound of per capita growth in the post-COVID-19 period.

[12] AfDB Statistics Department.
[13] As of July 1st, 2022, the World Bank assigned the world's economies to four income groups based on their GNI per capita in the previous year (2021): low (less than USD 1,045), lower-middle (between USD 1,046 and USD 4,095), upper-middle (between USD 4,096 and USD 12,695), and high income (more than USD 12,695).
[14] WDI.

Figure 1: Real GDP growth, Libya and Africa (%)

Figure 2: Real GDP per capita growth, Libya and Africa (%)

Source: AfDB Statistics Department.

In 2022, Libya was ranked 104th of 133 countries[15] in terms of economic complexity[16], indicating a low level of diversification of the economy. This low ranking highlights the need for Libya to invest in developing other sectors beyond oil to promote sustainable economic growth and reduce its dependence on a single commodity. The export concentration index[17] was 0.81 in 2021, similarly indicating heavy concentration of Libya's exports in a few products. Low-tech products represented 90.6% of total manufactured exports on average during the decade 2010-2021, the remainder being medium- and high-tech products[18]. Despite features such as the country's vast land area, substantial hydrocarbon reserves, huge renewable energy potential and small population, the Libyan economy remains undiversified, further underlining the structural issues facing the country.

2.2 Libya's structural transformation: drivers, bottlenecks and opportunities

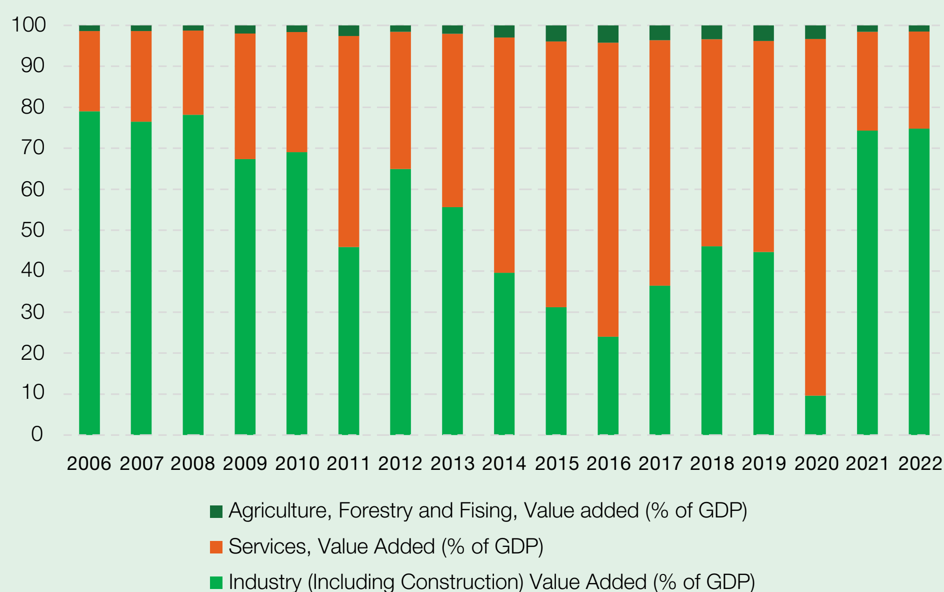
2.2.1 Libya's structural transformation

Structural transformation is the shift of an economy's structure from low-productivity labour-intensive activities to higher productivity capital- and skill-intensive activities[19]. As highlighted previously, the Libyan economy has been dominated by the oil sector. The evolution of value added by sector reveals that industry, dominated by the oil sector, is the main contributor (Figure 3). This contribution has been volatile, averaging 54% since 2006. During periods of contraction in oil production, the services sector became the largest in terms of value added, with an average of

[15] https://prod.oec.world/en/profile/country/lby
[16] "The complexity of a country's production reflects the country's diversity of productive knowledge, or 'capabilities', which combine to transform raw materials into various products, the knowledge content of which ranging in theory from zero for naturally occurring goods… to the maximum value for products requiring all available knowhow" (Inoua S, 2023, p.1).
[17] Also known as the Herfindahl-Hirschmann Index, this is a measure of the degree of product concentration in exports. An index value closer to one indicates that a country's exports are highly concentrated in a few products, while values closer to zero reflect a more homogeneous distributed of exports among a range of products. The database is from the Harvard University Atlas of Economic Complexity.
[18] AfDB Statistics Department.
[19] https://unhabitat.org/structural-transformation-in-developing-countries-cross-regional-analysis

43.6% since 2006 and 59.3% between 2014 and 2019, and a peak of 87% in 2020. During these years, Libya experienced a drop in oil production due to oil blockades and disruption. The share of the agricultural sector has been small, despite a slight increase between 2015 and 2020. The value added of the manufacturing sector, included in the industrial sector[20], declined from 4.7% of GDP in 2006 to 3.7% in 2011 and 2.9% in 2019, while its share in total exports is extremely small.

Figure 3: Value added by sector (% of GDP)



Source: World Development Indicators (WDI).
Note: Values are normalised, as the sum of the value added of all the sector activities may not equal 100%.

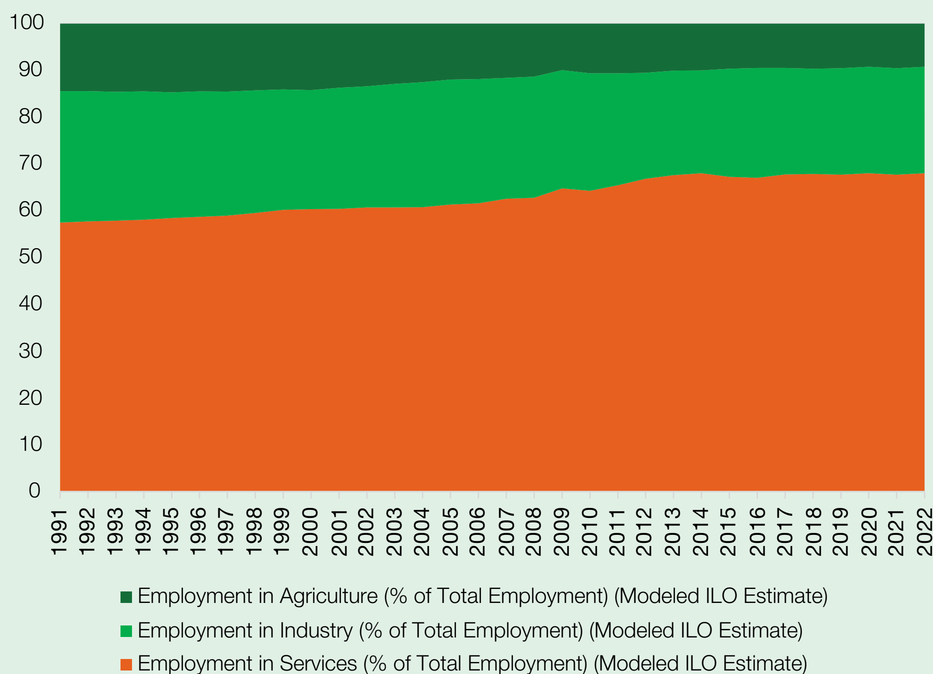
Libya has been transforming without a marked level of industrialization in non-oil sectors. By investing in human and physical capital, enhancing political stability, engaging the private sector, and implementing strategic reforms, the country will be able to unlock potentialities for economic diversification.

