LIBYA
2017

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- **Real GDP growth was -8.1% in 2016, against -10.1% the previous year, due to a slight improvement in oil production, and is expected to recover to -4.9% in 2017 following exemption from OPEC's supply cap, the recapture of eastern ports and reopening of oil pipelines.**
- **A persistent struggle for power has prevented the rival governments from converging towards common ground.**
- **Political instability, humanitarian crisis and security issues continue to hinder efforts to re-establish control over the economy and most national strategies, including those related to industrialisation and entrepreneurship, have remained on hold.**

Overview

Economic growth contracted by 8.1% in 2016. However, the projected real GDP growth rate is estimated at -4.9% and -3.0% in 2017 and 2018, respectively, due to the projected rise in oil prices and the anticipated recovery of the crude-oil production to around 900 000 barrels per day (bpd) in 2017 and 2018 from under 400 000 bpd in 2016.

In mid-December 2015, the Libyan Political Agreement (LPA) was signed in an attempt to end the political crisis that has been dragging on since the summer of 2014. The LPA led to the formation of a Presidential Council (PC) at the head of an interim Government of National Accord (GNA) in Tripoli. However, the cabinet proposed by the GNA failed to be approved in the House of Representatives (HoR), based in Tobruk. Consequently, political and security instability in Libya have continued to affect the economy. A considerable decrease in oil production and a high degree of volatility in oil prices have affected both the current account and budget revenue. Contrary to previous years, the 2016 budget was not approved. According to recent updates, the GNA and the Central Bank of Libya (CBL) agreed on a 2017 emergency budget that has, however, been rejected by the HoR. Yet, to control expenditure amidst reduced oil revenues, the CBL continues to disburse funds only for wages and essential subsidies, while unemployment remains high, reaching 19.2 % in 2016.

Plans to implement industrial and entrepreneurship strategies have failed. Limited institutional co-ordination within the Libyan public sector and a fall in oil revenues have negatively affected government revenue collection, hampered budget revenues and fiscal management and delayed efforts and projects to diversify the economy away from the oil sector towards more general industrialisation.

The economic outlook in 2017 and 2018 largely depends on political unity and the extent of improvements in security. On the assumption that progress will be achieved, the economy will recover slowly, especially in the oil sector. Prospects also hinge on the outcome of efforts to diversify the economy. Significant reform programmes, enhanced ability to mobilise external resources and diversification of the economy could – if conditions allow – release growth potential and produce important economic changes for Libya.

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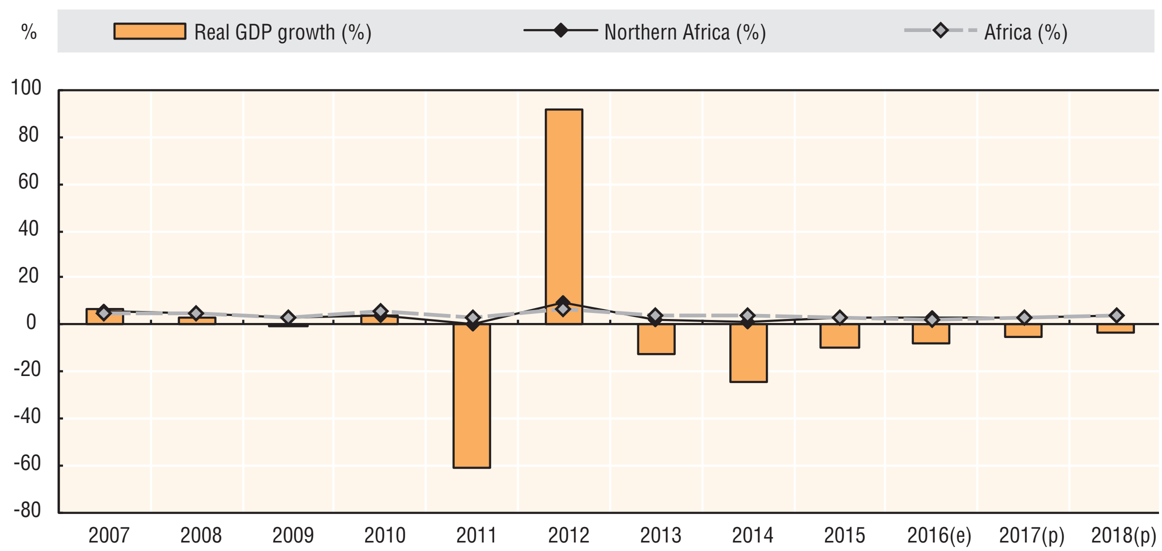
Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-10.1	-8.1	-4.9	-3.0
Real GDP per capital growth	-9.8	-7.3	-2.7	-1.5
CPI inflation	9.8	25.7	12.9	10.1
Budget balance % GDP	-52.5	-53.8	-51.5	-51.1
Current account % GDP	-41.8	-37.8	-28.4	-21.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

