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This report was prepared by Mr. E. Shaeldin, Lead Economist, ORNA, Ms. L. Saidi-Hammami, Senior Economist ORNA, and a consultant.
| **ACRONYMS AND GLOSSARY** | **CURRENCY EQUIVALENTS**  
(December 2009) |
<table>
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<tbody>
<tr>
<td><strong>ADB</strong> African Development Bank</td>
<td>Currency unit = Libyan Dinar (LD)</td>
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<tr>
<td><strong>AWF</strong> African Water Facility</td>
<td><strong>UA 1.00</strong> = <strong>LD 1.93</strong></td>
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<td><strong>BPC</strong> Basic People’s Congress</td>
<td><strong>UA 1.00</strong> = <strong>USD 1.54</strong></td>
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<tr>
<td><strong>CBL</strong> Central Bank of Libya</td>
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<tr>
<td><strong>CEN-SAD</strong> Community of Sahel-Saharan States</td>
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<tr>
<td><strong>CPI</strong> Consumer Price Index</td>
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<td><strong>Curr Acc Bee</strong> Current Account Balance</td>
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<tr>
<td><strong>FDI</strong> Foreign Direct Investment</td>
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<td><strong>GDI</strong> The gender development index</td>
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<td><strong>GoL</strong> Government of Libya</td>
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<td><strong>GMR</strong> The Great Man-made River</td>
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<tr>
<td><strong>GBOT</strong> The General Board of Ownership Transfer (referred to as Tamleek)</td>
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<tr>
<td><strong>GIA</strong> The General Authority for Information</td>
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<tr>
<td><strong>GPCon</strong> General People's Congress</td>
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<tr>
<td><strong>GPCom</strong> General People’s Committee (Libyan equivalent of a council of ministers)</td>
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<td><strong>GWA</strong> General Water Authority</td>
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<td><strong>HDI</strong> Human Development Index</td>
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<td><strong>IMF</strong> International Monetary Fund</td>
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<td><strong>LAIP</strong> The Libyan Africa Investment Portfolio</td>
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<td><strong>LEDB</strong> Libyan Economic Development Board</td>
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<td><strong>LIA</strong> Libya Investment Authority</td>
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<td><strong>Mb/Day</strong> Million barrel a day</td>
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<td><strong>NGO</strong> Non-Governmental Organization</td>
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<td><strong>NGPC</strong> National General People’s Committee</td>
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<td><strong>OPEC</strong> Organization of Petroleum Exporting Countries</td>
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<tr>
<td><strong>PER</strong> Public Expenditure Review</td>
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<tr>
<td><strong>PoEs</strong> Public-owned Enterprises</td>
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<tr>
<td><strong>RASCOM</strong> The Regional African Satellite Communications Members</td>
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<tr>
<td><strong>Secretariat</strong> Libyan equivalent of a ministry Popular committees (Libya’s local government organs)</td>
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<tr>
<td><strong>Sha’abiyyat</strong> Small and Medium Enterprises</td>
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<td><strong>SMEs</strong> USA dollar</td>
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<tr>
<td><strong>USD</strong> World Bank</td>
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<td><strong>WB</strong> World Trade Organization</td>
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EXECUTIVE SUMMARY

1. This Engagement Note assesses Libya’s development prospects, challenges, and strategic options, and the role that the Bank could play to help it accomplish its development goals.

2. In recent years, with rising oil prices, lifting of sanctions, promotion of rigorous economic and structural reforms and surging foreign investments, the economy has grown steadily, resulting in substantial fiscal surpluses and favorable external balances. Libya’s major challenges are numerous: an undiversified economy, underdeveloped private sector, weak institutional capacity, skills shortage, and inadequately maintained physical infrastructure.

3. Libya’s development strategy has been characterized by the dominance of the public sector as the major agent of growth. The private sector was relegated to a subsidiary role mainly with regard to agriculture and small services. Economic performance is mainly driven by the oil sector, while production in the non-oil sector has been evolving at a relatively weaker pace. The Libyan Government recognized the strong need to better develop its non-oil sector, which presently generates few job opportunities.

4. To build a diversified economy, the country is set to promote its private sector, improve its relative competitiveness, and generate growth in sectors with high potential. It also seeks to enhance the efficiency and effectiveness of the public sector, and develop human capital. The Libyan National Economic Strategic Vision released in 2006, sets out a new approach to development and a restructuring of its government system. The Vision recommends a number of actions, including establishment of an Economic Development Board, Human Assets Office, implementation of a far-reaching entrepreneurship program, and creation of a special economic status for three high potential sectors: tourism, ICT and construction.