During the last decade, the employment shares of services, industry and agriculture were 66.9%, 23.2% and 9.9% respectively (Figure 4)[21]. Within the services sector, in 2022, approximately 44.1% of Libya's working population were employed in public administration, defence and social security services, while 26.8% were employed in education and 8% in health[22]. Total employment in the public sector increased from roughly 0.9 million in 2010 to around 2.1 million in 2022[23], representing 86.5% of the active labour force[24].

The private sector has contributed only 9-13% of GDP since 2021[25]. The weakness of the private sector in terms of its contribution to employment and the overall economy continues to present a challenge. Thus, the expansion of the services sector in Libya has been matched by a gradual decline in the share of employment in the industrial and agricultural sectors. Such a shift towards services is a trend that has been observed more widely in Africa (AfDB, AEO: 2024) and globally.

[20] According to the World Bank, "industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water and gas."
[21] The contribution of the agricultural sector to value added and job creation remains marginal. Services trade amounted to USD 8.5 billion in 2021, equivalent to 14.8% of total trade, with an average of 10.5% since 2000 (AfDB Statistics Department).
[22] Data gathered from the National Labor Force Survey, 2022.
[23] Data gathered from the Ministry of Finance and Ministry of Labor.
[24] Data gathered from the National Labor Force Survey, 2022.
[25] AfDB Statistics Department.

Figure 4: Employment share by sector (% of total employment)



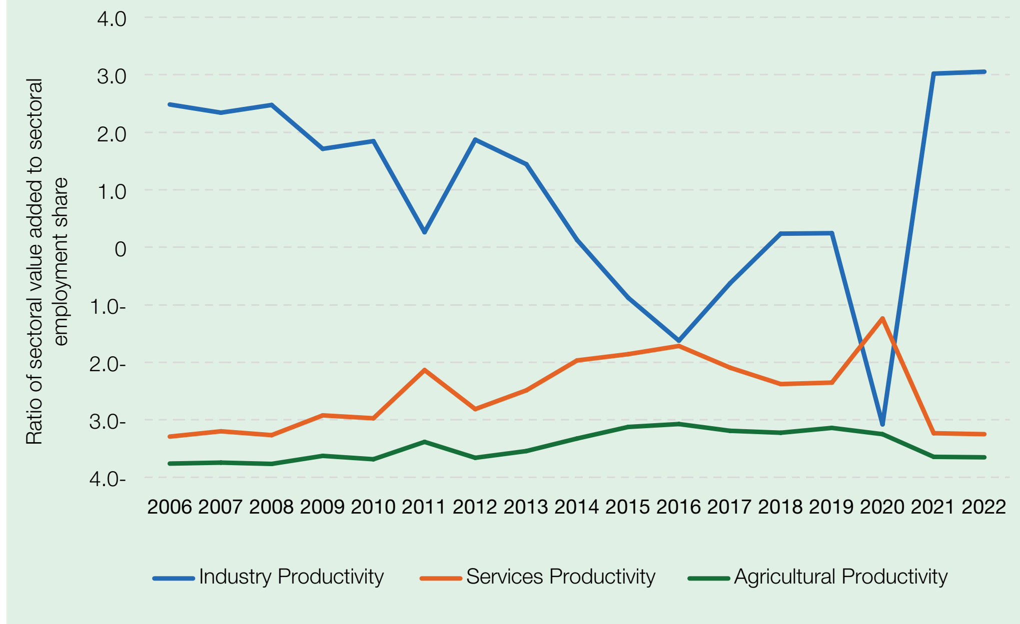
Source: WDI.

Analysing sectoral productivity is central to gauging how efficiently each sector produces economic value relative to the number of people it employs[26]. Sectoral productivity in Libya is volatile and does not follow a sustained trend (Figure 5). Since 2011, the national context, characterised by political instability and downturns in global conditions, has had a major impact on sectoral productivity. The productivity of the industrial sector, dominated by oil, has been quite volatile, with a marked downward trend between 2006 and 2016, indicating the sector's great vulnerability to national shocks and the global geopolitical context. Since 2016, the trajectory of labour productivity in the industrial sector has become very erratic because of the security context. The services sector, conversely, has witnessed a relatively steady improvement in labour productivity, despite the political and economic challenges in the country. However, labour productivity in services has decreased since 2020 following the disruption caused by the COVID-19 pandemic. The services sector has also been characterised by a low-skilled workforce, notably in public, personal and retail services, due to insufficient training or educational requirements in services. The agricultural sector has not shown a significant improvement in productivity, due to harsh climatic conditions, limited water availability and historical neglect.

Overall, Libya has been transforming weakly, without any marked industrialisation in non-oil sectors, through a low-skilled services sector, notably in public, personal and retail services, mainly because of limited manufacturing activity.

[26] Since data are available on sectoral value added and sectoral employment, sectoral productivity was proxied as the ratio of the former to the latter. A higher productivity ratio reflects greater efficiency in resource utilisation and output creation in that sector.

Figure 5: Sectoral labour productivity, 2006-2022



Source: Computed from WDI data.

2.2.2 Unpacking Libya's structural transformation through labour market analysis

Over the last decade, Libya has been plagued by political instability and conflict. This situation has limited incentives for investment and job creation. The COVID-19 pandemic has worsened the employment situation by decreasing oil profits, disrupting global supply chains and driving up production costs. The Libyan labour market response to the economic crisis resulted in significant reductions in labour productivity and earnings rather than substantial changes in employment rates. This highlights the difficulties of finding coherence between economic conditions, government policies and industry dynamics in determining labour market reactions in times of crisis. The workforce in different sectors and regions of the country faces varying levels of financial well-being (Juilliard et al., 2021).