The continued political unrest and security instability in Libya have been caused by the disputed legitimacy of the General National Congress (GNC) in Tripoli and House of Representatives (HoR) in Tobruk, leading to the emergence of two governments, since the summer of 2014. Efforts by the United Nations produced a Libyan Political Agreement (LPA) signed in mid-December 2015 by the rival governments. The LPA entailed the formation of the Presidential Council heading an interim Government of National Accord (GNA). However, cabinet compositions proposed by the GNA have so far failed to receive the vote of confidence of the HoR, thus continuing the unrest.

This precarious situation in Libya has impacted the economy. Indeed, despite a less important contraction in 2016, compared to the previous year, GDP growth remained negative at -8.1%, up from -10.1% in 2015. In 2017 and 2018, however, the growth in GDP is projected to reach -4.9% and -3.0%, respectively, based on the projected increase in oil production, but downside risks remain highly significant because of the fragile political and security context.

Problems also lie in the external context. The budget deficit of 53.8% in 2016 and 52.5% in 2015 was due to the fall in oil production to less than 500 000 bpd in 2015 and 2016, from a peak of 1.5 million bpd in 2012, on the back of the collapse in international crude oil prices, whereas the authorities faced increased expenditure on wages and subsidies.

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Despite the underperformance of the oil sector over the past three years, Libya continues to depend on its revenues. In May 2016, crude oil production dropped to 285 000 bpd, down from 430 000 bpd in 2015, which represents a 33.7% decline. Prior to the Arab Spring revolutions, Libya pumped 1.6 million bpd in June 2010, according to the International Energy Agency. A year later, after the overthrow of Gaddafi, production crashed to just 80 000 bpd amid the general chaos in the region. The environment seemed to stabilise in 2012 and 2013, and daily output rose to 1 million bpd, but that proved unsustainable as the civil war tore the country apart. In January 2017, the National Oil Corporation's (NOC) Chairman, announced that oil production had reached up to 708 000 bpd in December 2016, due to the recapture of the eastern ports, and confirmed the reopening of one of the biggest pipelines "Al-Ryayna", which is considered a promising development. Hence, Libya should be able to increase its oil production substantially in 2017, depending on an improvement in the security situation and successful strategic planning particularly in the improvement of infrastructure.

Inflation accelerated from 9.8% in 2015 to 25.7% in 2016, mainly driven by a rise in food prices and informal economic activity. Lack of funding to finance imports (especially of subsidised food) generated shortages and an expansion of the black market. The increase in import prices was reportedly due to frequent disruptions of local transport infrastructure and the irregular functioning of the Tripoli airport because of security-related challenges. During 2015-16, the authorities continued their attempts to keep consumer prices low through price controls and subsidies. The continuance of these strategies leads to projected inflation of 12.9% and 10.1% in 2017 and 2018, respectively.

For 2015, two budgets were endorsed by the two rival authorities. There has been no 2016 budget because of the political situation. However, the CBL continued to pay essential subsidies and public-sector wages. According to recent information, the GNA and the CBL appear to have agreed on an emergency budget for 2017, known as "Temporary Financial Arrangements". The HoR considers this to be unconstitutional, however.

Any new coalition government should immediately focus on the efficiency of the Libyan hydrocarbon sector being more efficient so as to attract the private sector and foreign direct investment (FDI). There is also a need to diversify the private sector over the long term, which will require the development of creative approaches to support micro and small and medium enterprises (MSMEs). The government needs to focus on job creation to tackle the high level of unemployment, estimated at 19.2%, that is the result of overconcentration in the hydrocarbon sector. In its current condition, the oil industry is not able to absorb excess labour, which leads to rising unemployment and increased informal economic activities.

The challenge of economic diversification is highlighted by the historical contribution of mining (including oil extraction) and quarrying to the economy: 62.0% and 75.1% of GDP in 2011 and 2014, respectively. Other sectors, such as agriculture, construction, transport storage and communication not only make a small contribution to GDP composition but have done so at a decreasing rate over time. Thus, a growing gap between the key sector, concentrated in oil production, and the remaining sectors has led to volatility in the main economic indicators such as GDP growth. Libya also lacks the capacity and strategic ability to mobilise domestic resources and diversify its economy away from the traditional source of revenue.

