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Libya Economic Monitor

Towards a sustainable social contract in Libya

Spring 2023

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Libya Economic Monitor - Spring 2023

Towards a sustainable social contract in Libya

Contents

List of figures

List of Boxes

Executive summary

While armed clashes have declined, Libya continues to face fragmentation and fragility. Progress on establishing an agreed framework for elections has been limited. Service delivery standards have continued to decline across the country.

The country's fragility is having far-reaching economic and social impact. GDP per capita declined by 50 percent between 2011 and 2020while it could have increased by 68percent if the economy had followed its pre-conflict trend. This suggests that Libya's income per capita could have been 118 percent higher without the conflict. According to the REACH initiative, 43 percent of households could not access needed healthcare due to lack of medicines and high cost; 22 percent of households could not properly access water services, and households connected to the electricity grid experienced 6.3hours of power blackouts per day.

Social conditions and public service delivery have been affected. According to the Coordination of Humanitarian Affairs (OCHA, 2023) 4 percent of total population are food insecure and need assistance and around 58 percent of health facilities are either partially functioning or not functioning.

In 2022, the humanitarian situation improved, but vulnerabilities still exist., OCHA reported that the number of people who require targeted humanitarian assistance is expected to decrease by 58 percent in 2023 but remains significant at 4 percent of the population. Needs are greater among internally displaced persons, with health care, education, transport, and shelter as priority needs.

Economic growth in 2022 remained low and volatile due to conflict-related disruptions in oil production. In 2022, World Bank staff estimates that the Libyan economy contracted by 1.2percent due to a blockade on oil production during the first semester. The labor market is characterized by high unemployment, with an official rate of 19.6 percent. More than 85 percent of those who work are employed in the public and informal sectors.

Inflation is primarily imported. Libya imports 80 percent of its food consumption and 90 percent of cereals. In 2022, inflation has been moderate yet remained significant, mainly driven by food, housing, and electricity. Official Consumer Price Index (CPI) reached 4 percent at end-2022. The Minimum Expenditure Basket (MEB)-the basket includes 18 food items, five non-food items and cooking fuel -shows that the increase in national prices peaked at 38 percent.

The Government of National Unity (GNU) did not have an approved Budget in 2022and the Central Bank of Libya (CBL)continues to play critical fiscal functions. The House of Representative (HoR) initially authorized the GNU to spend under the 1/12rule whereby monthly spending is capped at its equivalent in nominal terms in the previous year. However, this temporary measure was not applied by the GNU as it ultimately requested Budget approval by the HoR, which did not materialize. The Government of National Stability (GNS)had an approved Budget in 2022 but was not funded by CBL. The GNU's 2023 budget, which has not been approved by the HoR, amounts to LYD101 billion, with LYB15 billion allocated to the development budget.

The GNU registered a fiscal surplus of 2.8 percent of GDP in 2022, compared to 10.6 percent of

GDP in 2021, despite a significant increase of hydrocarbon revenue. This was the result of the increase in government current expenditure. Public wages are considered as a public allowance. Half of the active population works in the public sector. In 2022, the GNU-financed wage bill increased by 42 percent. Fiscal revenues increased by 27.2 percent driven by higher oil revenues which account for 97 percent of fiscal revenues. Public debt, mainly domestic, ishighat 77 percent of GDP and 126 percent of Government revenue. It is sustainable assuming hydrocarbon production and exports are not impacted by security or conflict measures. The increase in current spending is expected to be sustained in 2023, partly because of the adoption of the wage unification law in November 2022.

Similar to numerous conflict-affected countries, the World Bank refrains from providing quantitative growth and macroeconomic forecasts. Relative political stability and security is expected to lead to the continued recovery and stabilization of oil and gas production and support improved fiscal revenues and external surpluses. Deeper political divisions, armed conflicts and more persistent inflation and social tensions remain significant downside risks.

Despite the numerous challenges facing the country, the Libyan economy could be reconstructed and diversified by leveraging its substantial financial resources building on four critical pillars. The first is reaching a sustainable political agreement on the future of Libya. The second is the preparation of a shared vision on economic and social development that is based on accurate assessments of needs and aspirations. The third is the development of a modern and decentralized public financial management system that ensures adequate sharing of oil wealth and inter-governmental fiscal transfers as well as effective and transparent budget planning, execution and reporting policies. The fourth is the establishment of a modern and comprehensive social policy that enables the reform of public administration and creates a clear distinction between social transfers and public wages.

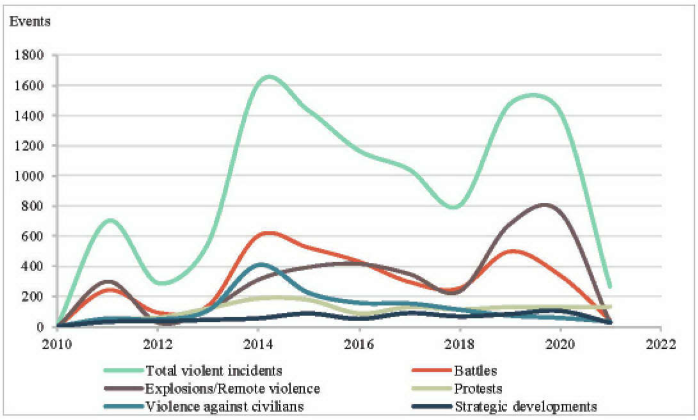
Prior to 2011, the Libyan population enjoyed a range of social protection benefits that were supported by a robust legal framework. Since 2011, however, the system efficiency has declined. The formal social security system and non-contributory social assistance programs have been suspended or lack funding. As a result, coverage for vulnerable populations has become limited and labor market outcomes have been negatively impacted.

Recent economic developments

Conflict and Institutional Developments

Libya has been undergoing a challenging transition since 2011, with the country divided between rival governments, factions, and armed groups at times. The ceasefire of October 2020 and the formation of the Government of National Unity (GNU) in 2021were seen as steps towards an end to the crisis. However, the absence of national elections and the creation of the competing Government of National Stability (GNS) in 2022 accentuated existing divisions. Limited progress has been made towards the constitutional framework for elections. Following the establishment of 5+5 Joint Military Commission[1] and the ceasefire agreement reached in 2020, the security situation improved but remains fragile (Figure 1). Sporadic violence and clashes are reported in various regions. The rule of law is weak and human rights abuses continue according to the UN Independent Fact-Finding Mission (FFM) on Libya in June 2022.

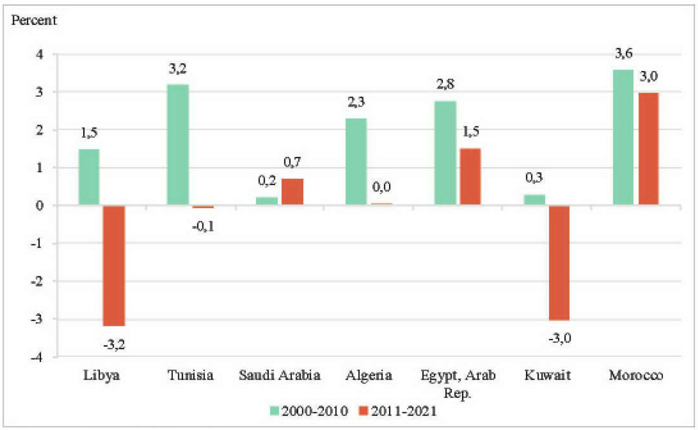
Figure 1: Evolution of violent events in Libya since 2011