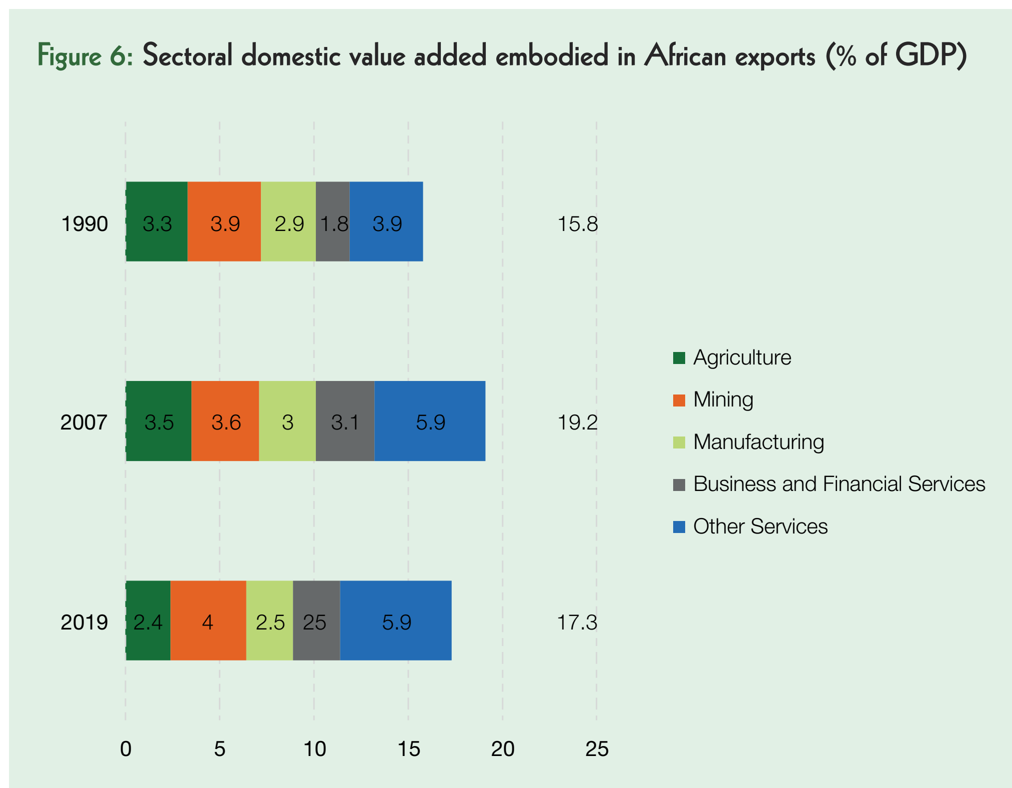
2.2.3 Rapid growth in income and jobs embodied in services export: new evidence

Empirical studies have underscored the critical role of foreign demand and integrated markets in driving structural economic change. Mensah and de Vries (2024) evaluated the potential effects of market expansion through the African Continental Free Trade Area (AfCFTA), which might give the continent comparative advantages which could accelerate structural transformation. The authors calculate the domestic value added and jobs embodied in exports using the hypothetical extraction method introduced by Los et al. (2016)[27], finding that services are the driving force behind recent structural change in African countries (Figure 6). They also find that the rising share of domestic value added in manufacturing observed during the 2000s, followed by a decrease in the 2010s, was driven primarily by manufacturing activities

[27] The methodology is presented in AEO 2024.

anchored on natural resources, while the contribution of other manufacturing industries remained stagnant, a finding consistent with the general observation that export-oriented manufacturing is not expanding[28]. These findings may be relevant for Libya. In fact, the services sector could be a driver of structural change in Libya once dependency on the public sector is reduced, providing more opportunities for private sector services.Export-oriented manufacturing could play a key role in transformation. This will require strong political will and a national industrial policy based on high value-added sectors.

Figure 6: Sectoral domestic value added embodied in African exports (% of GDP)

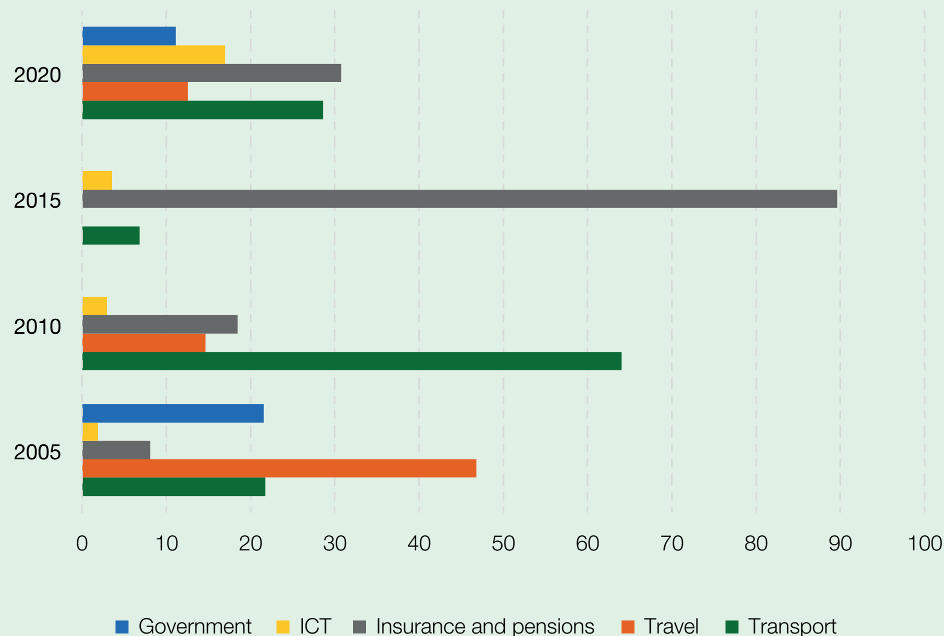


Source: AEO, 2024; Mensah and de Vries (2024).

Libya's heavy reliance on hydrocarbon industries and the lack of policies aimed at rerouting natural resource revenues to other productive sectors limits opportunities for economic diversification and accelerated employment generation. The limited contribution of the private sector to the economy, together with deficiencies in infrastructure and security issues, have long impeded the creation of new jobs in the country, particularly in service exports and manufacturing. Figure 7 shows volatility rather than structural shifts between sectors in the distribution of services exports in Libya over time.

[28] For more information on these findings, see AfDB (2024: AEO).

Figure 7: Sectoral distribution of services exports in Libya (%)



Source: AfDB Statistics Department.

These results are consistent with the broad pattern of no meaningful structural change documented above. Again, the single good domination of the Libyan economy, based on oil, is far from a sustainable development path.

Box 2: Learning from successful experiences of structural transformation

There have been some successful experiences of countries with large shares of natural resources in their GDP at a certain point in their history implementing strategies to support growth and structural transformation, mainly by diversifying their economies away from hydrocarbons, to ensure long-term sustainability and resilience.

Norway has had a successful experience of economic diversification. It rerouted its oil revenues to invest in key areas such as infrastructure, innovation, education and climate-related projects. Through the establishment of the Government Pension Fund Global, the country has achieved outstanding results in terms of economic diversification and securing sustainable development for future generations. Regulations and reforms have been put in place to encourage innovation and knowledge transfer, sparking an expansion of certain sectors, including advanced manufacturing, aquaculture and renewable energy.