Moreover, optimisation in the use of oil revenues and in the management of expenditures and reserves is compromised by the weak capacity of public-sector administration and the absence of a robust and efficient public financial management (PFM) system.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2014
Agriculture, forestry, fishing and hunting	1.2	0.7
of which fishing	...	...
Mining and quarrying	62.0	75.1
of which oil	...	...
Manufacturing	2.4	3.4
Electricity, gas and water	0.8	1.0
Construction	2.3	1.1
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	3.8	3.2
of which hotels and restaurants	0.3	0.1
Transport, storage and communication	1.6	0.9
Finance, real estate and business services	0.7	0.4
Public administration and defence	20.0	10.5
Other services	5.1	3.7
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Under current circumstances, with the GNA trying to gain constitutional legitimacy and the presence of rival governments, no clear fiscal policy has been developed in 2015 and 2016.

Shrinking oil revenues, vulnerability to falling oil prices and production, and poor management of reserves and expenditures led to huge inconsistencies in the fiscal stance of Libya in 2015 and 2016, resulting in a significant public deficit of 52.5% in 2015 and 53.8% in 2016. Despite the importance of the petroleum revenue and the need to increase tax revenue, there is no Revenue Policy Unit (RPU) in the Ministry of Finance (MoF) in charge of revenue-policy design and analysis of the petroleum sector's fiscal regime. Similarly, the MoF does not carry out analyses of the tax system nor perform estimates of expenditures or the tax gap, thus there are no regular reviews of the magnitude of exemptions to assess their continued relevance and impact. Such analysis would also be important to identify options for revenue mobilisation and diversification, while a PFM focusing on enhancing transparency and the efficiency of public spending would be necessary to restore both fiscal sustainability and trust in the public authorities.

Preparation of a budget was interrupted in 2016 by the fragmented political situation. The breakdown for 2015 indicated that the bulk of allocations are channelled towards salaries, essential expenditures and subsidies. Public-sector wages and salaries reached an estimated 42.0% of GDP in 2016, compared to 39.5% in 2015, but their share is projected to increase to 42.4% and 43.7% in 2017 and 2018, respectively. Current expenditure, thus, represented a significant part of public spending, to the detriment of capital expenditure of only 7.8% of GDP in 2016. Since 2013, capital expenditure has virtually collapsed, presenting a substantial decrease from 25.8% of GDP in 2008 to only 10.4% in 2013. It is projected to remain as weak as 7.8% and 8.1 for 2017 and 2018, respectively. Such a mismatch between current and capital expenditure is expected to amplify even further the volatility of economic activity and hinder any efforts to address sustainable growth.

The GNA and the CBL have agreed on a 2017 emergency budget that has, however, been judged to be unconstitutional by the HoR.

Table 3. **Public finances (percentage of GDP at current prices)**

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Total revenue and grants	**68.4**	**65.2**	**37.9**	**21.5**	**21.3**	**22.7**	**24.2**
Tax revenue	3.1	1.2	1.3	1.1	1.2	1.1	1.1
Oil revenues	65.1	64.0	36.6	20.4	20.1	21.5	23.1
Total expenditure and net lending (a)	**42.1**	**69.2**	**78.2**	**74.0**	**75.1**	**74.2**	**75.3**
Current expenditure	15.1	58.8	70.2	66.5	67.3	66.4	67.3
Excluding interest	15.1	58.8	70.2	66.5	67.3	66.4	67.3
Wages and salaries	7.3	29.9	41.8	39.5	42.0	42.4	43.7
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	25.8	10.4	8.0	7.5	7.8	7.8	8.1
Primary balance	**26.3**	**-4.0**	**-40.3**	**-52.5**	**-53.8**	**-51.5**	**-51.1**
Overall balance	**26.3**	**-4.0**	**-40.3**	**-52.5**	**-53.8**	**-51.5**	**-51.1**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The current existence of several administrations highlights the impossibility of establishing a clear, stable and long-term monetary policy in Libya. Moreover, the situation has deteriorated in 2016 because both the CBL and its branch in Benghazi took to issuing Libyan banknotes independently of one another.

The Libyan governments have not been able to develop a strategy to contain inflation, which accelerated to 25.7% in 2016, compared to 9.8% in 2015, mainly driven by a rise in food prices and in informal economic activity. The high rate of inflation is also due to the rapid deterioration of the value of the dinar (LYD). The shortage of funding to finance imports (especially subsidised food) generated shortages in supplies and an expansion of the black market. The rise of the import prices was reportedly due to the frequent disruptions of local transport infrastructure and security risks at Tripoli airport. During 2015-16, the authorities continued their attempts to keep consumer prices low by using price controls and subsidies. However, they were forced to cut spending on subsidies by 25.4% in 2016 and the same trend is projected to continue in 2017. Moreover, there is a severe liquidity crisis, with many banks limiting withdrawals to LYD 500 a day. Bank deposits fell to LYD 3 billion in 2015. The liquidity crisis in 2015 and 2016 has also had a general impact on credit growth and broad money, which have maintained at their levels of an average of 1% and 5% of GDP, respectively, due to the slowdown in government spending and non-oil economic activity.