Source ACLED data base

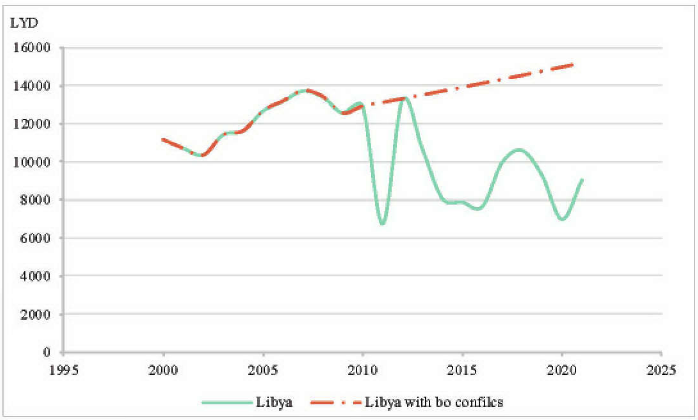
Libya has lost nearly an entire decade of developmental gains. Between 2000 and 2010, Libya's GDP per capita in constant dollars experienced an average growth rate of 1.5 percent, surpassing the growth rates of both Saudi Arabia and Kuwait (Figure 2: Contraction of Libyan average GDP per capita after 2011). During the specified time period, Libya's Gross Domestic Product (GDP) per capita experienced an upsurge from USD 11,170 to USD 12,925. Had this positive trajectory persisted, the current GDP per capita of 9,043.5 USD in 2021 would have reached a projected value of USD 15,177, signifying a significant 68 percent increase from its present state. (Figure 3).

Figure 2:Contraction of Libyan average GDP per capita after 2011 (growth rates)



Source: World Bank

Figure 3:Loss in GDP per capita due to the conflict

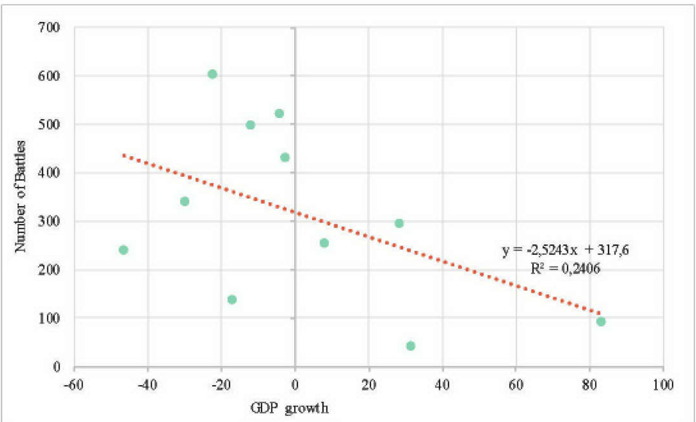


Source: World Bank

[1] The 5+5 committee, formally named the 5+5 Libyan Joint Military Commission. It consists of 5 senior military officers chosen by the Government of National Accord and 5 senior military officers chosen by the Libyan National Army.

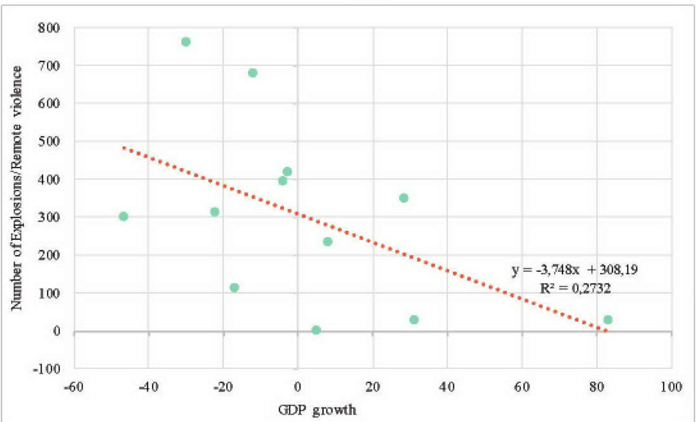
The importance of the hydrocarbon sector in the economy could enable a prompt recovery of the GDP to its pre-conflict levels in the event of sustained political stabilization. A robust correlation exists between the country's Gross Domestic Product (GDP) performance and the state of its security condition. For example, a -2.5 correlation index exists between the number of battles and GDP growth (Figure 4), and growth performance is even more correlated to the number of explosion and remote violence (correlation index of -3.7; (Figure 5). Both correlations are relatively strong with an R2 of 0.25 and 0.27 respectively.

Figure 4: Robust correlation between number of battles and GDP growth



ACLED data base and Bureau of Statistics

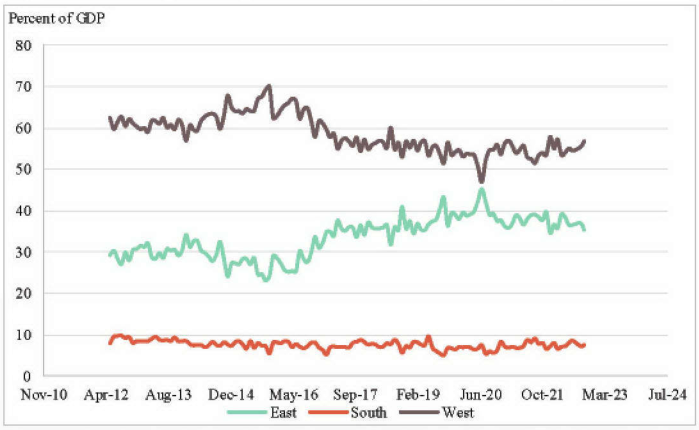
Figure 5: Robust correlation between number of explosion and remote violence and GDP growth



ACLED data base and Bureau of Statistics

Based on innovative Night-time lights (NTLs) analysis, there has been a relative convergence in terms of economic activity across the country. This can see seen by the NTLs intensity, which various economic studies have shown to be a robust proxy of economic activity[2] (Figure 6). In 2012, more than 60 percent of the total economic activity originated in the country's western geography, while the rest of the country contributed only 30 percent of the total GDP. However, by 2023, economic activities had balanced out. The share of economic activity in the eastern areas of Libya increased to 35.5 percent, while the share of its western parts declined to 55.4 percent. This faster paced growth of economic activity in Libya's eastern geography results in a convergence of economic activity across the country. It is important to acknowledge that the proxy measure of nighttime lights intensity used in the analysis may not capture the full range of economic activities. The trend towards convergence is a positive development with potential favorable implications for the country's overall economic growth and development.

Figure 6: Inequal repartition of the GDP by region



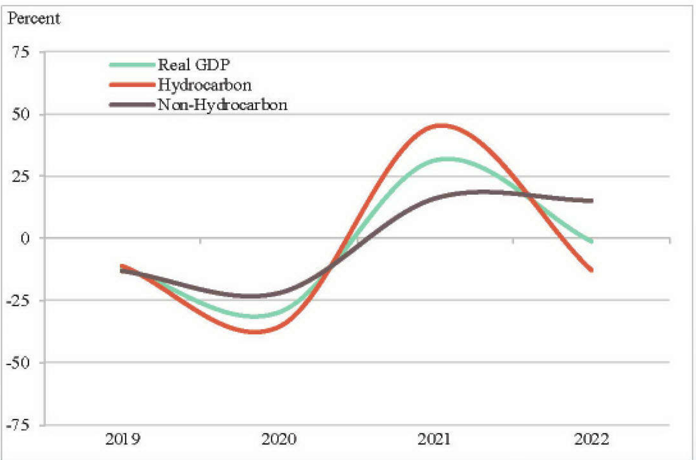
Source: World Bank estimation using Night-time light analysis

[2] J. Vernon Henderson, Adam Storeygard and David N. Weil ''Measuring Economic Growth from Outer Space'' AMERICAN ECONOMIC REVIEW, VOL. 102, NO. 2, APRIL 2012