Saudi Arabia has also had a successful experience. The Kingdom has launched various initiatives to foster expansion in non-oil sectors such as mining, to increase production and exports of minerals, led by the Ma'aden company; tourism, by developing infrastructure to support tourism, including new hotels, airports, tourist attractions and entertainment; health care (King Abdullah Medical City in Riyadh); and manufacturing, including automotive components, chemicals, pharmaceuticals, food processing and textiles. The Kingdom is also investing heavily in human capital development and has pursued reforms to promote FDI through privatisation.

Diversifying Libya's economy beyond oil is not merely a strategic choice, but a necessity. Libya should implement strategic plans centred on innovation, investment diversification, infrastructure reconstruction and human capital development.

Source: IMF (2016), Gnidchenko A. (2021), European Central Bank (2009), Zhukov S.V. et al. (2023).

2.2.4 Drivers to accelerate structural transformation[29]

Many oil-exporting counties have succeeded in diversifying their economies, and Libya could benefit from these best practices and success stories (Box 2). There are some factors which could generate important shifts in transformation of the Libyan economic structure.

Political stability is a prerequisite for any reforms aiming at structural transformation. Libya needs well-defined and functioning institutions that drive structural transformation.

> *"Empirical evidence suggests that, by being able to reduce transaction costs and information opacity, politically stable and less corrupt countries managed to crowd-in private investments, boost productivity, stimulate growth and increase real incomes for both households and firms."*
>
> *(AfDB, 2024: AEO)*

Infrastructure and renewable energy: there is a need to invest heavily in infrastructure such as transport networks and energy, which could improve productivity, employment and overall well-being. Investing in renewable energy in Libya (Box 3) could drive green industrialisation and contribute significantly to the country's energy transition.

Devaluation of the national currency: Should be considered as an opportunity for Libyan producers to invest and produce local goods which have become more expensive in international markets following the devaluation.

Regional integration: Libya could benefit from agreements signed with other countries and regions to increase its ability to benefit from international trade. Proactive engagement with the AfCFTA could provide Libya with opportunities to expand its trade partnerships.

Human capital: In 2022, Libya's Human Development Index was 0.746, placing the country 92nd of 193 nations[30]. By investing more in education and training programmes, Libya could provide its workforce with the required skills, creating employment opportunities and enhancing productivity.

Technology-driven industries: Libya ranks first in the 2024 ICT Development Index[31], scoring 88.4 points. By leveraging its high ranking as a springboard for growth in technology-driven industries, Libya could reduce its dependence on oil and create a more diversified and resilient economy in a fast-paced environment driven by technological advances and global trends.

[29] The drivers mentioned here were identified on the basis on an exploratory regression approach on an unbalanced panel comprising 48 African countries in 2000–2019 in the main 2024 AEO report.
[30] Data gathered from UNDP.
[31] The ICT Development Index is harmonised between 0 and 100.

Box 3: Existing and potential opportunities in natural resources in Libya

Libya is well endowed with vast reserves of natural resources such as oil (48.4 billion barrels), gas (53.1 trillion cubic feet) and other non-renewable resources (iron ore, gypsum, salt, silica, etc.). Oil revenues could be converted to alternative assets such as human and produced capital. Gas generation could help to phase out the more polluting fuels and integrate green energy. Mineral resources could provide job opportunities and contribute to the country's economic diversification. Libya could also generate considerable green growth and development from the untapped potential of renewable (solar and wind) energy, with the capacity to generate up to 11,400 MW of solar power and up to 5,000 MW of wind power. Ample sunshine in the vast desert areas and excellent winds along the Mediterranean coast provide ideal conditions for renewable energy production, while proximity to Europe gives Libya great potential for the export of green electricity. The International Energy Agency has also shown that Libya has a low-cost production potential for green hydrogen.i Energy efficiency also offers significant potential for green growth in Libya, given the country's high energy consumption per capita and energy-intensive industries. Fisheries (aquaculture and fish processing, with a total fish production of 31,637 metric tonnes in 2021) and the agricultural sector also offer potential for exports and improved food security. Another area for green growth is sustainable land management, which could also promote green growth and climate transition.

Note: For more detailed information see AfDB (2023: CFR Libya).

[i] https://arabcsr.org/the-international-energy-libya-has-the-potential-to-produce-low-cost-green-hydrogen

2.2.5 Key bottlenecks to rapid structural transformation

There are many bottlenecks to rapid structural transformation in Libya, particularly political instability, the limited contribution of the private sector, weak governance, over-dependence on the public sector, widespread informality, climate change risks, skills gaps and challenges to leveraging the demographic dividend.

Political instability

Political instability has severely impacted Libya's economic stability and social cohesion. The Country Resilience and Fragility Assessment of the AfDB highlights the significant role of these factors in undermining economic diversification and increasing corruption. The worst effects of Libya's political instability arise from the prevalence of illicit financial flows (IFFs), corruption and organised crime. The average annual loss due to IFFs linked to criminal activity is estimated at USD 1.2 billion (UNICRI, 2021). The Corruption Perception Index is 18 out of 100, ranking the country 170th of 180 countries in the 2023 Transparency International Corruption Perception Index. Libya has one of the highest criminality scores in Africa (6.93 in 2023, on a scale ranging from 1 to 10), ranking 5th in Africa and first in North Africa (UNICRI, 2021). The devastating effects of political instability on the rule of law have made it difficult to design and implement structural reforms in a comprehensive national development plan, and have created an environment of uncertainty that deters local and foreign investment.

Weak private sector

Libya's private sector remains limited in size, with a significant contribution from the informal economy. The private sector, despite showing signs of growth driven by smaller informal companies, faces challenges such as bureaucracy, fragile rule of law and lack of adequate financing. These challenges have led to direct losses in companies' day-to-day operations and have made long-term business problematic. Meanwhile, political instability and security challenges have hindered the growth of the

private sector, which is critical to economic diversification. Infrastructure damage, energy and water supply issues and security concerns have limited private sector operations and growth. Businesses struggle to secure loans and lines of credit, and only 2% of private companies report having a loan or credit from a bank. Businesses use alternative sources of financing such as their own capital, savings and contributions from family and friends (World Bank, 2020). Other financial services, such as leasing and insurance, remain at an early stage of development[32].

Inadequate infrastructure

A decade of armed conflict and political instability in Libya has resulted in significant destruction and degradation of the economic infrastructure (energy, water and transport). The electricity sector continues to struggle to satisfy demand, due to power shortages. Access to electricity declined from 80% in 2011 to 69.7% in 2020[33], as armed conflict resulted in damage to the infrastructure. The water and sanitation infrastructure has also suffered severe degradation. Libya has the lowest Logistic Performance Index 2023 score, due to a deterioration of its scores for timeliness of shipments reaching destinations and transport-related infrastructure. Most roads are in poor condition due to their age, inappropriate use, overloading and a complete absence of maintenance. Recent flooding events have also exposed the marked vulnerability of the infrastructure to the risks of climate change.