Net foreign reserves were more than halved from USD 107.6 billion in 2013 to around USD 43 billion at the end of 2016. The official LYD/USD exchange rate continued to weaken in 2015 and 2016.

The macroeconomic situation has worsened because of a total lack of visibility and no clear monetary policy. Hence, it is imperative to continue to strengthen the Central Bank's independence and strengthen its capacity to improve the management of reserves, facilitate the development of the financial sector and put in place a well-defined monetary policy in 2017.

Economic co-operation, regional integration and trade

Libya is part of various regional integration initiatives such as the Greater Arab Free Trade Area (GFTA) and the Common Market for Eastern and Southern Africa (COMESA), but remains observer-government status in the World Trade Organization (WTO). The Sovereign Wealth and Investment Funds (SWIFs), with large investments across Africa, could play a key role in Libya's integration with the rest of the continent. Reforms aimed at restructuring these funds and incorporating them more efficiently into the economic-development framework are needed.

The political unrest and lack of security have had a tremendous impact on regional integration, trade and economic co-operation. Throughout the turmoil, Libya has consistently suffered from infrastructural deficiencies and high insecurity levels combined with macroeconomic uncertainty and a cash liquidity crisis. In 2016, these issues remained the major barriers to trade and have caused considerable fluctuations in the trade balance, while dependence on oil as the main export continues and despite a slowdown in consumption-driven imports. Consequently, the large current-account surplus of 2012 (29% of GDP) was more than halved in 2013, before becoming a large deficit in 2014 of 27.8% and a larger one of 41.8% in 2015. The current-account deficit is estimated at 37.8% of GDP in 2016, the third deficit in a row.

High levels of non-tariff barriers limit the ability of imported goods to compete in the domestic market. These non-tariff barriers need to be relaxed as part of a general policy reform to boost trade. The labour and movement-of-persons regulations are very rigid in terms of employment and make it difficult to create an environment that encourages foreign workers to consider working in Libya.

Table 4. **Current account (percentage of GDP at current prices)**

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	47.3	30.2	-13.8	-25.9	-20.3	-13.4	-7.9
Exports of goods (f.o.b.)	71.3	69.7	30.8	19.8	17.4	20.4	22.7
Imports of goods (f.o.b.)	24.0	39.4	44.5	45.7	37.7	33.8	30.6
Services	-4.3	-11.0	-12.5	-13.5	-14.4	-12.6	-11.3
Factor income	0.8	-0.8	3.5	4.2	3.5	3.4	3.4
Current transfers	-1.2	-4.9	-5.1	-6.5	-6.6	-5.8	-5.2
Current account balance	**42.6**	**13.5**	**-27.8**	**-41.8**	**-37.8**	**-28.4**	**-21.1**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Libya used to have one of the lowest debt levels in the world. It was USD 6.319 billion at the end of 2013, compared to USD 5.28 billion a year earlier; corresponding to an increase of 19.68% from 2012 to 2013. When compared to the country's foreign-exchange earnings over the same period, this amounts to a small percentage of foreign-exchange resources. Reserves of foreign exchange and gold increased slightly by 1.94% between the end of 2012 and 2013. In December 2014, foreign reserves amounted to about USD 76.6 billion but fell in 2016 to cover the deficit and had reached some USD 40-45 billion by the end of 2016, a drop of approximately 56%.

With a significant decrease in revenues due to the oil crisis and a level of expenditure that has remained high, the budget deficit has reached an unheard-of level at 53.8% of GDP in 2016, mainly financed by borrowing from the CBL and, to a lesser extent, from commercial banks. While the central government was a net lender on the home market before the revolution, domestic public debt has since risen to 110% of GDP in 2016. Considering this precarious situation, it would seem that borrowing will be the only solution available for an incoming government to finance the fiscal deficit. However, due to a lack of available data, there is currently no information on the existence of a debt-management unit within the government, or any mechanisms for co-ordination between debt management and macroeconomic policies.