Recent Growth performance

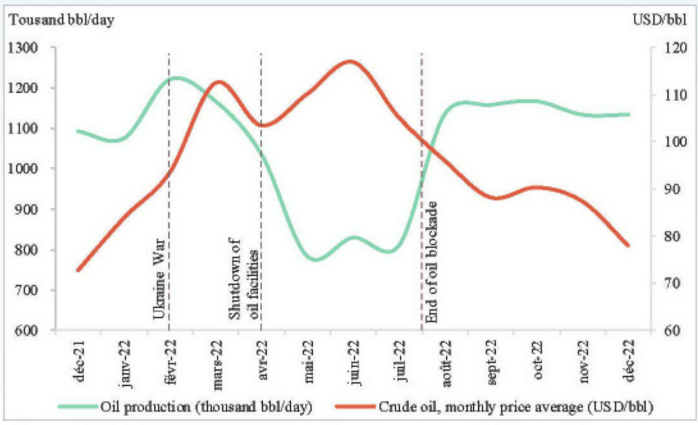
The economy is estimated to have contracted by -1.2 percent in 2022in real term due to the blockade of oil production facilities during the first semester (Figure 7). The blockade of oil production facilities reduced oil production to 400,000 barrels per day (bpd)by April (a time when global oil prices were surging following the Russia's invasion of Ukraine). Oil production resumed in August 2022 and returned to 1.133 million bpd in November. As of January 2023, it reached 1.215 million bp (Figure8).This estimation is based on the underlying hypothesis that the decline in the oil sector is entirely transmitted to the hydrocarbon sector, it can be posited that a growth of one point in the oil sector would result in an equivalent growth rate for the hydrocarbon sector. However, if the transmission is only partial, whereby the hydrocarbon sector is affected by only half of the decline in the oil sector, the growth rate could potentially reach 2.5 percent. The government has estimated that only 30 percent of the decline will be transmitted to the hydrocarbon sector. Based on this estimate, the growth performance is expected to reach approximately 5.4 percent.

Figure 7: Libya's real GDP at factor cost growth rate driven by the hydrocarbon growth



Source: Central Bank of Libya (CBL), World Bank staff calculations

Figure 8: Missed opportunity - Libya'soil production and international oil price



Source: EIA, OPEC, World Bank

At the sectoral level, the Libyan economy remains relatively simple and largely dominated by the hydrocarbon sector (box 2). In 2022, the production of the hydrocarbon sector is estimated to have declined by 12.7 percent. Since that sector accounted for 51 percent of the 2022 GDP, a disruption in the sector significantly reduces Libya's economic performance. A World Bank Computable General Equilibrium model (CGE) analysis shows that each week of closure of oil fields reduces growth performance by 1.5 basis points, government revenue by 2 percent and increases public deficit by 43 percent (Box 1).

The non-hydrocarbon sector grew by an estimated 15 percent in 2022, while estimates from the GNU indicate a growth of 19.5 percent. The negative impact of the decline in the hydrocarbon sector is estimated to be totally offset by the increase of final demand of good and services that resulted from the 2021 and 2022public salary increase. This, in turn, led to a surge in the non-hydrocarbon GDP especially Government sector, trade, food and real estate's sectors.

Box 1: The impact of one week closing of Libyan Oil fields

Computable General Equilibrium (CGE) models consists of a mathematical framework that represents the entire economy as a system of interrelated equations, capturing the interactions between different economic, agents, markets, and sectors. These models are widely used in policy analysis to assess the economic impacts of changes in policies or external shocks, such as changes in trade, taxation, or environmental regulations. They can also be used to analyze the distributional effects of policy changes across different income groups or regions, and to evaluate the welfare implications of different policy scenarios.

The use of a CGE model tailored to the Libyan economy by World Bank staff shows that the Libyan economy is heavily dependent on the oil sector, and any disruption to oil production can have far-reaching effects on the economy. More specifically, a drop in oil production **equivalent to one week of closure of oil fields is estimated** to lead to:

- A decrease in Libya's GDP by 1.56 percentage points. In terms of growth performance, If the initial GDP growth was supposed be at 4.75 percent a one week closing of oil fields could reduce the performance to 3.1 percent. This confirms and, more insightfully, quantifies the extent to which the Libyan economy is sensitive to changes in the oil sector.

- A depreciation of Libya's real exchange rate by 0.09, which could make imports more expensive and lead to inflationary pressures.

- Government revenue could decrease by -1.62 percent (e.g., Government revenue to GDP ratio could be decrease from 59.3 to 59.1 despite decrease in GDP), which could impact the government's ability to fund its budget. If the government decides to maintain its expenditure at the same level, an additional financing need of 14 percent could arise. If the government chooses to finance this gap through domestic borrowing, this could have a crowding-out effect on private investment, leading to a decrease in job creation and a potential increase in the unemployment rate.

Furthermore, the impact of the disruption in the oil sector could spill over to other sectors of the economy (Figure9). For example, construction activities could shrink by 2.47 percent, and mining could decrease by 2 percent. This suggests that the effects of the disruption in the oil sector could be felt throughout the economy, impacting job creation and overall economic growth.

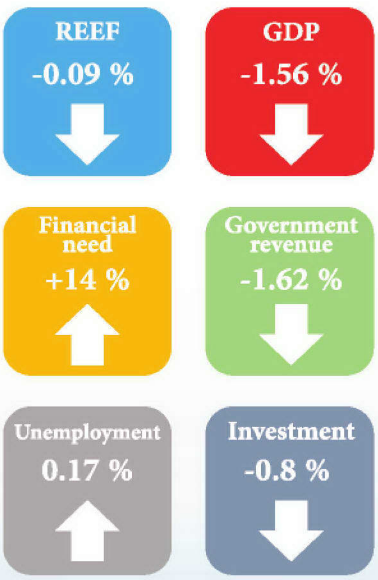
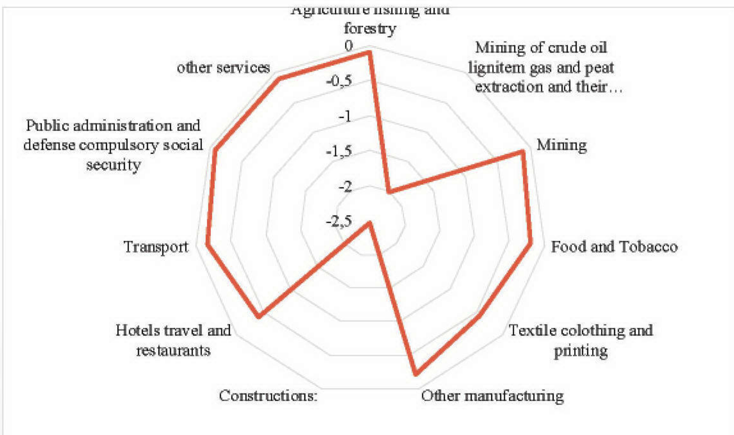