Weak governance

In terms of governance, Libya has low scores in rule of law, regulatory quality, and control of corruption, all of which are below those of other North African countries (Kaufmann and Kraay, 2023). Together with impaired public service delivery and inefficiencies in resource allocation, weak governance has impeded business operations. The underdeveloped financial system has limited access to credit for individuals and enterprises (World Bank, 2020). This situation has resulted in limited investment in expanding investment operations, developing new ones and introducing new technologies.

Over-dependence on the public sector and widespread informality

The labour market in Libya is characterised by “welfare employment”[34] in the public sector, which has led to inefficiencies, financial losses and corruption. The public sector generally offers better salaries and incentives than the private sector, which is subject to market dynamics and wage instability. This is another challenge to the competitiveness of the private sector. The absence of a minimum wage standard contributes to wide differences in earnings across labour market sectors. The contribution of the informal sector[35] to Libya’s GDP is substantial, at around 35.3%[36]. Informal sector businesses have limited access to formal financial services, making it difficult to expand operations. The absence of legal recognition, incentives, sufficient developed free zones[37]

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[32] In May 2024, Libyan Industrial Union (LIU) organised a workshop entitled “Regulating the legal and banking framework for enabling participation of the private sector and local and international financial institutions in investing in Libya”. Business-to-business meetings between Libyan entrepreneurs and local and international stakeholders discussed on ways to improve financing mechanisms and enhance opportunities for attracting more local and foreign investment.
[33] WDI.
[34] ‘Welfare employment’ (or ‘ghost workers’) refers to a phenomenon where individuals are on the public sector payroll but do not actually perform any work or provide any services to the government (Braun and Jones, 2011).
[35] Quantifying the informal sector in Libya accurately is a complex task due to its unregulated nature, reliance on cash transactions, lack of reliable statistics and the diverse range of activities involved.
[36] https://www.worldeconomics.com/Informal-Economy/Libya.aspx
[37] The Ministry of Economy is working on a plan to activate the establishment of free zones.

and formalisation programmes have obstructed resources from exiting traditional sectors.

Climate change and environmental threats

Libya is exposed to climate change risks including floods, water scarcity, desertification, sandstorms and rising temperatures. The country is 95% desert, and only 2% of the national territory receives enough rainfall for agriculture[38]. The East of the country, especially the city of Derna, experienced floods in September 2023, causing significant loss of life and damage to critical infrastructure[39]. Rising groundwater levels in Zliten since early 2024 have impacted clean water, threatening human health in the city. Limited rainfall and drought have limited cereal production, leading to further food insecurity, as Libya imports more than 90% of its wheat requirements[40].

Skills gaps

Only 15-30% of Libya's workforce is relatively skilled and could readily be employed if given basic vocational training and job search assistance (World Bank, 2015). The technical and vocational education and training system in Libya is disconnected from the labour market, and there is a mismatch between the competencies being taught and those required by employers, although the literacy rate is relatively high (World Bank, 2023a).

Challenges to leveraging the demographic dividend

Libya entered a potential demographic dividend[41] in 2001 and will remain in this phase beyond 2043[42]. However, the country faces many constraints to leveraging this demographic advantage effectively due to inadequate opportunities, especially for youth. Libya has not been able to harness the potential of its young demographic for economic transformation, even though the 15-64 age group represented 67% of the total population in 2022. This is due to a lack of coherent policies and strategies to harness the demographic dividend[43], lack of investment and limited access to education, which has affected skill development among young people. The high unemployment rates among young people in the country and deficiencies in infrastructure, as highlighted above, create a barrier to reaping the benefits of a youthful population through productive employment opportunities.

2.3 Finance to fast-track Libya's structural transformation

2.3.1 Structural change strategies in national development plans

After coming to power in 1969, Muammar Gaddafi adopted economic policies largely influenced by socialist principles[44]. Libya embarked on various development plans during the 1970s and 1980s (the Triennial Plan 1973-75, the Five-Year Plan 1976-80 and the Five-Year Plan 1981-85). However, economic planning stopped at the end of 1985. After the lifting of international sanctions in 2003, the government implemented economic reforms to strengthen the role of the private sector. The aftermath of the 2011 Revolution has been characterised by significant socio-economic challenges, instability and institutional divisions and an absence of any comprehensive deve-

[38] For detailed information, see AfDB (2022: CFR Libya).
[39] Estimates suggest that that the Storm affected around 1.5 million people (22% of total population) and destroyed or damaged 8,500 houses, while recovery and reconstruction needs amount to around USD 1.8 billion (Joint World Bank, EU, UN Report Assesses Damages Caused by Catastrophic Flooding in Libya, 2024).
[40] Average total production during 2017-2021 was 148,000 metric tons while total consumption was reported at 1,524,000 metric tons. See AfDB (2023: REO) for more information.
[41] A situation when the working-age population exceeds the dependent population.
[42] https://futures.issafrica.org/geographic/countries/libya/
[43] Demographic dividend refers to growth in an economy resulting from a change in the age structure of the country's population (Investopedia).
[44] These economic principles are outlined in Gaddafi's Green Book, which purports to show that "the solution of the economic problem is socialism".

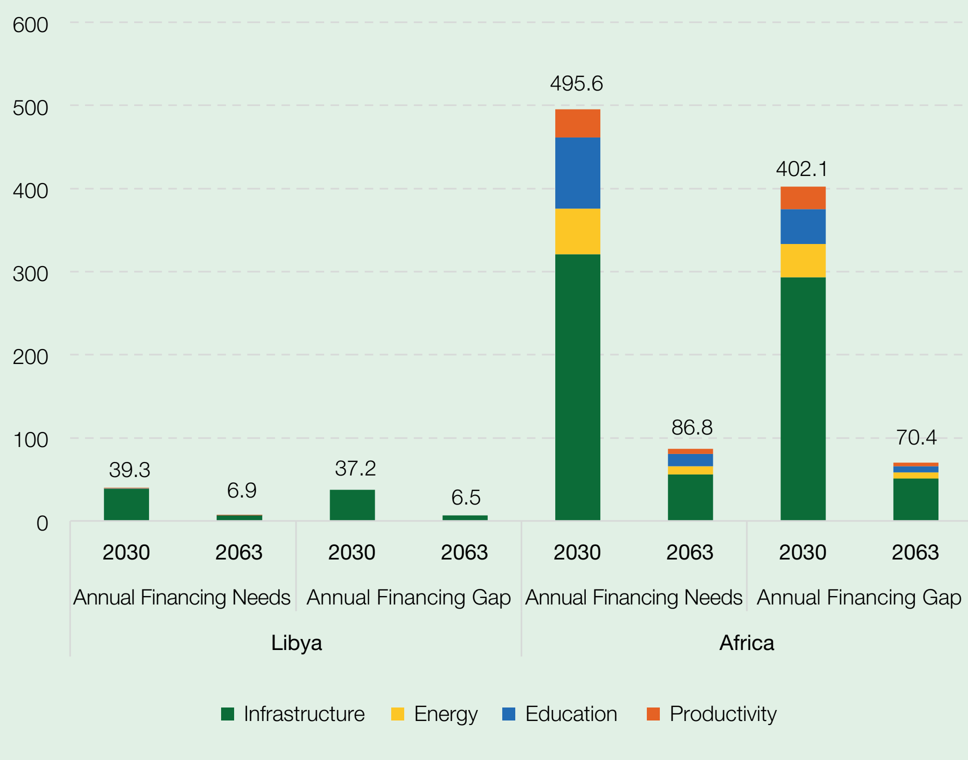
lopment plan. The government has initiated national planning programmes on a yearly basis since 2017, focusing on macroeconomic stability, strengthening institutional governance and improving access to basic services. There have been initiatives to develop a plan "agreed upon by everyone." In 2022, the Ministry of Economy and Trade launched a project to set out an economic diversification strategy for the country to make it less oil-dependent and offer better perspectives (AfDB, Libya CB extension to 2024). The Ministry is also preparing a national strategy for food security with the participation of the competent authorities and support of the African Development Bank (Box 4). Ihya Libya Vision 2030[45] is another proposed plan, articulated in four pillars: peace and security, rule of law, economic growth and social services[46]. As yet, Libya has no climate-related action plan nor any commitment to a nationally determined contribution (NDC) under the Paris Agreement, despite having signed the United Nations Framework Convention on Climate Change in 2015 and ratified the Paris Climate Agreement in 2021 (UNICEF, 2022). The National Economic and Social Development Board plans to prepare a national development strategy based on national sectoral strategies.