5. The Bank Group’s intervention in Libya to date has been limited to non-lending activities, mainly studies. The stage is now set for the ADB to step up its operations in the country. The framework for cooperation, set out here is built on initial Bank engagement in the following areas:

(i) Co-financing of eligible national and multinational projects in other African countries;

(ii) Technical assistance for public financial management, water resources management, and statistical capacity building; as well as strengthening capacities of sub-regional and regional agencies;

(iii) Diagnostic and analytical work in finance and banking system, economic diversification, and national statistical system; workshops, to disseminate the findings and recommendations of identified studies; and thematic seminars on the private sector; and

(iv) Regional cooperation and integration initiatives.
1. INTRODUCTION

1.1 Though a founding and relatively large shareholder of the African Development Bank, Libya has never borrowed from the Bank Group. Hence, the Bank Group’s operational engagement with the country has been limited to non-lending activities, mainly studies.

1.2 Despite recent improvements in its relatively positive economic outlook, owing to rising oil prices, the lifting of sanctions and surging foreign investments, Libya still faces serious challenges in sustaining growth, diversifying its economy and generating sufficient employment. In addition, falling oil prices could weaken the fiscal and external balances, which until now have registered substantial surpluses.

1.3 In recognition of these challenges, the Government of Libya (GoL) has set to transform its economic system, redefine the roles of the public and private sectors, promote non-oil sectors and broaden the production and export bases.

1.4 In this context, the GoL is seeking the Bank Group’s assistance and financial support for its reform efforts as underpinned by the National Economic Strategic Vision for 2019, released in 2006. Additionally, Libya has important potential linkages with other African countries, through the labor and capital markets, and given the potential for expansion in trade, which provides a unique opportunity for collaborative efforts in regional cooperation and integration initiatives.

1.5 This Note proposes potential areas of engagement of the Bank Group in Libya. Initial support will be in the form of technical assistance for capacity building, and diagnostic and analytical work. Furthermore, the Bank will intensify consultation and dialogue with the authorities, with a view to preparing a full-fledged Country Strategy Paper, covering a five-year period. The Bank’s support to Libya is consistent with the revised strategy of assistance to Middle Income Countries.

1.6 The Note has been prepared on the basis of the findings and consultations of several dialogue missions to Libya in 2008, and information gathered from various other official sources (see Annex III - Bibliography).

2. CONTEXT AND PROSPECTS

2.1 Political, Social and Economic Context

Political Context

2.1.1 Between 1969 and 1978, the government adopted a state-led path of development and introduced unique people-based administrative and governance structures. From 1979 to 1999, the government, hard hit by the fall in oil revenues and external sanctions, attempted to liberalize the economy and fine tune the political structure.

2.1.2 More recently, with the lifting of international sanctions, Libya has adopted a new development approach and is renewing relations with countries, with whom relations were strained in the past. The stage is also set for close relations with the developed countries and an increased interest in developing its vast oil and gas resources.

2.1.3 Libya has a relatively high level of political stability and a relatively decentralized decision making process (Chart 1). There is scope for further improvement in governance indicators such as voice and accountability, government effectiveness, rule of law, regulatory quality and control of corruption.
2.1.4 Population & Labor Market
According to the latest census (2006), Libya’s population was estimated at 5.32 million, and growing at a rate of 1.8 percent annually. The census also showed that the proportion of the population above 15 years has increased from 50 percent in 1984 to 68 percent in 2006. The increase in the population in the active age group has created significant pressure on the labor market. In addition, it has led to rising demand for social services, particularly in education and health care.

2.1.5 The working population (estimated at 1.63 million) represented 30.7 percent of the total population in 2006, reflecting mainly the high percentage of young people. In spite of the decrease in the rate of unemployment from 17.3 percent in 2003 to 13.5 percent in 2006, generating sufficient jobs for the active population still remains a major challenge. The public sector wage bill constituted about 8.3 percent of GDP and 58 percent of government current expenditure in 2007.

2.1.6 Life expectancy at birth averages 74 years. The infant mortality rate is about 18 per 1,000 births (compared with an average of 85.3 for Africa), and maternal mortality ratio is 97 per 100,000 live births. Access to clean water is high (72 percent) and has increased significantly following the construction of water desalination plants and the Great Manmade River (GMR). However, the quality of services regarding water supply is low. Public expenditure on health represents 2.8 percent of GDP, compared to 2.4 percent for the African countries.