If oil prices remain at the low levels experienced since 2014 and if production does not recover to compensate and mitigate the budget deficit, there will be a need for a clear and efficient debt policy to sustain and manage the potential inflow of external borrowings. Such a policy will also have to work on building capacity in the areas of debt management and resource mobilisation. Furthermore, immediate actions are required to achieve macroeconomic stability, while restoring and improving basic public services through improved infrastructure and increased national-development spending. Current expenditures need to be brought under control, in particular the

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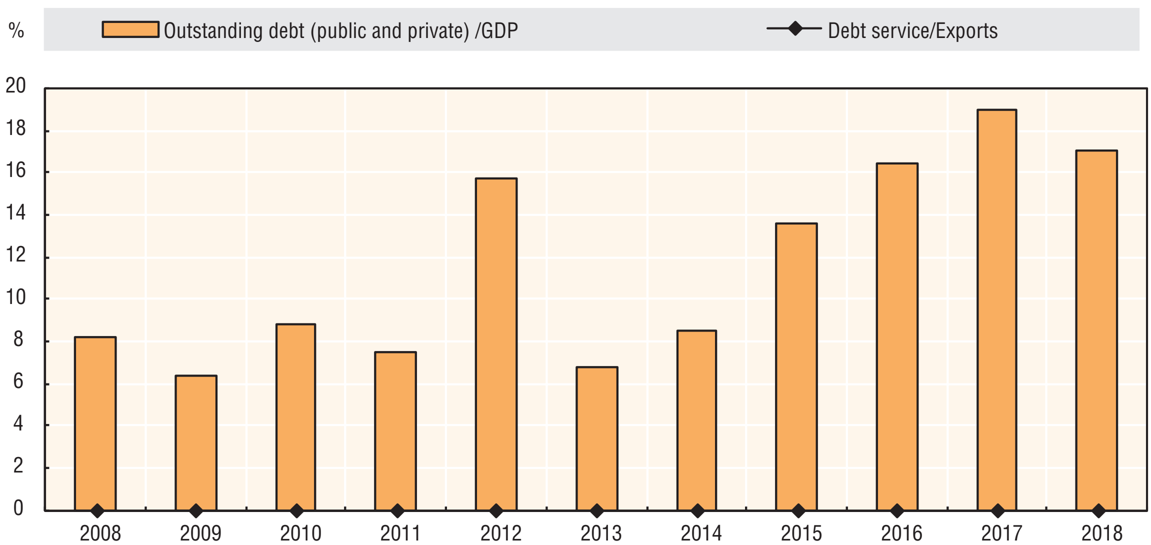
wage bill and subsidies. Over the medium term, the country needs broader and deeper structural reforms, including, but not exclusively, improved tax-revenue collection, enhanced management of public financial and human resources, civil service reforms and employment promotion.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The private sector has always been overshadowed by a very dominant public sector and accounts for only about 5% of GDP, according to the latest data from 2014. Its sectoral share of total value varies greatly, ranging from 90% in the trade sector to 10.0% in the finance sector. The economy is still driven by state-owned enterprises, which are active in many sectors and employ around 70% of formal-sector employees. As a result, they crowd out private competition.

Before the revolution, the government embarked on a series of reforms to encourage investment by adopting the "New Investment Law No. 9/2010" and establishing the Privatisation and Investment Board (PIB). The new policies aimed at providing a series of incentives to investors, but the results were never felt because of the outbreak of conflict.

The main impediments to the expansion of the private sector and the flow of FDI are the lack of transparency in the regulations, the level of bureaucracy required to be endured to start up a business and the country's weak legal system. It has proven extremely challenging for public- and private-sector entities to predict changes in laws and regulations affecting their economic activities thus undermining the prospects for long-term investment and development planning. Additionally, political instability and economic-policy uncertainty, as well as fears over the security situation, are bound to have a negative impact on FDI inflows over the short to medium term. Creating a favourable business climate will involve substantial reforms, changing key laws affecting economic activity and employing creative approaches to assist SMEs and micro enterprises

The 2010 Investment Law permits investors to hire foreign workers when national equivalents are not available, yet the government's role in enforcement is not clear. As for the regulations on land title, private Libyan property rights are complicated by past government policy actions and a weak regulatory environment. This has resulted in slowing and sometimes hindering the expansion of the private sector and the flow of FDI.

Financial sector

State-owned banks dominate the financial landscape. Although a series of partial privatisations did take place in 2007, public-sector banks still control more than 85% of assets. The financial sector remains largely under the control of the administration and highly concentrated, with the CBL exercising oversight of the system. Furthermore, the CBL is refraining from issuing operating licences to foreign banks until a permanent government is in place and a new parliament has been elected. Hence, the financial sector is only expected to open the banking sector to foreign participation once the political and economic situation in the country has settled.

Post-revolution governments have engaged in several structural reforms of the financial sector and initiated a number of steps towards financial liberalisation, with the privatisation of several banks. In its effort to privatise and restructure the financial sector, the authorities have put in place some reforms, including the establishment of an asset-management company that monitors bad loans and the encouragement of small banks to seek well-established strategic foreign partners.