2.3.2 Financing needs and financing gap[47]

The African Development Bank estimates that Africa would need USD 495.6 billion (around 17% of projected 2024 GDP) annually to finance its structural transformation with a target date of 2030, or USD 86.7 billion (3% of GDP) annually with a target date of 2063. The annual financing gap for structural transformation using the 2030 Sustainable Development Goal (SDG) timeframe is estimated to account for at least 10% of GDP in 36 African countries, and for at least 50% of GDP in another nine countries. When considering the Agenda 2063 timeframe, the annual financing gap could stay below 1% of GDP in 10 African countries, and below 5% of GDP in 35, exceeding 10% in only eight countries (AfDB, 2024: AEO). To fast-track structural transformation and catch up with high-performing developing countries in Africa and worldwide by 2030, Libya would need around USD 39.3 billion annually; to do so by 2063, it would need around USD 6.9 billion annually. The annual financing gap is estimated to be around USD 37.2 billion (85.8% of GDP) based on the 2030 timeline, or USD 6.5 billion (15% of GDP) based on the 2063 timeline (Figure 8). These financing gaps presuppose prioritisation of investment needs in education, energy, productivity and infra-structure. Key areas that typically require significant investment in the country include infrastructure (97.7% of total needs for 2030 and 2063). Libya's annual financing needs in infrastructure represent around 12% of total African needs in this sector. The energy sector is expected to receive important investment due to the country's vast oil and gas reserves. Libya needs significant investment in water resource management, including investment in desalination plants and in water management technologies to improve water efficiency[48].

[45] This vision has been formulated by Libyan youth groups, with the support of the Libya Institute for Advanced Studies.
[46] https://andp.unescwa.org/sites/default/files/2021-11/IhyaLibya_english_2030.pdf
[47] The methodology used in this section quantifies the annual financing needs and financing gaps to achieve high performance in 2030 and 2063 across four sectors: SDG 4 (quality education), SDG 7 (energy), SDG 8 (productivity) and SDG 9 (infrastructure). For each, it is assumed that SDG performance is a function of a set of specific input variables. For more details on the methodology, see AfDB (2024: AEO) Annex 2.2 p. 134.
[48] Libya has 75 sewage treatment plants, intended for agricultural use, but only 10 wastewater treatment plants currently operate, processing less than 11% of the country's urban wastewater. Around 21 desalination plants are currently operating, with a total capacity of 525,686 m3 per day. The General Company for Water and Wastewater has been facing financial difficulties in covering maintenance costs. For more information, see AfDB (2023: CFR Libya).

Figure 8: Estimated annual financing needs and financing gap, Libya and Africa (USD billion)



Source: AfDB Statistics Department.
Note: The annual financing needs and the associated financing gap are estimated for both the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063 by assigning these median input levels and controlling for other factors such as projected demographics (population size and composition, etc.) and GDP per capita. The annual financing gap is expressed in terms of projected GDP in 2024.

2.3.3 Closing the financing gap through domestic resource mobilisation

Given the short remaining period before the SDG deadline of 2030, Libya may fail to mobilise the necessary funding within this timeframe. Domestic resources will not be sufficient to fill the financial gap, indicating an emphasis on external financing. Increased involvement of the private sector will also be critical, to supplement public resources. Libya could generate more revenue to fund its development agenda by improving the management of its vast natural resources. Strengthening financial management systems could also target government spending more effectively towards more productive sectors and reduce wastage in expenditure, particularly by increased use of digital technology and capacity building programmes. Encouraging entrepreneurship and promoting the private sector could stimulate economic activity, and thus create new revenues for the government. Collaborating with private sector entities through public-private partnership could also extend the tax base.

Box 4: African Development Bank support to economic transformation in Libya

The African Development Bank is committed to supporting Libya's economic transformation and reconstruction efforts. Its main interventions consist of technical assistance. The Bank's engagement with the authorities since 2017 has led to a pipeline of technical assistance operations for the Libyan water institutions. In the water sector, the Bank has implemented two projects: promoting water security through improvement of the regulatory, legal and strategic sector framework; and emergency support to the affected regions and devastated population in the aftermath of Storm Daniel and floods in Libya. In the agricultural sector, the Bank has implemented projects such as the evaluation of irrigation infrastructure, crop mapping and agricultural water use estimation technical assistance study; enhancing cereals and fisheries value chains for food security; and development and formulation of the Libya food security and nutrition strategy. With respect to governance reforms, the Bank has recently implemented two projects, capacity building for the Financial and Accounting Training Institute of the Government of Libya; and support to implementation of the Integrated Financial Management and Information System of the Government of Libya.

The Bank is actively involved in various initiatives to support Libya's development in different sectors. A number of these initiatives are funded by grants and focus on areas such as irrigation infrastructure evaluation, crop mapping, agricultural water use estimation, capacity building for financial institutions, the enabling environment for youth entrepreneurship, promoting water security, food security and nutrition strategy, and supporting value chain development in cereals and fisheries. The Bank is also providing expertise and financial support through two technical assistance programmes to coordinate partner engagement for Libya's food security strategy.

Source: AfDB (2023: CB).