2.1.7 Income disparities have diminished since the 1990s because the government continues to provide extensive social support in the form of subsidies of some food items, higher pensions, as well as social assistance in kind. Other indirect subsidies, such as cheap water, electricity, and petrol at below world prices, have also reduced income disparities.

2.1.8 Libya was ranked 56 out of 174 countries in terms of the Human Development Index (HDI). This index was 0.818 in 2007 compared to the average of 0.514 for the African countries. The index has also shown an upward trend and steady progress over the last decade (Chart 2). Indicators related to economic welfare, health and reproductive care, educational attainment, urban housing, water supply, sanitation, and gender equality have also improved in relative terms.

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1 Source: Libyan Authorities and GIA, the General Authority of Information, 2008.

2.1.9 In view of the country’s considerable investment in education, the gross enrolment ratio in primary school is above 100 percent. There have also been increases in enrolment in secondary schools, higher education, and technical and vocational institutes. However, the quality of education has remained relatively low, which has led to a mismatch between graduates and skill needs of the market. Furthermore, the percent of GDP spent on education is 2.7, less than the average of 4.7 percent for the African countries.

2.1.10 Gender: Adult illiteracy was significantly higher for females (16.9 percent) than for males (6.27 percent) in 2006\(^3\), but school enrolment is presently as high for girls as for boys, virtually reaching gender parity in primary education (with enrolment rate of over 100 percent), and significantly higher in secondary education (120 percent).

2.1.11 The gender development index (GDI) is estimated at 0.797 (compared to an average of 0.486 for all Africa)\(^4\). However, social attitudes still hold back women’s full participation in the labor market, business activities and politics. Women’s access to finance is not restricted by legal constraints but rather by historical legacies and social attitudes. The major weaknesses are the poor inclusion and integration of women in public life, and lack of economic empowerment.

**Economic Context and Outlook**

2.1.12 The nationally-owned oil and gas sector dominates Libya’s economy, contributing 74 percent of the GDP in 2007, compared to 62.5 percent of GDP in 2001. Consequently, Libya’s rapid growth has been state-led, and funded virtually entirely by oil revenues. Government controls much of the production and distribution, thereby limiting private sector activities, with the exception of those in the agricultural sector and small scale enterprises. The non-oil manufacturing and construction sectors account for about 20 percent of the GDP, and have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminum.

2.1.13 The outlook for the Libyan economy over the medium term, can be described as mixed. Economic growth and financial position have strengthened as a result of high oil receipts, the upgrading of the infrastructure, and increased interest of foreign investors. On this account, oil production is projected to increase to about 3 million barrels per day by 2013. The increase has been premised on the large investments and employment of modern technologies by foreign investors. The growth of both public expenditure and imports is forecast to decline on account of prioritization, while the external current account surplus is projected to moderate to 32 percent.

2.1.14 Despite the favorable projection, there are downside risks for the country. The falling oil prices or restrained public expenditure growth, may lead to a weakening of the fiscal and external balances, with adverse consequences on inter-generational equity.
Inflation could further increase beyond the current level of 10.4 percent.

**Growth Drivers**

2.1.15 Real GDP growth rate averaged 7.5 percent per year between 2005 and 2007, compared to an average growth of 3.2 percent during 2000-2004 (Chart 3). The strong economic growth recently has been attributed to the successive increases in oil production and revenues. Buoyant oil prices and increased investment led to substantial fiscal surpluses and a favorable external balance. In addition to the increase in oil prices until the third quarter of 2008, non-oil sources of growth have resulted from the expansion in construction, transport and trade activities.

**Chart 3: Economic Performance**

2.1.16 On the fiscal side, Government revenues increased from 53.6 percent of GDP in 2004 to 61.4 percent of GDP in 2007 (of which, the share of non-oil sector was 6.2 percent), and estimated to have increased further in 2008. Total public expenditure and net lending decreased from 39.7 percent to 35.2 percent of the GDP during the same period. However, the fiscal surplus narrowed to 26 percent of GDP in 2007, compared to 35 percent in 2006, reflecting a rapid increase public expenditure, including an increase in the wage bill of around 50 percent.

2.1.17 Inflation increased substantially by 6.2 percent in 2007, largely driven by higher food prices and a marked increase in public expenditure. Inflation accelerated further in 2008, averaging about 10.4 percent, owing to a leap in food prices.

2.1.18 The current account balance surplus narrowed to 34 percent of GDP in 2007 compared to 46 percent in 2006, due to a marked increase in imports (33 percent) - Chart 4.