The lack of vision and the absence of new policies and regulations have not encouraged diversification of the services provided by the banks and limit them to basic retail and corporate services. Similarly, due to the lack of competition, the quality of financial products has been poor. Without the modernisation and development of the financial market through financial-market policy reforms and the diversification of financial products, the role of the financial sector in the economy will remain diminished. The microfinance market, as well as the leasing and insurance schemes introduced after the revolution, is limited in terms of scale and access. CBL independence and capacity building will be essential to improve the management of reserves and facilitate the development of the financial sector as a leading driver for private-sector growth.

Public sector management, institutions and reforms

Many years of isolation due to economic sanctions and the consequent impact on its openness to the rest of the world, has weakened the Libyan administration.

Over the period 2015-16, institutions and ministries have not experienced any operational efficiency improvement, which has negatively affected all public-management indicators including the transparency of government policy making, access to information and openness. This deterioration is mainly due to a situation in which there is no budget planning that includes review and discussion involving all the ministries and institutions. The poor performance and inertia of the public administration has an impact on attracting FDI and the growth of the private sector. Starting a business requires dealing with a heavy bureaucracy and a considerable number of procedures due to legal and policy frameworks that are difficult to navigate.

Prior to the 2014 conflict, the transition government had set a priority to develop the necessary ICT infrastructure to put in place an e-government system. It was thought to be a powerful tool for public-service delivery. The “e-Libya initiative” is aimed at revitalising the administration based on smart applications and has a number of strategic objectives that aim at building a knowledge-based economy through ICT including open government, e-government, e-commerce and e-education. This initiative has stalled due to the political conflict. Under the circumstances, the authorities sought to reinforce the municipalities in order to mitigate the challenges of the service delivery and to extend the initiative to all the regions. The Ministry of Local Governance co-ordinates the role of the municipalities, mapping their assistance, and identifying the areas where the staff need capacity building to ensure better service delivery across the country.

Natural resource management and environment

Natural resources, particularly hydrocarbons, play a major role in Libya’s economic, geopolitical and environmental well-being and performance. The hydrocarbon sector is the main driver of the economy and is linked to most of the other sectors. A return to peace and stability is imperative to avoid further deterioration in the economic outlook, as political stalemate and civil conflict prevent full exploitation its sole natural resource: oil.

Prior to the revolution, environmental issues had started to gain in importance, especially because the foreign oil and gas companies need to adhere to their own due diligence and environmental standards. The General Environmental Authority of Libya was tasked with implementing the existing regulations, but the confusing legal and regulatory framework was always a challenge. Moreover, the deteriorating political and security situation throughout the political unrest, especially since 2014, has reduced the priority and policy attention given to debates over environmental policies and regulations. Little progress has been made on the Green Oil Libya policies that were initiated as part of a large Libya Environmental Initiative aiming to protect the environment by pursuing high-quality waste-treatment solutions.

The authority responsible for the management and production of oil in Libya is the National Oil Corporation (NOC). It is entirely independent from any entity in the country. The outlook for oil production in 2017 is very positive, as announced by the Chairman of NOC, projected to reach 900 000 bpd.

Political context

Since the summer of 2014, Libya has been going through a period of increased political unrest and security instability. This has been caused by the disputed legitimacy between two institutions, each of which claimed to be the government of the country: the General National Congress (GNC) in Tripoli and House of Representatives (HoR) in Tobruk.

In 2015, the efforts and mediation of the UN resulted in the signing of the Libyan Political Agreement (LPA) in mid-December and the formation of a Presidential Council heading a one-year interim Government of National Accord (GNA) to put an end to the political crisis. Several cabinet compositions were proposed by GNA but none received the vote of confidence of the HoR.

There is still no permanent constitution. The mandate of the Constitutional Assembly, elected in February 2014 with the mission of drafting a constitution has been derailed by internal conflicts. However, they were able to finish a draft in 2016 and it will be useful if the process could be finalised in 2017. Until the formation of a unity coalition government and the establishment of an agreed road map for the way forward, it is difficult to see how any legitimate election (Presidential or Parliamentary) could be organised. In the event that a new government does take office, it will need to formulate a well-defined strategy and be given the authority to be able to perform its duties fully. Any strategy should focus on the security aspects and the most pressing economic challenges in the short-medium term first, then turn to social-protection programmes and human development.

Social context and human development

Building human resources

Libya’s 2015 Human Development Index (HDI) score was 0.724, 94th out of 188 countries and territories, compared to 55th in 2013. The decline is mainly due to the deterioration in the HDI sub-categories of welfare, education and health.