Figure 9: The sectoral impacts of closing Libyan oil fields for one week

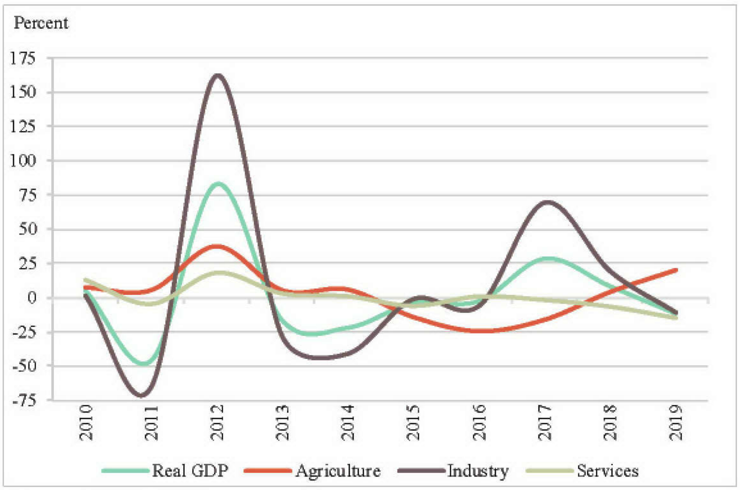


Source: EIA, OPE Source: Staff estimation using CGE model based on 2012 supply and use tables. C, World Bank

Box 2 Sectoral structure of the Libyan economy

Libya's agricultural sector is weak and accounts for only 1.8 percent of real GDP at factor cost (Figure 10), with 7.5 percent of the population abandoning their farms due to conflict and insecurity. However, around 19 percent of Libyans still farm for their own consumption. The industrial sector including oil industry, which accounts for 68.4 percent of real GDP at factor cost, has been impacted by the contraction of hydrocarbon-related industries, while non-hydrocarbon manufacturing is small and mainly produces food, cement, and textiles. The service sector, which represents 38.1 percent of real GDP at factor cost, is the only sector that has recorded positive growth in 2022. However, the informal sector, which accounts for an estimated 35.3 percent of GDP (according to World Economics, and 30-40 percent of GDP according to the AfDB), is dominated by transborder trade and smuggling with Tunisia. Before the conflict, migration from Tunisia contributed to Libya's development and helped Tunisia's unemployment issue. This trend has reversed since 2011 due to the conflict situation and the drop in Human Development Indexin Libya. Many Libyans live in Tunisia and their transfers provide foreign currency inflows and much needed liquidity to Tunisian banks[3]. During the first 7 months of 2022, about 1 million Libyans entered Tunisia.

Figure 10: Sectoral contribution to real GDP growth at factor cost between 2010 and 2019



Source: BSC, CBL

Inflation dynamics

Inflationary pressure has continued to mount since the devaluation[4], as the country's consumption mainly relies on imports. Russia's invasion of Ukraine contributed to additional pressure in 2022 through the disruption of global supply chains, global scarcity of goods and increases in food price. Price increases of essential goods where more pronounced in the Libya's western region, mainly due to heightened insecurity that disrupted supply chains and forced many to turn to costly alternative sources of water and electricity generation.

Russia's invasion of Ukraine constituted a shock for the Libyan food security as it aggravated disruption of food supply chains. In Libya, import accounts for about 80 percent of the country's food consumption, a figure that reaches 90 percent for cereals. In 2020, Libya was the tenth largest purchaser of Ukrainian

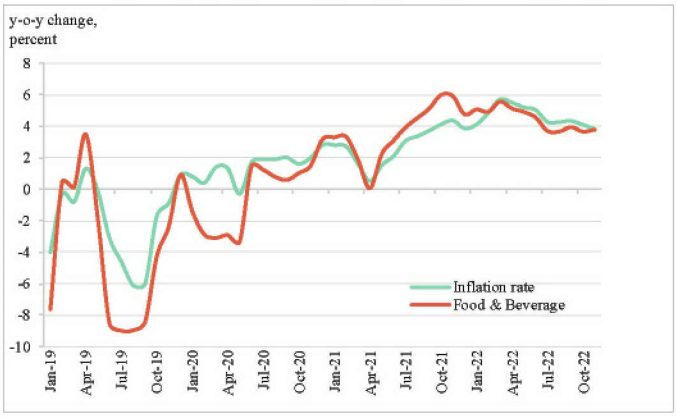
[3] "Impact of the Libya Crisis on the Tunisian Economy" World Bank 2017
[4] On 16 December 2020, the CBL's bank's board of directors met for the first time in five years and agreed to devalue the Libyan Dinar and reunify the exchange rate. The CBL announced a devaluation from the official between Libyan dinar to US dollar from 1.4 to 4.48.

wheat globally. Wheat and grain imports from both Russia and Ukraine together accounted for more than half the country's supply. CGE estimation shows that a 10 percent increase in international agriculture price could increase the CPI in Libya by 1.98 percent and decline household consumption by 2 percent.

The two key sources of data on prices in Libya are the official CPI inflation rate and the inflation of the Minimum Expenditure Basket (MEB) measured by the REACH initiative. None of these two measures are completely accurate. Official CPI inflation figures are likely a gross underestimate of the true inflation rate as they are collected primarily from Tripoli only. The MEB inflation rate suffers from the narrow scope of products in the basket, questions of national representativeness of the rate, and underestimation due to measuring the lowest available price for each product in the basket.

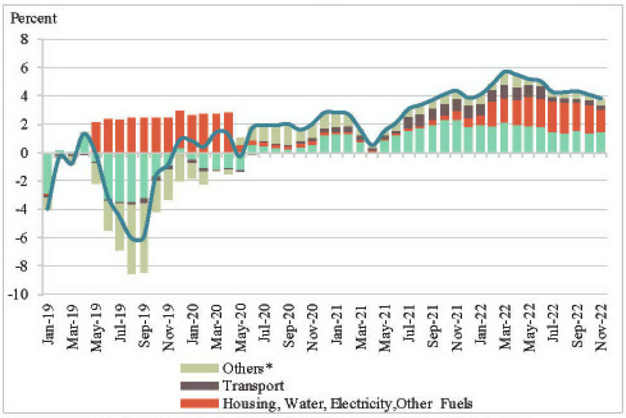
Inflation has been moderate but remains significant and mainly driven by food, housing, and electricity. Official inflation rate CPI reached 5.7 percent (y-o-y) in March 2022 and has remained high,4.7 percent at end-2022 despite a declining trend (Figure 11). The MEB shows a different level of inflation but similar dynamics. Specifically, it shows that the national price increase peaked at 38.7 percent in April 2022 (y-o-y) (Figure 12); this development was driven by the Tripoli region where price increases reached 44.1 percent compared to 35.5 percent in the East. At end-2022, the national MEB inflation rate moderated to a still elevated 20.7 percent, with 21.4 percent in the West and 11.4 percent in the East (Figure 13).

Figure 11: Acceleration of the official inflation (CPI) (capturing only Tripoli region)



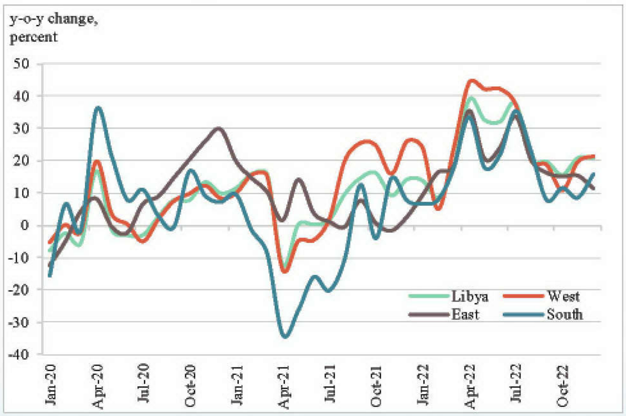
Source: BSC, CBL

Figure 12: Official CPI inflation driven by food and basic items (contribution to CPI)



Source: BSC, CBL, World Bank staff calculation

Figure 13: Inflation gaps by region (as measured by the Median Cost of the MEB)