**Chart 4: Fiscal and Current Account Balance, and Net Foreign Assets, 2004 - 2008**

Note: Fiscal Balance (% of GDP); Current Account Balance USD.bn); Net foreign Assets (USD.bn)

Source: Libyan Authorities and ADB Staff Estimates

2.1.19 Gross official reserves were an equivalent of 33.1 months of imports of goods and non factor services at 2008 prices, due to continued high oil exports. Earlier high oil exports resulted in further increase of the net foreign assets of the Central Bank of Libya to almost US$ 94.8 billion. Broad money also increased by 41 percent in 2007, more than double the figure for 2006, reflecting the substantial increase in net foreign assets and a rapid increase in public expenditure.

**Macroeconomic Management**

2.1.20 Libya has abundant liquidity owing to its substantial oil and gas revenues. The impact of this liquidity is mainly observed in

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5 IMF, Libya, Staff Report for the 2008 Article IV Consultation.
6 Source: Central Bank of Libya
budgetary and monetary policy as well as in Libya’s external financial position.

2.1.21 For many years, the country has recorded overall budget surplus, due mainly to the enormous oil and gas revenues (averaging approximately 58 percent of GDP between 2005 and 2007). The low non-oil revenues (5.5 percent of GDP) illustrate the vulnerability of the budget to volatile oil prices.

2.1.22 In view of the limited absorptive capacity of the economy, the increased public expenditure, due to higher investment spending, has created strong inflationary pressures. In 2008, expenditure has significantly increased with the implementation of the Wealth Distribution Program, whose aim is to share the oil surplus. However, the fall in oil prices in 2008 has put fiscal sustainability at risk, with the likelihood that expenditure plans, including the distribution of the wealth, may be revised.

2.1.23 The increases in food prices and public spending have exerted inflationary pressures. As a result, housing and food prices, in particular, have both increased. To contain the rising inflation, the authorities have taken measures to tighten the fiscal stance, by limiting the rapid increase in public expenditure, and by tightening monetary policy. These measures have led to an increase in the lending and deposit rates by 50 basis points, respectively, in 2008.

Reforms

2.1.24 Since the lifting of the sanctions in 1999, Libya has undertaken a number of reforms aimed at the opening of its economy and better utilization of its productive resources. These included: i) structural economic reforms, ii) regulatory reforms, iii) monetary policy reforms, and iv) financial and banking sector reforms.

(i) Structural Reforms:

A framework for the management of the oil wealth has been established through the creation of the Libya Investment Authority (LIA), in 2006, with a mandate to manage financial assets of the State, including the Oil Reserve Fund. Customs administration has been reformed, and a large taxpayer’s office, established. The budget presentation has been consolidated and a macro fiscal unit initiated. Public enterprises have been privatized and one third of public employees are being laid off.

With adoption, in 2003, of a privatization plan targeting 360 units operating in manufacturing, mining and farming, the Government has entrusted implementation of the plan to a newly established General Board of Ownership Transfer (GBOT or the Tamleek). Progress made so far has been slow, due to the unfavorable business environment, lack of financial development, opposition of some stakeholders in the country, and limitations in the capacity of GBOT.

(ii) Regulatory Reforms:

The reforms were aimed at achieving greater regional integration and trade liberalization including harmonization of the financial regulations, statistical framework, and payment and settlement systems with other Maghreb countries. In this context, certification requirements for trade with these countries have been simplified; custom duties on all imports have been eliminated; and earmarked import fees have been introduced. Some progress has also been made in improving the economic and financial statistics, through strengthening of national accounts and price statistics, and improvements in the quality and timeliness of macroeconomic data.

(iii) Monetary Policy Reforms:

The Central Bank of Libya (CBL) has taken measures to enhance the monetary
policy framework and tighten monetary conditions. It introduced its own certificates of deposit in May 2008, raised interest rates by 50 basis points, and increased reserve requirements from 15 percent to 20 percent.

(iv) Financial and Banking Sector Reforms:

Following recent progress in bank reforms and opening the market to foreign banks, the authorities intend to privatize the remaining two public commercial banks through the newly established stock market.

The CBL is also embarking on a program to modernize its structure and enhance the payment system, to improve its ability to conduct monetary policy. Efforts to further strengthen bank supervision included improvement of off-site surveillance techniques and modernization of methodologies to calculate capital adequacy measures.

The Libyan Economic Development Board (LEDB) was set up in 2007, as an executive body charged with an advocacy role to facilitate the reform of the financial sector.