2.4 Concluding remarks and policy recommendations

Libya continues to struggle with several bottlenecks to rapid structural transformation. As yet, the country has had neither a comprehensive national plan nor a climate strategy. At the national level, the following policy options and reforms will be essential to fast-track structural transformation in Libya.

(i) The authorities must resolve the outstanding political issues. Regional stability and integration could help to mitigate the spillover effects of regional conflicts and transnational crimes.

(ii) It is critical to design and implement a comprehensive national endogenous development plan. Such a plan should identify sectors of comparative advantage, such as those in which the country has abundant natural resources or a skilled labour force; explore opportunities in the agricultural sector (for example, in fisheries); and encourage manufacturing in sectors with great potential for productivity and growth, and in services with great potential to generate decent employment and contribute to economic recovery. Data availability should be a priority, as this plays a critical role in designing, implementing and evaluating national policies to meet various challenges, and is important to international support.

(iii) Libya urgently needs to scale up investments in human capital, including education, vocational training and entrepreneurship promotion initiatives. This will be essential to har¬ness the demographic dividend and prepare the workforce for future transformation.

(iv) Libya should implement strategies to scale up domestic resource mobilisation.

The country should also implement prudent public financial management practices to enhance accountability and transparency, mitigate risks and align with international standards.

(v) Libya should implement strategies to create targeted and streamlined incentives to cata¬lyse private capital flows. This may include improving the legal framework, establishing dedicated investment promotion institutions, facilitating access to finance, enhancing public-private partnerships (PPPs) and improving the skills needed to drive innovation and productivity.

(vi) Libya should implement reforms to invest in accounting for natural capital, to promote conservation and secure economic benefits. This requires establishment of a comprehensive framework aligned with international standards, such as the System of Environmental-Economic Accounting, and providing incentive mechanisms such as payments for ecosystem services or tax incentives for sustainable practices, to encourage conservation efforts among businesses and individuals.

(vii) Libya should develop its infrastructure. The country should enhance its regulatory framework and investment climate to encourage domestic and foreign investment and improve capacity building and expertise within national agencies responsible for infra-structure development.

At the international level, external assistance from development financial institutions (DFIs) and the Multilateral Development Banks (MDBs), in the form of grants or concessional loans, will play a critical role in closing the financing gap. Technical assistance from these international organisations is essential to facilitate structural transformation, mainly through capacity building and sharing of best practice and lessons learned from other countries. Increase official development assistance and emergency aid will help to cope with the influx of refugees and fight against irregular migration.

3

FINANCING STRUCTURAL TRANSFORMATION IN LIBYA THE NEED FOR REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

KEY MESSAGES

- Libya's efforts towards structural transformation demand significant investment, notably in infra structure projects, economic diversification programmes, social services improvement, governance and institutional reforms, climate-related actions and green growth initiatives.

- The failure of the global financial architecture to deliver development financing to Libya has amplified calls for reforms. The global financial architecture should play a critical role in providing the necessary technical and financing resources for actions related to climate and green growth in Libya.

- External funding could contribute to the development of the private sector through measures aimed at mitigating risks and facilitating market access, and thereby support the contribution of the private sector to the economy and employment.

Introduction

Libya faces significant challenges in financing its structural transformation, and these challenges highlight the need for reform of the international financing architecture. This chapter assesses the extent to which Libya could benefit from reform of the international financial architecture. It also discusses the need for policy and regulatory reforms to fast-track structural transformation, highlights the role of external debt in financing Libya's development, and examines the potential impact of climate change on its structural transformation. It concludes by providing some policy recommendations, highlighting aspects of the global financial architecture that require reform.

Libya's structural transformation requires significant investments in infrastructure development and green growth initiatives. Reforms within the global financial architecture are essential to deliver resources at scale to meet Libya's financing needs effectively.

3.1 Libya's stand on the need to reform the international financial architecture

Like many other developing countries, Libya faces difficulties in achieving structural transformation arising in part from the constraints imposed by the current global financial architecture, including limited access to liquidity in times of crisis, a small share of SDRs, underinvestment in global public goods (pandemic preparedness, climate action, etc.), volatile capital flows, and inadequate financing for the SDGs.

The long-lasting effects of the COVID-19 pandemic, the negative impact of ongoing geopolitical tensions and climate change impacts and risks have seriously undermined progress towards economic transformation in many countries, including Libya. Reform of the international financial architecture[49] could thus help Libya to meet the financing needs estimated in previous sections. Libya is in dire need of reconstruction and development in various areas, including infrastructure projects, economic diversification programmes, social services improvement, governance and institutional reforms, climate-related actions and green growth initiatives. Reform of the international financial architecture could support Libya to launch reconstruction and development projects. External assistance from multilateral institutions regional development banks, donor countries or organisations could be in the form of technical assistance, or of grants or concessional loans to fill the financing gap for structural transformation.

3.2 Mobilising additional resources for Libya's structural transformation

Libya should mobilise additional resources to improve its physical and human capital. Achieving a significant structural transformation requires policy and regulatory reform to unlock the role of the private sector, which should be identified as a crucial driver for reconstruction and economic recovery. As highlighted above, the private sector faces several challenges that hinder its growth and its ability to drive economic development, including burdensome regulations, lack of banking services, elevated risks to potential investors, weak entrepreneurship, etc. However, several initiatives and projects have been implemented to support and enhance the private sector and create a more conducive environment for businesses. Business development centres have been set up across the country. The Ministry of Economy and Trade has set out an economic diversification strategy, and the authorities are currently planning for the establishment of economic zones[50] and logistics hubs in border regions. The private sector landscape in Libya encompasses many benefits and incentives for investors, including very low energy costs, exemption from custom duties and tax on reinvested earnings and free repatriation of

[49] Reforms may include, inter alia, changes in global financial systems and institutions, and in regulations and policies that govern international financial transactions and interactions.
[50] Foreign trade zones, free ports and trade facilitation or free trade zones are established by law, each being subject to its own unique law. Examples include the Zuwara Free Trade Zone and the Misrata Free Trade Zone. Foreign companies can apply for a license to operate in such zones and enjoy the same benefits as Libyan companies.

earned profits. The devaluation of the Libyan Dinar had the effect of lowering the minimum investment required to attain the various incentives from USD 4 million at USD 1 million, and it is expected to decline further. However, it is essential to modernise investment law, and initiatives aimed at building capacity and enhancing entrepreneurial competencies are needed to address skills gaps in the labour market.

As discussed in previous sections, hydrocarbon revenues play a dominant role in Libya's financial landscape. The country is a non-major recipient of aid in terms of overall volume, and does not receive significant inflows of personal remittances. The lack of FDI inflows poses challenges in diversifying the economy away from its heavy reliance on hydrocarbons. These external finances, already at a low level, are not sufficient to close the financing gap to fast-track structural transformation. This requires a reconsideration of the means of supporting Libya's efforts to diversify its economy and develop the private sector.