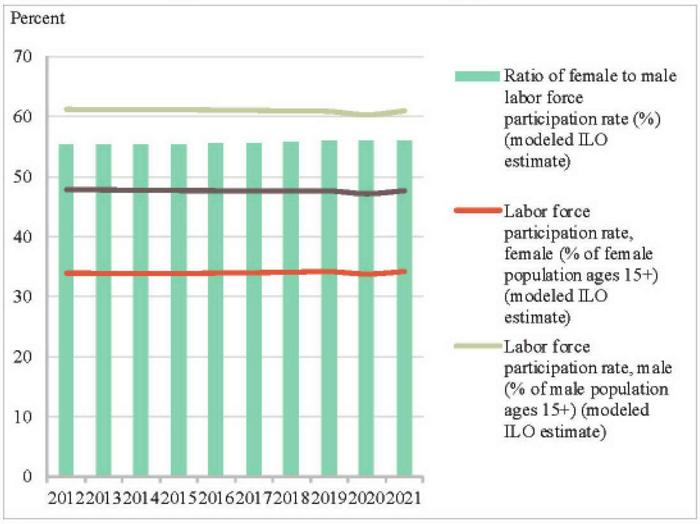


Source: REACH Initiative and World Bank staff calculations

Labor Market

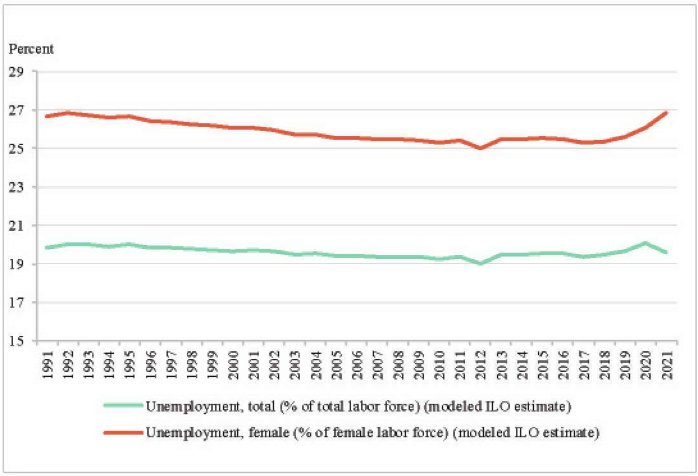
Despite relatively low labor force participation rate especially for women, unemployment is high and those who work are mostly in the public and informal sectors (Figure 14). Libya's unemployment rate according to the GNU is 15.3 percent while ILO modeled estimate is19.6 percent in 2021 (Figure 15), 26.8 percent for women[5] and 30 percent for youth. The public sector employs 51 percent of formal active population although it contributes to only 9 percent of GDP[6]. It is estimated that about 80 percent of the population receives some form of income from public sources.

Figure 14:Libya Labor Force Participation rates



Source World Bank and ILO

Figure 15: Unemployment rates (% of total active population) remain high, especially for women



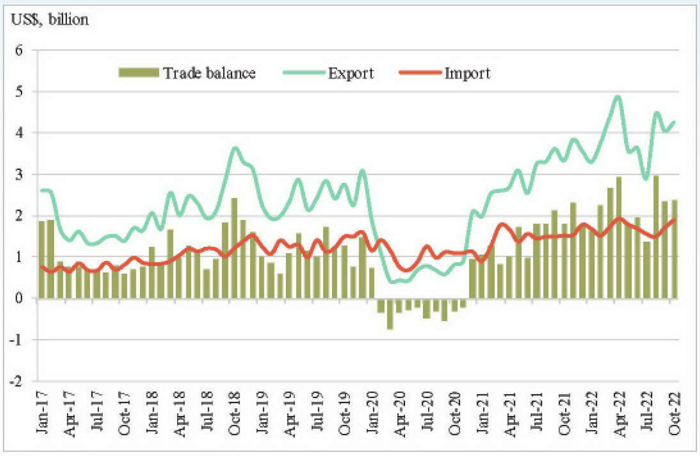
Source World Bank

External sector

Blockades on oil production during the first semester of 2022 is expected to limit the current account surplus despite high international hydrocarbon prices. In contrast, the rebound of oil production in 2021 had led to a surplus of current account of 12.7 percent GDP (against a deficit of 9.5 percent of GDP in 2020). Oil export accounts for 93 percent of Libya's total export and 35 percent of GDP (average 2012-2021). Current account balance and reserve position therefore fluctuate with the conflict situation and international oil prices. According to the International Monetary Fund, export revenues (in US dollars) increased by +36.6 percent during the first nine months of 2022, compared to an increase of +269 percent during the same period in 2021, while government sources estimated this increase by 19.3 percent during the nine months. the first nine months of 2022, and by 502.0 percent during the first nine months of 2021.This deceleration was due mainly to the aggravation of the conflict which resulted in blockades on oil facilities during the first semester 2022, notably April-July (Figure 16). Oil production contracted by 12.7 percent in 2022 (in real terms). FDI has continued to be negative since the conflict begun, at -1.4 percent of GDP on average 2012-2021. International reserves remain at a comfortable level, at USD84 billion as of end-2022[7] (figure 17).

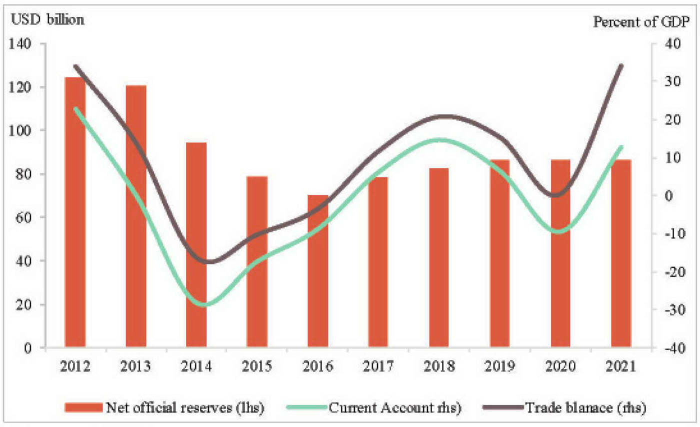
[5] World Bank DataBank
[6] Labor market and employment policy in Libya, 2014, ETF-EU
[7] "Competitiveness of Arab Economies" 2022, Arab Monetary Fund

Figure16: Libya's trade balance



Source : DOTS, IMF

Figure 17: External sector position



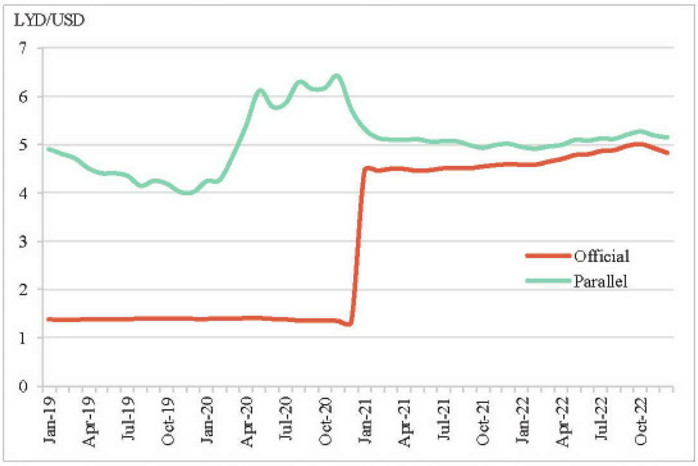
Source : CBL

Foreign Exchange Policy and Monetary policy

Since the devaluation by one-third of the official rate and unification of the exchange rate in January 2021, the gap between the black market and official rates in Libya has decreased significantly. The gap narrowed from 325 percent (informal rate/official rate) prior to the devaluation to 6.3 percent at the end of 2022, which was aided by a gradual depreciation of the official rate by 8.4 percent between the devaluation and the end of 2022 (Figure 18). The decision to devalue the currency was made in response to successive oil blockades and a surge in the fiscal deficit, compounded by uncontrolled money growth by both governments, which had caused significant pressure on the exchange rate.