Business Environment

2.1.25 The market economy in Libya has generally not functioned efficiently, because of a combination of factors, including the country’s poorly developed financial system. It is characterized by lack of depth (with broad money representing 33.7 percent of the GDP in 2007), the dominance of the public sector banks, and the absence of a sufficiently diversified range of financial products.

2.1.26 Development of the non-oil sectors including services requires broad participation through the domestic or foreign private sector investment. However, the country’s private sector has remained underdeveloped, and predominantly consisted of small enterprises operating in services, artisanship and agriculture. While foreign large firms are operating in the oil and oil-related fields, the flow of new foreign direct investment (FDI) in the non-oil businesses has been negligible. Thus, despite the recent surge in investment, especially in the oil sector, the business environment suffers from a variety of constraints.

2.1.27 In the latest Global Competitiveness Report, Libya was ranked 91 out of 134 countries. Performance was assessed as excellent in the macro-economy, health and primary education, but poor to average in institutions, infrastructure, technological readiness, business sophistication, innovation and marketing efficiency.

2.1.28 A sample of businesses were interviewed to express their perceptions of constraints to doing business in Libya. As shown in Chart 5, the main factors hampering business in Libya are: inadequacies in infrastructure (13.5 percent of respondents); limited access to financing (13.4 percent); and inefficient government bureaucracy (12 percent). On the other hand, only 2.7 percent of respondents considered tax regulation as a factor inhibiting business (Chart 5).

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7 Libya has advantages in its oil sector (huge reserves, low cost of recovery, good quality and proximity to Europe).
8 Libya was not included in the World Bank’s reports entitled Doing Business and the Business Environment up 2007.
2.1.29 Since its creation in 2007, the LEDB has taken positive steps towards simplifying registration procedures for new businesses in general, and small- and-medium enterprises (SMEs) in particular, in the areas of access to finance, technical support and training.

2.2 GOVERNMENT STRATEGIC OPTIONS

Strategic Framework & Vision

2.2.1 Following a broad consultative process which started in 2005, a National Economic Strategy was released in February 2006. The Strategy has defined the “Vision for Libya for 2019” as: a developed human capital engaged in highly productive activities, close to full employment and a strong work ethic, a diversified economy with dominant non-oil GDP, global competitiveness of Libyan foreign firms, and a centre for dynamic entrepreneurial activity and attractive business environment. The strategy also recommended establishment of the implementing entities; namely an Economic Development Board, and a Human Assets Office.

2.2.2 The Government recognized that the existence of multiple sources of growth, by promoting the private sector, will enhance the resilience of the economy. To this end, it has identified and accorded a special economic status to high potential clusters in tourism, agriculture, construction and transit-trade, to be the focus of future investments.

2.2.3 Despite the heavy investment in physical, economic and social infrastructure, the lack of maintenance has led to their significant deterioration, resulting in Libya's current huge infrastructure deficit. In line with its strategy, the government rehabilitation plans envisage upgrading the civil aviation sector, construction of roads and railways to link Libya with neighboring African countries. It has also been proposed to establish harbors to serve trade with different parts of the world, and expand the telecommunications sub-sector, as well as exploring further deregulation, diversification and liberalization.

2.2.4 The oil sector has high capital intensity, low elasticity of job creation and limited backward and forward linkages with the rest of the economy. Currently, the oil sector could not generate sufficient employment opportunities for the currently unemployed and the new entrants to the labor market. Development of the potentials in the non-oil sectors and implementation of a far-reaching entrepreneurship program are, therefore, a strategic option to enhancing opportunities to increase employment.

Challenges

2.2.5 The above strategic vision brings to the fore a variety of challenges that need to be addressed:

(a) Enlarging the production base: While the country has initiated reforms, with focus on the financial sector, the country still needs to address other weaknesses including: the use of

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9 Oil extraction in Libya is expected to last more than 30 years with the current rates of production.
the country’s oil revenues for long term benefit, and development of non-oil sector, to reduce the dependency on hydrocarbon exports. Developing the non-oil productive sector will require substantial domestic or foreign private sector investments. However, the business environment suffers from a variety of constraints, owing to inadequacies in the financial sector, infrastructure, and regulatory framework, among others.

(b) Improving public sector management and governance: The public sector has paid more attention to distribution and equity than to economic efficiency, result-based management, and the quality of public service delivery. The pre-requisite for the latter are an efficient civil service and good public expenditure management, which can lead to accelerated growth, fair distribution of income, and efficiency in resource use under a stable macroeconomic framework.