The health-care sector remains weak, as it was before the revolution. Mounting challenges due to the conflict and the security situation are not being adequately faced by health facilities

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and services that are deteriorating. According to the United Nations Support Mission in Libya (UNSMIL) September 2016 monthly report on the humanitarian crisis, the health-care system is nearly collapsing and access to health services is a major concern in most of the cities, particularly in the east. The lack of primary health-care facilities, such as local clinics and district hospitals, has become a serious problem. There is an urgent need for health financing. According to the Libyan Health Ministry, the situation is very difficult because of the scarcity of financial resources to purchase medicines and medical equipment. Consequently, fees have been imposed on patients in some medical centres, whereas previously all public hospitals and medical centres offered free treatment.

Despite the significant progress made during the last decades in terms of education, the ongoing conflict might have prevented attainment of the Millennium Development Goals (MDGs) in 2015, even though the 2009 MDG Libya Report indicated that the country was well on its way to attaining them. Reliable data, however, since then remain unavailable. According to a 2016 UN Report based on statistics published by the Ministry of Education in July 2016, almost 280 000 students are prevented from attending school attendance because 558 schools were closed due to partial or total destruction from the fighting.

Due to the current political and security situation, there are no institutional human-development reforms being implemented. Moreover, the decline in state revenues has threatened social safety-net programmes and other agendas pertaining to human development, despite the importance of such programmes in overall development and the sustainability of reforms.

Poverty reduction, social protection and labour

Despite the abundance of oil in Libya, production has been declining for three consecutive years. Moreover, the inefficient structure of the economy, combined with regional and tribal inequalities, have resulted in unequal access to the oil wealth. As a result, the most recent data estimate that today about one-third of Libyans live at or below the national poverty line. Since 2014, a deterioration of many people's living standards has been observed. Public-service delivery has suffered from the decline in revenues and inflation has accelerated. The delivery of basic services and food supplies has been hampered due to conflict and blocked access roads in some regions. This situation is worsening because of the high level of migration and the numbers of displaced persons that make it difficult to collect appropriate data to support the authorities' efforts to serve the population better.

Almost all public-sector workers have social insurance, which is not the case for private-sector employees, of whom only 46% are covered. Public-sector jobs are thus more attractive. Overall, 90% of Libyan workers are covered by social security. The Ministry of Social Affairs covers both public and private workers through the National Social Security Fund. However, the current government's social-protection system is unsustainable and further weakened due to the important decline in government revenues and spending capacity since 2014. State subsidies are creating fiscal pressure, which pushed the CBL, as part of its efforts to manage scarce resources, in October 2015 to remove direct subsidies on food supplies. Spending on subsidies consequently declined by 25.4% but still remains very high at 18.4% of GDP. Clearly, because social-protection programmes are crucial for the well-being of the population, the priority of the government is not focused on reforming them.

With the restoration of peace and in recognition of the fragility of state structures, a labour-legislation reform, including implementation procedures, will be needed to strengthen social protection and encourage job creation. Such a reform was due in 2014 when the security situation worsened. The current labour legislation is rigid and unsupportive of business development and overall development goals. The regulations are sometimes unclear for firms employing foreign workers, while workers' right to create and join independent unions is not guaranteed. The pension system in Libya also requires attention; it should be reviewed and where necessary

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replaced by adequate policies to deal with current circumstances and the macroeconomic crisis. The sustainability of the pension system is severely threatened by the current economic situation that has led to cuts in public spending except for urgent items, such as salaries and subsidies.

Gender equality

Equality between women and men has been guaranteed in Libya since the 1977 Declaration of the Authority of the People and the 1988 Great Green Charter of Human Rights in the Age of the Masses. These laws guarantee the equal rights of men and women in areas such as national security duties, marriage, divorce, child custody, and the right to work, social security, and financial independence. However, these guarantees can be undermined by family law.

Access to education is reasonably balanced between men and women; there are more women than men in the country's universities. In economic activities and political participation, 16% of parliamentary seats are held by women and Libyan women have access to bank loans or credit without prior male consent. However, although women's participation in the economy has been encouraged, it is still modest at 30% of the labour market. Promoting more female participation in the work force would contribute to the economy. Gender issues and the social agenda should be placed as a component in the overall development strategy, which is essential for achieving the United Nations Sustainable Development Goals (SDGs).

Thematic analysis: Entrepreneurship and industrialisation in Libya

Industrial development has been heavily dependent on the oil sector, both for investment revenue and raw inputs. In "normal" times before the current destabilisation of the economy, the oil, gas and related extractive sectors accounted for over 65% of GDP, more than 95% of total export earnings and 96% of budget revenue, according to a 2013 IMF report. This has made the economy extremely vulnerable to oil production shocks as well as oil-price fluctuations.