Prior to the devaluation and unification of exchange rates, the informal market was the dominant player in the country's foreign exchange sales, constituting 97 percent of all transactions, especially in the eastern regions. To boost the economy, the CBL introduced a 183 percent foreign exchange fee for private entities in September 2018, which was later lowered to 163 percent in June 2019, before being abandoned in 2021. This strategy narrowed the gap between the formal and informal sectors, reducing the dependence on informal transactions while creating a revenue stream for the GNU. The CBL in Tripoli controls all foreign currency in Libya, regulating access through the issuance of letters of credit, which can lead to payment delays and potentially fraudulent activities, thereby serving as a potential source of capital outflows.

Figure18: Convergence of exchange rates since the devaluation



Source: CBL, FX Black Market Facebook Page, World Bank staff calculation

While the liquidity crisis was attenuated by the January 2021 devaluation it continues especially in the eastern parts of the country. As a step towards reunification, the Al-Bayda CBL branch stopped printing money and issuing bonds; at the same time, a unified exchange rate was introduced in 2021 and an unified electronic settlement system in 2022. Prior to this, banks in the eastern region of Libya were disconnected from the real time gross settlement (RTGS) system. This left them to work with manual settlement and contributed to a liquidity crisis in the eastern region, as the economy had to resort to cash which aggravated depreciation of the LYD in parallel market. The effectiveness of these measures remains uncertain, as the institutional fragmentation continues.

Box 3 Libya's Banking System[8]

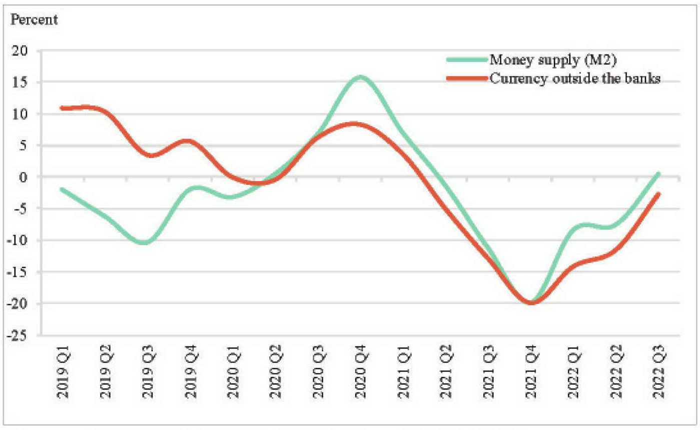
Banking system assets amounts to LYD 117.1 billion in 2018, which accounts for 80 percent of the Libyan financial sector. Loans and credit represent 14 percent of these assets, while 68.4percent of deposits are short-term mainly for salary transfer. The banking system's capital adequacy ratio was above 15 percent during 2012-2018. Libya's banking law is governed by Islamic banking principles and interest has been prohibited since 2013, which limits both banking sector development and monetary policy.

While Libya has 19 commercial banks, the five-state owned bankshold over 90 percent of the system's deposits. State-owned banks benefit from major regulatory advantages, for example, they (almost exclusively) channel government salaries and transfers and also benefit from hidden advantages given to state banks, including the broad perception of implicit deposit guarantees. The CBL is the shareholder of public banks, while being the regulatory agency of the banking sector, which creates a conflict of interest.

Consumer account penetration is technically high, but financial intermediation beyond salary transfers is extremely narrow. Private sector businesses are almost wholly excluded from the formal financial sector. In addition to these structural weaknesses, the CBL split divided the banking system under two separate supervisions (Libya's eastern provinces accounts for about a third of the banking activity). All banks have branches in both sides and deposits in both CBL branches. Cash outside the formal banking system is estimated to be about 30 percent of liquidity and 44 percent of population reports receiving financing from informal sources..

Liquidity growth has remained negative in 2022 (Figure 19). This stems from a severe contraction in the second half of 2021, during which both M2 and currency outside the banking system contracted by 20 percent (y-o-y) by end-2021. In March 2022, M2's contraction stabilized (+0.4 percent) but liquidity outside the system has continued to decrease although at a slower pace (-2.7 percent).

Figure 19: Liquidity growth (y-o-y)



Source: CBL Tripoli, World Bank staff calculation

Fiscal Management

The functioning of budget institutions and implementation of good public financial

[8] Based on the Libya Financial Sector Review, 2020, World Bank, with CBL updated data.

management policies and processes are undermined by the conflict and political fragmentation (Box 4). The 2022 budget of the GNU was not approved by the House of Representatives (HoR), despite being fully funded. Initially the GNU was allowed to spend temporary based on the rule that the budget disbursement of each month was limited to 1/12 of the previous year's (nominal) budget (based on a presidential decree). No capital expenditure was allowed until the approval of the budget by the House of Representatives (HoR). However, these rules were not respected as the 2022 budget was not approved by the HoR. On the other hand, the budget of the Government of National Stability (GNS) for 2022 was approved in June of that year but was not properly funded as GNS does not receive CBL transfers[9]. This situation has created a significant challenge for the effective management of public finances, resulting in uncertainty and inadequate sharing of fiscal resources. The CBL, in turn, implements several public finance duties including payment of salaries and reporting. Efforts are ongoing to formulate a Cash Management Policy and operationalize the Treasury Single Account (TSA). The first step is to conduct a stock take of all government bank accounts.

There is need for a clear annual budget calendar with laid down processes to submit a unified budget proposal to the legislature at least two months before the start of the fiscal year and for same to be approved before the fiscal year.

The Ministry of Finance has designed a new Budget Classification (BC) and Chart of Accounts (CoA) that will improve budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using International Monetary Fund Government (IMF) Finance Statistics Standards (GFS) Manual (GFSM 2014). Publication of Budget Execution Reports (BER) using the BC-CoA will improve decision-making and transparency.

Oil revenue collected by the National Oil Company is transferred to the CBL. From the CBL, it is then transferred to the GNU accounts for salary payments and other current expenditures. The GNU recorded a fiscal surplus of 2.8 percent of GDP in 2022, a significant drop from the surplus of 10.6 percent in the previous year (figure 20).

The GNU 2023 Budget amounts to LYD101 billion with LYD15 billion allocated to the development Budget (in addition to the unspent LYD 16 billion in the development spending from the 2022 Budget). This budget was not approved by the HoR.

Box 4: Public Financial management in Libya

Political division and irregular budget process affect both the transparency and the Government's basic proper functioning. Aggregate budget execution report is published by the CBL but the reports have significant differences compared to those published by the Ministry of Finance (MoF). There is limited information on debt obligations, including state-owned enterprise (SOE) debt and on transfers to SOEs is available.

Annual Financial Statements are not submitted

[9] The Government of National Stability (GNS) official budget amounted to LYD 90 billion, of which 45.5 percent of wages, 8.9 percent of goods and services, 28.9 percent of subsidies and 18.9 percent of capital expenditure.