3.3 Analysis of Libya's debt

Libya has no public debt in the standard sense. The existing debt is denominated in local currency, does not bear interest and has no repayment schedule[51]. Public debt was reported as 91.5% of GDP in 2023, and is expected to decline gradually to 76% by 2028 (IMF, 2024). Libya does not borrow externally, because of its abundant foreign earnings and reserves from hydrocarbon exports. There is no information on the existence of a debt management unit within the government or mechanisms for coordination between debt management and macroeconomic policies. However, it is acknowledged that the country needs capacity building in the areas of debt management and resource mobilisation.

3.4 Financing climate action[52]

Libya requires robust environmental policies and preparedness plans to address climate change and natural disasters. Current vulnerabilities and environmental challenges need immediate attention, as climate change significantly impacts Libya's progress on structural transformation. Libya's Green Growth Index fell from 33.2 in 2010 to 29.8 in 2021, compared with an increase in the average for North Africa from 42.3 to 43.5, and in the average for Africa from 47.6 to 48.6 over the same period. The main factors underlying this pattern are the absence of a national vision for green growth and the delay in related reforms. The shares of oil and natural gas in the total energy supply were 65% and 31.7% respectively in 2019, while the share of wind, solar and other renewable energies was small. Investing in Libya's renewable energy could contribute significantly to economic diversification and environmental sustainability. In 2020, the Ministry of Economy and Trade announced plans to increase the share of renewable energy in the country's electricity mix to 30% by 2030. Progress on structural transformation in Libya is threatened by climate change. Climate risks could threaten infrastructure sustainability, increase challenges to food insecurity and intensify competition over limited resources such as water.

Over 2010-2020, Libya received USD 328.2 million in climate finance mobilised by developed countries, an average USD 30 million per year. USD 197.6 million of this was allocated to adaptation, while mitigation actions received USD 229.4 million. Cross-cutting finance, which covered both climate adaptation and mitigation actions amounted to USD 99 million. As mentioned previously, there is currently a lack of data on Libya's climate change financing needs, making it difficult to assess the financing gap

[51] According to the Libyan Audit Bureau (2023), there has been no change in the balance of public debt, which remains as it has appeared in the Central Bank accounts since 2020, with a value of 84 billion dinars (USD 17.5 billion). Budget surpluses of approximately 20 and 6 billion dinars were recorded in 2021 and 2022 respectively, not considering the debt of the interim government in the East of the country due to the absence of any official data.
[52] For more information, see AfDB (2022 and 2023: CFR Libya).

accurately. However, recent floods and other climate risks in Libya have shown the importance of investment in climate-related actions such as infrastructure, energy, agriculture, water resources, health and disaster prevention and preparedness. The country needs technical and financial assistance to manage climate change projects and related initiatives adequately.

The failure of the global financial architecture to deliver development financing to Africa and other developing countries has amplified calls for reforms (AfDB, 2024: AEO). Global financial support should play a central role in providing Libya with the necessary resources to implement climate action initiatives. International financing institutions such as the MDBs and DFIs could play a greater role, in terms of both technical and financial assistance. The Green Climate Fund[53] and the Global Environment Facility have a critical role in financial support. Bilateral and private sector creditors could also help to fill the financing gap. There is a growing need for developed countries to fulfil their commitment to mobilise USD 100 billion[54] to support developing countries in their climate efforts.

3.5 Concluding remarks and policy recommendations

Libya needs financial support for its reconstruction and development efforts. External funding could provide support for the country in terms of capacity building, project finance and unlocking opportunities for the private sector.

Reform of the international financial architecture should target MDBs, DFIs and bilateral and private creditors. In the particular context of Libya, these reforms would be more beneficial[55] if they helped the country to facilitate access to concessional financing and to promote green growth initiatives, including to take into account natural capital in the evaluation of the GDP, modernising banking services, and strengthened the commitment of advanced economies. The benefits to Libya could also be enhanced by increasing SDR allocations to boost national reserves; by improving access to the finance necessary to support private sector growth and to international financial assistance and technical support to facilitate reforms and enhance the overall investment climate; and by enhancing emergency financing to deal with exogenous shocks. Strengthening international cooperation between institutions could also improve assistance to Libya, and to developing countries in general.

Libya could benefit from reform of the global financial architecture by implementing reforms for macroeconomic stability, improving governance and transparency, investing in education and capacity building and developing infrastructure, recognising the significant role of the private sector in driving structural transformation through its potential to innovate, invest, create jobs and drive productivity growth. In this way, Libya could unlock its economic potential, create sustainable jobs and reduce poverty.

Like many other African countries, Libya could benefit from an increase in the scale of low-cost concessional financing for Africa's development and add its voice to calls for such an increase. This could be realised through active participation in discussions with international financial institutions, pushing for greater representation of Africa in key decision-making bodies, enhancing collaboration or establishing a common position with regional partners,

[53] As of August 2022, Libya had received USD 1.1 million from the Green Climate Fund for readiness support, much less than other countries. Libya is part of different programmes and initiatives launched by the Green Climate Fund in the North Africa region, such as the cross-border programme to enhance the resilience of oasis ecosystems and livelihoods in the North African region, launched in 2019.
[54] At the Copenhagen climate summit in 2009, developed countries announced their intention to provide collectively USD 100 billion in climate finance annually by 2020 to support climate change mitigation and adaptation efforts in developing countries. In 2015, developed countries agreed to extend the USD 100 billion per year mobilisation until 2025.
[55] For more information on these reforms, see AfDB (2024: AEO).

engaging more in global fora, and making policy recommendations, for example to make debt more transparent, flexible, accessible and affordable to African countries. This would enable Libya to amplify its structural transformation efforts and contribute to overall sustainable growth in the continent, while making the governance of the global financial architecture more inclusive.

To ensure timely access to emergency financing facilities during times of crisis, such as those associated with climate changes risks, Libya should strengthen its financial institutions, address underlying factors contributing to economic instability, make data available, build robust crisis preparedness mechanisms and engage in dialogue with local stakeholders and international partners to identify priorities and address challenges collectively.

Libya could also benefit from the implementation of a mandatory requirement for countries to adopt policies for greening the wealth of nations and add its voice to calls for such a requirement.

Libya should align its strategies with the SDGs and green initiatives, and integrate environmental considerations into economic policies and decision-making processes. The country should also collaborate with international partners to prepare its NDCs. International partners could provide Libya with access to a wider pool of resources and expertise.

Libya also needs to leverage private sector financing for transformation and climate justice. Possible options include strengthening the regulatory framework, providing incentives to encourage private sector investment in climate-friendly projects, developing PPPs to promote investment in renewable energy projects, establishing a green bank or a national climate fund to provide subsidised loans for private sector investment in climate-friendly projects, providing technical assistance to private firms to help them develop and implement climate-friendly projects, and investing in research and development of new technologies to support the transition to a low-carbon economy.

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