(c) Promoting development of human capital: Inadequate human resource capacity for service delivery and implementation of policies and programs constitutes a challenge to the government, as well as a constraint to enterprise creation and growth. The number of trained workers and the profile of their skills do not match the requirements of the non-oil sector market. There is also an acute shortage of middle and high level skills in key areas. Given that a productive, competent, and flexible workforce are necessary for advancing the country’s economic development, Libya’s drive for economic diversification will be compromised without timely intervention to address the needs of the productive sector for middle and high level skills.

(d) Improving Natural resources management: Libya faces environmental and natural resource management challenges, mainly related to water resources, arable land, desertification, protection of the coastal zone and the marines, pollution by the petroleum and oil based industries, and solid waste dumping. The long term viability of the Great Manmade River Project has been questioned in view of the finite nature of the underground water from which it is drawn.

(e) Partnership: Reinforcing the link with the international economy and upgrading the physical infrastructure are also other critical challenges that warrant the attention of government.

Strengths and Opportunities

2.2.6 Libya’s endowment with rich hydrocarbon resources provides a strong base for the country’s financial wealth. In addition to significant gas reserves, oil reserves are estimated to be in the range of 8 to 15 Bbbl and production is expected to reach 3 mb/day in 2013. Libya’s oil sector also has the advantage of low recovery cost, good quality and proximity to Europe. The suspension of sanctions has led to increased trade, financial, and investment inflows, as well as expanded access to technology and external markets.

2.2.7 Continuation of the strong economic growth and adherence to the course of the ongoing reforms are expected to unleash more opportunities for the private sector, and great potential for foreign direct investments. Taking advantage of the growing potential for international trade, Libya is expected to gradually open up the oil sector to investment and seeking more cooperation. There is a clear will on the part of the government to encourage foreign companies to provide capital, know-how and training.

2.2.8 The above context provides numerous untapped opportunities for cooperation with Libya, including within a public-private-partnership and regional integration framework.

3. DEVELOPMENT PARTNERS

3.1 The Bank coordinates its activities closely with those of the other development partners, which include the World Bank, the IMF and the UNDP.
3.2 In 2007, a Technical Cooperation Agreement was signed between the World Bank and the GoL, with a total budget of US$1 million contributed jointly by the two parties. The Agreement funded a Joint Economic Advisory Program, geared to support and further Libya’s reform process, covering the period July 1, 2007 to June 30, 2008. Activities were launched in the areas of an Investment Climate Assessment, Business and Legal Environment, and support for the development of Libya’s Vision 2025.

3.3 A Public Expenditure Review was also prepared in October 2008, and two high-level workshops, held in April 2008, on Libya in Transition, and on Topics of Private Sector Development. Several other activities are planned for FY2009; including completion of PER, Technical Assistance support on WTO accession, review of business regulations, and preparation of an Investment Climate Assessment. A final new area of proposed collaboration includes TA on statistical capacity building and surveys.

3.4 In the context of its consultation with the authorities, the IMF continues concentrate its work in Libya on studies related to tax and customs reforms, privatization, trade reform, civil service reform, labor market issues and economic diversification.

3.5 The UNDP is engaged in policy advisory work and capacity building, and coordinates the development partners’ work in the country.

3.6 The Bank assistance to Libya in the proposed framework will be coordinated with the partners.

4. BANK ENGAGEMENT WITH LIBYA

4.1 Previous Bank Engagement

4.1.1 With significant savings and financial surpluses, Libya has neither borrowed from the ADB, nor taken advantage of the Bank’s other core services. The ADB’s involvement has been limited to the launching of three studies in 2007, the co-financing arrangement for a multinational project, and the engagement in a non-lending operation.

4.1.2 The first study on the water sector, financed through the African Water Facility, was prepared together with a proposal for an Institutional Support Project to the General Water Authority (GWA) of the country. The study findings were presented to a widely attended Integrated Water Resources Management Workshop held in Tripoli in April 2007.

4.1.3 The second study on the banking and finance system has been concluded, and the preliminary draft report, shared with the Ministry of Finance. The report is currently being updated by the Bank, and will be presented to a stakeholders’ validation workshop in Libya in the course of 2009.

4.1.4 The third study on the diversification of the Libyan economy enumerates key policy issues for continuing debate on policy choices and scenarios. The study sought to deepen understanding of the policy environment and economic reforms in Libya and the advisory role of the Bank in this context. The findings and recommendations of the study will also be presented to a stakeholders’ workshop in the course of the year.

4.1.5 In multinational operation, the Bank approved an ADB loan of US$ 50 million to co-finance a telecommunication project sponsored by the Regional African Satellite Communications Members (RASCOM). The borrowing company is owned by RascomStar, a subsidiary of the Libyan African Investment Portfolio (LAIP), the General Post and Telecommunications Company of Libya, RASCOM, and Thales Alenia Space.