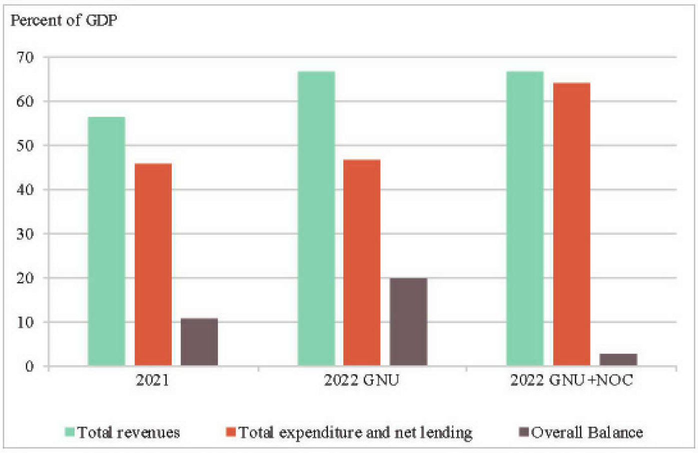
Political division and irregular budget process affect both the transparency and the Government's basic proper functioning. Aggregate budget execution report is published by the CBL but the reports have significant differences compared to those published by the Ministry of Finance (MoF). There is limited information on debt obligations, including state-owned enterprise (SOE) debt and on transfers to SOEs is available.

Annual Financial Statements are not submitted by the MOF for the Libyan Audit Bureau to conduct audit and submit report to Parliament. The Libyan Audit Bureau which is the supreme audit institution is considered as not fully independent. Local Government audit methodology in compliance with International Standards of Supreme Audit Institutions (ISSAI) has been developed, staff trained, and now needs to be adopted for full implementation. Limited information on public contracts, including natural resource extraction awards, is publicly available.[10] Libya is ranked 171st out 180 countries in Transparency International's corruption perception index of 2022.

Libya's budget is divided into five chapters (Chapter 1: Salaries, Chapter 2: Good and Services, Chapter 3 Capital Expenditure, Chapter 4 Subsidies, and Chapter 5 Contingency (Miscellaneous). Meanwhile, in recent budgets no expenditure was reported under chapter 5, and chapter 1 includes expenditure related to catering and clothing.

From the revenue side, the role of the National Oil Company (NOC) should be better clarified. As a state-owned company, NOC is responsible of exporting all of Libya's crude oil and importing oil products. Some contracts seem unclear as the NOC is working with same brokers on selling and buying sides. It appears that some operations consider only the net value of two (or more) operations, which materially obfuscates transparency and accountability and is not in line with international best practices.

Figure 20 : Government (GNU only) Fiscal Balance as percentage of GDP.



Source: Central Bank of Libya (CBL), World Bank staff calculations

The public wage bill is the largest spending category with 25.4 percent of GDP (Box 5). It has increased by 53 percent in 2022 after a 23 increase in 2021. The cumulative increase during the last two years stems from wages adjustments episodes that occurred after the 2021 devaluation. This increase will continue in 2023 as a result of the adoption by parliament of the wage unification law in November 2022.

[10] "2022 Fiscal Transparency Report: Libya", US Department of State

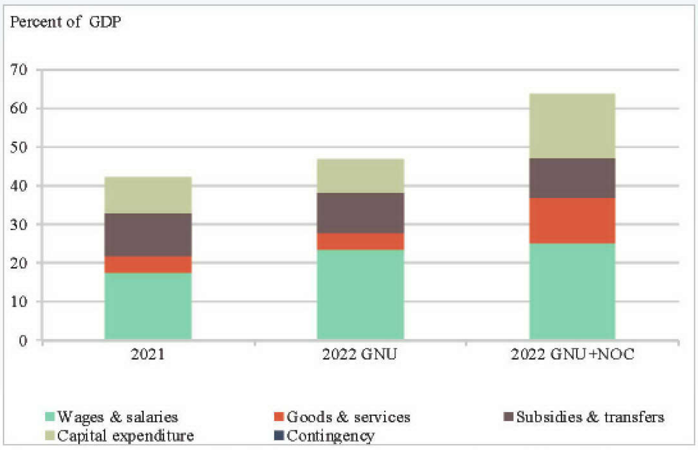
Box 5: Public wages and social policy in Libya

In the absence of a modern and comprehensive social policy, public wages in Libya, as in many parts of the Middle East and North Africa (MENA) region, are an integral part of the social contract (asking to a public allowance)—another staple of the region's social contract is untargeted subsidies, especially on food items (e.g., bread) and fuel. As a result, half of the active population works in the public sector. In 2013, the government employed up to 85 percent of all salaried workers (IMF 2013c). More than 80 percent of the active population receives some form of income from public sources[11]

Subsidies and transfers have remained high, at 11.6 percent of GDP in 2022, a slight increase compared to 11.1 percent in 2021. Largest components of subsidies are on fuel price (25 percent), electricity (14 percent) and medicine (9 percent). These subsidies contributed to limit inflation but are less efficient in targeting poor population when compared to cash transfers.

Capital spending jumped to 16.8 percent of GDP in 2022 against 9.3 percent in 2021, as it included an 8.1 percent GDP transfer to NOC. In April 2022, the GNU adopted an emergency financial arrangement to cover the NOC expenditures for 2022. Of this LYD34 billion arrangement, 49 percent is to finance its development plan and 8.8 percent is its capital spending, while current expenditure and arrears account for 23 percent and 19 percent respectively

Figure 21: Government (GNU) expenditure as percentage of GDP



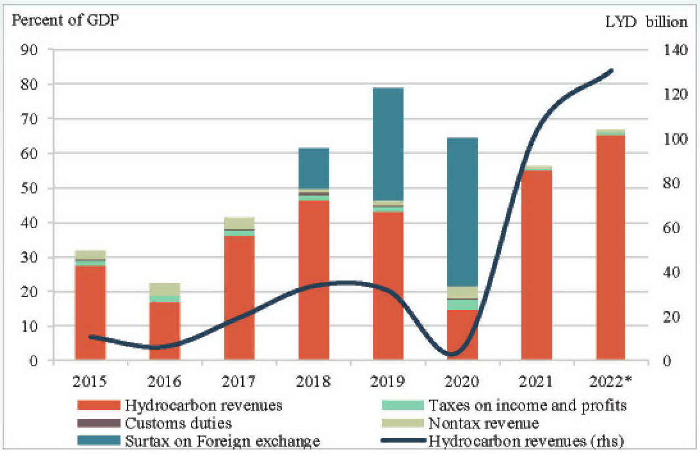
Source: Central Bank of Libya (CBL), World Bank staff calculations

GNU revenue increased by 27.3 percent in 2022, driven by hydrocarbon revenue (Figure 22). The latter accounts for 98 percent of total revenue. The increase of international oil prices and collection of royalties and taxes on foreign oil companies for the previous (2020 and 2021) and 2022 fiscal year, allowed hydrocarbon revenue to increase by 26.2 percent, despite the previously mentioned decline in production.

Nonhydrocarbon revenues increased by 30.6 percent in 2022. All taxes revenues have increased as a results of the inflation and devaluation. Customs revenues are the only items that declined by -19 percent due to weak collection capacity of the custom administration. Fee on foreign exchange introduced by the CBL in 2018 was the second largest source of revenue for the GNU up to 2021but has been abandoned after the devaluation.