Prior to 2011, Libya's main economic constraints lay in its dependence on hydrocarbons, the dominance of the public sector and high rates of underemployment and joblessness. Furthermore, the business environment was not favourable to the private sector and SME development. The unfavourable regulatory environment, combined with a lack of economic diversification, significantly affected the stability of the economy and, therefore, the prospects for sustainable growth.

The 2006 National Economic Strategy established economic-development goals and objectives, capitalising on significant efforts to build relationships with the global community. It underlined the importance of creating wealth beyond the revenues of oil production and a better distribution of the country's resources. The strategy acknowledged that the government needs to create greater opportunities for enhanced involvement of Libyans in the productive sector and recognised the critical role that private enterprises have in creating wealth and prosperity. Its key policy goals include strengthening the macroeconomic and microeconomic environments and creating the conditions for creativity and innovation. This strategy was not fully implemented but some progress has been made in areas related to improving the entrepreneurship environment.

According to the 2016 OECD report *SMEs in Libya's Reconstruction: Preparing for a Post-Conflict Economy,* more than 77% of enterprises in Libya report having sustained direct damage to their operations in the past five years of crisis. Not only does insecurity have a significant effect on businesses' daily operations, but uncertainty reduces the likelihood of long-term investments. Moreover, infrastructure has been destroyed and there is a lack of transparency in the regulatory structure.

In 2012, the Ministry of Industry under the Interim Government endorsed an interim strategy for 2012-14. During this period, the ministry envisaged plans to diversify industrial production

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through implementing opportunity-conducive policies and incentives to attract foreign investments by focusing mainly on the mining sector.

According to the Minister of Industry in 2013, Libya has many natural resources apart from oil, such as raw materials for cement, deposits of iron ore, reserves of highly pure silica and salt lakes that are a source of many minerals. These resources could be exploited to benefit the mining sector by encouraging investment and add value to the economy through job creation and trade, contributing a larger share to the overall GDP. The minister also noted a comparative advantage in heavy industries; namely in cement production, petrochemicals, refining, and power generation through, for example, solar and wind energy. Hence, once peace returns, the energy and refining sectors are likely to be attractive for potential investors.

Historically, Libya's manufacturing industry has not been well-developed. The above-mentioned sectors were the main ones highlighted in 2013 as the basis of the Libyan Industrial Policy. However due to the current political situation and security issues, the effort to concretise plans leading to the formulation and implementation of the industrial strategy have been halted. Moreover, the development of non-oil sectors is mostly dependent on the country's budget revenues and fiscal management. Thus, external shocks such as oil-price volatility and internal conflicts have significantly hindered the government's revenue-raising efforts and had a substantial impact on economic diversification efforts.

Currently, the economy is still driven by state-owned enterprises, which are active in many sectors and crowd out private competition. Furthermore, the legacy of public-sector employment and employment intervention under the state-led, redistributive model of development continues to exert a major influence on labour-market development today. Indeed, the public sector employs 70% of formal-sector employees in the Libyan economy, according to the World Bank. Only four percent of Libyans in the formal sector work for private firms.

Linked to the economic diversification challenge and lack of entrepreneurship opportunities, is the high rate of unemployment which, according to 2016 Heritage Foundation Index on Economic Freedom, is 19.2%. The hydrocarbon sector is capital-intensive and can only make a very limited contribution to employment growth. The concentration of the economy in this sector and the fact that the non-hydrocarbon sector is not sufficiently developed to absorb the bulk of the labour force increases unemployment and informal economic activities.

A unity coalition government will need to take a number of crucial actions to recover from the precariousness of the economy caused by the double effects of the oil crisis and the dire humanitarian and security situation. Any economic strategy adopted by the new government should be diversified and inclusive, steering the huge potential of the country in oil and natural resources into manufacturing projects and industrial-development activities. It will need, on the one hand, to boost crude-oil production and, on the other, to create more job opportunities in a variety of sectors, while fostering trade relations and addressing the current trade imbalance. Labour and entrepreneurship regulations should be revised to be consistent and transparent in order to attract private-sector initiatives and increase the flow of FDI in all sectors. These efforts will need to be reinforced by an able and efficient public administration to facilitate procedures and provide adequate tools for monitoring progress, tax recollection and the issuance of licences and registrations to private enterprises.

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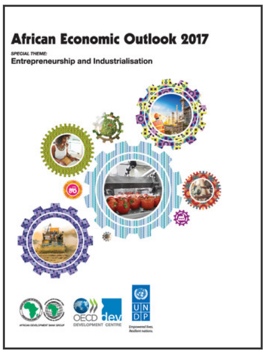

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