4.1.6 Cooperation between the Bank and Libya has continued in other areas where the
potential for partnership exists. In this respect, the Memorandum of Understanding between the Bank and LAIP signed in June 2008, is one arrangement for realizing such partnerships. The MoU envisages co-financing or co-investment between the Bank and LAIP at a later stage.

4.1.7 The Bank organized a workshop in Tripoli 14-15 January 2009, with a view to sharing experiences in statistical capacity building and data-related issues specific to Africa. The workshop will lead to building a more robust National Statistical System that facilitates coordination between producers and users of statistics in Libya and the rest of the world.

4.2 Proposed Areas of Cooperation

4.2.1 The proposed framework of cooperation is built on (i) continuous dialogue on domestic policy debates through diagnostic and analytical work, targeted workshops, and seminars; (ii) selectivity in accordance with Bank’s comparative advantages, (iii) facilitating transfer of skills and best international practices; and (iv) coordination with other development partners.

**Lending**

4.2.2 Satisfactory implementation of ongoing reforms and huge investment potential in the country create vast opportunities for Bank’s support to private sector, specifically, through co-financing of projects in sectors with great growth potentials. In this respect, the Libyan Africa Investment Portfolio offers great scope for co-financing of national and multinational projects. A business promotion seminar to be organized in the first quarter of 2009, the Bank will explore with stakeholders other areas of concrete collaboration in the private sector. The estimated sustainable lending limit for Libya during 2009-2011 is about UA 700 million.

**Institutional Support for Capacity Building**

4.2.3 **Technical Assistance for Public Sector Capacity Building:** The Bank will provide technical assistance to enhance the efficiency of the public sector, especially to strengthen capacity for public financial management, and export promotion.

4.2.4 **Technical Assistance for the Water Sector:** Following the studies already concluded, the Bank will also accommodate the request for technical support to the Libyan General Water Authority (GWA), for sustainable and efficient management of water resources.

**Diagnostic and Analytical Work, Workshops and Seminars**

4.2.5 **Economic and Sector Work:** The Bank is finalizing the diagnostic and analytical studies in finance and banking system, diversification of the economy, and national statistical system. The conclusions of the study on the banking and finance system showed a number of weaknesses in the financial sector, and recommendations to address them. As a follow up to the study, Libya could benefit from the Bank’s experience in mobilizing the necessary assistance and expertise to enhance the financial sector reform programs (a similar exercise was done in the cases of Egypt and Morocco).

4.2.6 **ADB Country Policy and Institutional Assessment:** At the request of the authorities, the Bank will be involved in diagnostic work on transparency, accountability, efficiency and policy effectiveness in Libya. In this context, Libya is among the countries for which the Country Policy and Institutional Assessment (CPIA) exercise is on-going. A workshop on the CPIA methodology is envisaged for the authorities, to continue the policy dialogue and consultation on requirements for future institutional reforms.
4.2.7 **Focal Workshops**: the ADB capacity building program in Regional Member Countries (RMCs) has as objective the scaling up of activities by concentrating on providing technical support to RMCs, Training Centres (STCs); and, organization of regional and sub regional workshops and training. Within this framework, ADB envisages workshops aiming at sharing experiences, and skill development. Furthermore, the outcome of the statistic workshop will enable the Bank to assist in developing a strategy for statistics in coordination with development partners.

4.2.8 **Private Sector Business Promotion Seminar**: To initiate cooperation activities, the Bank envisaged a business opportunity seminar in Libya to explore with stakeholders areas of concrete collaboration, especially with the private sector which has never dealt with the Bank before.

**Coordination of Regional Initiatives:**

4.2.10 The Bank has provided support to CEN-SAD through a study recently launched on the Free Trade Zone. The Bank and the Government of Libya will coordinate efforts to strengthen the capacity for implementation of the recommendations of the study. Achieving the goals of regional integration would require reinforcing the capacities of regional institutions and initiatives, consistent with the ADB strategy.

### 4.3 Sources of Funding

4.3.1 The Bank will provide financing at the initial stage, and subsequently negotiate with the government to provide technical assistance, on a reimbursable basis, following a similar approach employed by other institutions.

4.3.2 Co-financing of private sector or multinational projects will be done in accordance with existing Bank’s financing mechanisms, policies, rules and programs set for such activities.

### 5. CONCLUSIONS AND RECOMMENDATION

#### 5.1 Conclusions

5.1.1 Libya is in the throes of major changes which will result from economic reforms and a shift in government’s approach to development. However, despite vast hydrocarbons resources, the country faces great challenges, which the government needs to address. These include weak institutional capacity in government, undeveloped private sector, an undiversified economy, vulnerable to fluctuations in oil revenues, shortages of skills, poorly developed human capital, a young and rapidly growing population, and poorly maintained physical infrastructure (partly due to past international sanctions).

5.1.2 There are opportunities for the Bank to support private sector development, assist in public sector capacity building, coordinate with Libya in efforts to promote regional integration and development, and co-finance joint multinational or national projects in the rest of Africa.

#### 5.2 Recommendation

The Board is invited to endorse the recommendations of this Engagement Note.
This map has been drawn by African Development Bank Group exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory not any approval or acceptance of these borders.
Annex II  Libya: Basic Economic and Financial Indicators, 2004-07

<table>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007Prep</th>
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<td>Real GDP</td>
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<td>Non hydrocarbons</td>
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<tr>
<td>Hydrocarbon</td>
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<td>4.3</td>
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<td>Gross Investment / GDP (at market prices) %</td>
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<td><strong>Central government finance</strong></td>
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<tr>
<td>Revenue</td>
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<td>Expenditure and net lending</td>
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<td>(In months of next year's imports)</td>
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<td>17.4</td>
<td>16.2</td>
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<td>9.11</td>
<td>-3.14</td>
<td>0.40</td>
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Source: IMF Article IV Consultation Report
LIBYA : COUNTRY ENGAGEMENT NOTE
ADDENDUM*

Please find below, an addendum to the above-mentioned document.

Page 10, Paragraph 4.2.2, at the end of the second sentence, insert a footnote *:

*Among the regional/multinational projects under consideration by the Libyan authorities, the following were presented as being of particular interest: (i) the Libya-Niger-Chad Road Project; (ii) the INGA Hydro-electric Project; and (iii) the Lake Chad Project.
Annex- III References

2. IMF (2007), Staff Report for 2006, Article IV Consultation Report
3. The Economist Intelligence Unit, Libya Monthly Report, May 2008
Page ii, Paragraph 4, third sentence should read as follows:

‘The Libyan National Economic Strategic Vision released in 2006, sets out a new approach to development and growth.’

Page ii, Paragraph 5, items (i) – (iv) should read as follows:

(i) Financing of eligible private, national and multinational projects in African countries;
(ii) Technical assistance for the public sector, and capacity building of regional and sub-regional agencies in the country;
(iii) Diagnostic and analytical work, including in the areas of finance and banking system, economic diversification, and national statistical system; and workshops and seminars; and
(iv) Regional cooperation and integration initiatives.

Page 1, Paragraph 1.1 should read as follows:

‘Libya is a founding and large shareholder of the African Development Bank. However, given Libya’s wealth and income level, the Bank Group’s operational engagement in the country has been limited to non-lending activities.’

Page 1, Paragraph 1.2, last sentence should read as follows:

‘In addition, falling oil prices could adversely affect the fiscal and external balances, which until now have registered substantial surpluses.’

Page 1, Paragraph 1.4, should read as follows:

‘In this context, the GoL is seeking the Bank Group’s assistance and support for its reform efforts and modernization program as underpinned by the National Economic Strategic Vision for 2019. Additionally, Libya has important potential linkages within the African continent, through the labor and capital markets, and given the potential for expansion in trade, which provides a unique opportunity for regional cooperation and integration initiatives.’

Pages 2 and 3, footnotes 1 and 2, should read as follows:

‘Source: The General Authority of Information (GIA), 2008’
Page 3, Paragraph 2.1.10, first sentence:

Replace ‘…(6.27 percent) in 2006’ with ‘…(6.27 percent) in 2007’

Page 4, Paragraph 2.1.17 should read as follows:

“Inflation has increased substantially over the past two years, reaching 6.2 percent in 2007 and accelerating further to about 10.4 percent in 2008, largely driven by higher food prices and a marked increase in public expenditure.”

Page 4, Paragraph 2.1.19, first and second sentence should read as follows:

‘High oil exports revenues have resulted in significant increases in the net foreign assets of the Central Bank of Libya, reaching nearly US$95 billion by the end of 2007 or more than 33 months of imports of goods and non factor services.”

Page 8, item d, second sentence should read as follows:

‘… The long term viability of the Great Manmade River Project has been subject to discussion in view of the finite nature of the underground water from which it is drawn.’