[11] "Libya's hybrid armed groups dilemma", January 2023, Brookings

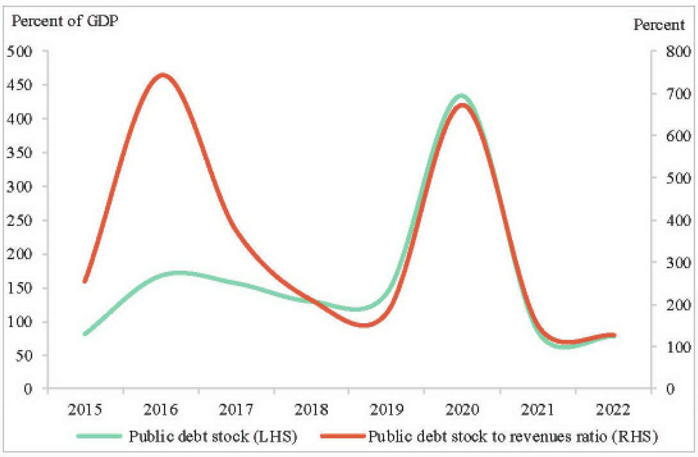
Figure 22 Government (GNU) revenue as share of GDP



Source: Central Bank of Libya (CBL), World Bank staff calculations

Despite its high level, public debt is assessed to be sustainable provided the country's hydrocarbon production is not disrupted. Libya's total public debt amounts to 77.4 percent of GDP in 2022 and 126 percent of government revenue. Given the country's ample foreign exchange reserves, disruption to oil production (especially exports) would eventually have a material impact on the country's capacity to repay its debt as 96 percent of the government revenue is denominated in US dollar, while debt is denominated in local currency. Under such a constellation the devaluation of the Libyan dinar positively impacts public debt sustainability.

Figure 23: GNU Fiscal balance and public debt (in percent of GDP)

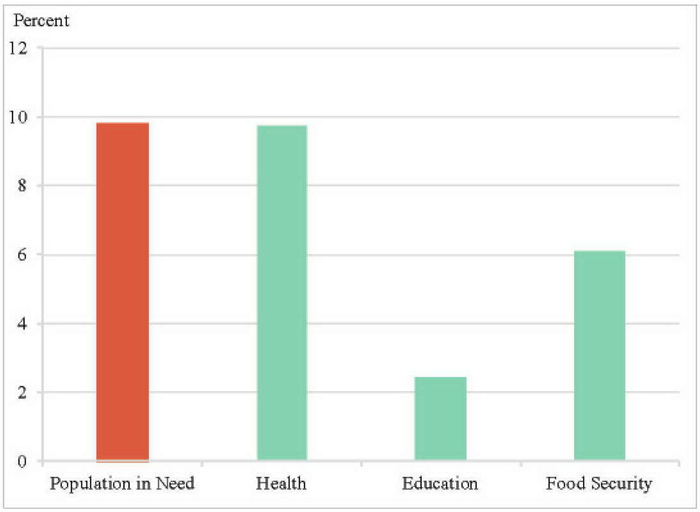


Source: Libyan Authorities (MoF, CBL), World Bank staff estimates

Recent social developments

Libya's humanitarian situation continued to improve throughout 2022, but vulnerabilities remain. According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the number of people in need of targeted humanitarian assistance is expected to reach 328,560 in 2023, excluding the non-displaced population. A 58 percent decrease from the 2022 (Figure 24). This represents 4 percent of the population, of which 73 percent are Libyans, 14 percent are migrants and 13 percentage refugees. Of these, 24 percent are women and 30 percent are children. According to the REACH initiative's multi-sectoral needs assessment (MSNA), priority needs include health care, education, transport, and shelter such as rent and utilities[12] . MSNA's findings show that humanitarian needs are greater among the eastern and southern regions of Libya and among internally displaced persons compared to other Libyan communities. Findings also suggest that many of the sectoral needs identified in Libya are driven by economic vulnerability and the long-term effects of the COVID-19.

Figure 24: Population in need of targeted humanitarian assistance in 2021 (percent of total population, including migrants and refugees).



Source: OCHA, people in need of humanitarian assistance

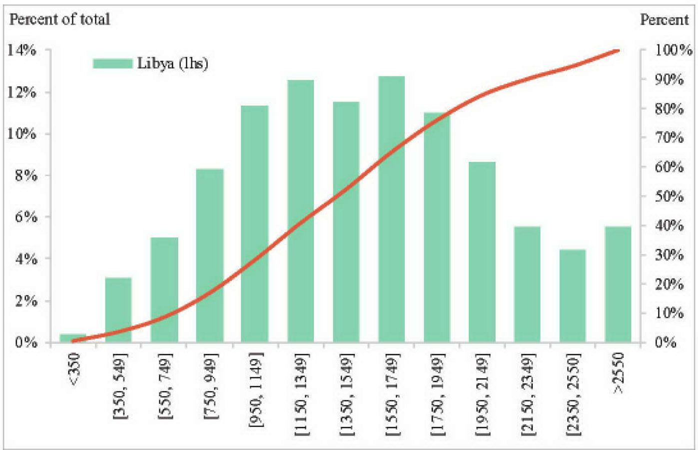
While there has been a marked decline in COVID-19 cases and no recorded covid-related deaths since August 2022, the pandemic remains a significant threat. The average number of new cases declined from 103 per day in August to 2 in December 2022, while no COVID-19 related death cases were reported during the second half of 2022. However, vaccination rates remain low with 34 and 18 percent of the population fully vaccinated per one hundred by the end of 2022, compared to vaccination rates of 63 and 52 percent of the population in Morocco and Tunisia respectively. The low vaccination rates in Libya coupled with limited testing and reporting capacities, mainly in the south and east of the country, hasCOVID-19 remain as a significant threat.

Despite the improvement of security conditions and the lessening of COVID-19 containment measures, Libyan households continued to face challenges to meet their basic needs. According to the REACH Initiative, although 70 percent of the assessed households reported being employed in the public sector

[12] Results of the REACH Initiative's Multi-Sector Needs Assessment in Libya in 2022 (MSNA) was conducted between July and October 2022. Overall, 3758 household-level surveys were conducted in 15 municipalities. Targets and survey locations were sampled through probability sampling, applying a cluster sampling methodology for non-displaced households and random sampling for returnee and internally displaced people (IDP) households. Findings are generalizable and representative at the municipal level and per population group with a 95 percent confidence interval and 10 percent margin of error.

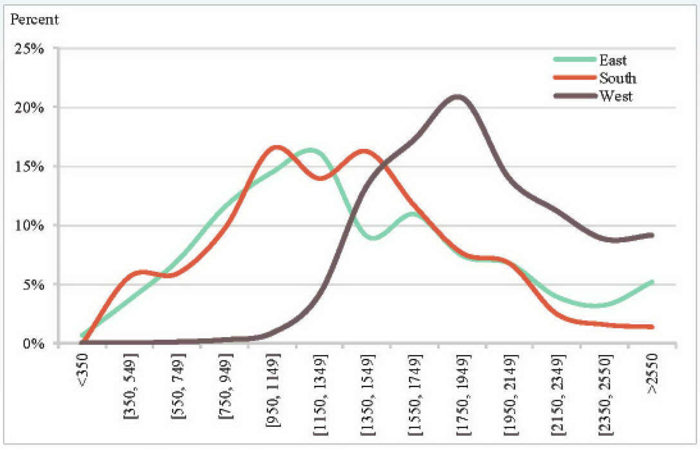
and 78 percent are working in permanent jobs with regularly paid wage, Libyans continue to face challenges to meet their basic needs. With regards to the major challenges encountered in their jobs, 45 percent of respondents reported that salaries are not sufficient to cover their basic needs (especially for households in the west with 61 percent of the respondents) or salaries are paid late or not paid/not paid in full for 43 and 6 percent of them respectively. Based on the MSNA findings and the Joint Market Monitoring Initiative, almost 17 percent of surveyed households' income is lower than the average of the median cost of the Minimum Expenditure Basket calculated over the months of the survey; estimated at LYD 915.6 (Figure 25). The share of households with an income lower than the median cost of the Minimum Expenditure Basket is higher in the southern and eastern regions of Libya with almost 22 and 23 percent respectively (Figure 26).

Figure 25: Distribution of income by category of income in Libya



Source: REACH Initiative, MSNA 2022

Figure 26: Distribution of income by category of income and region in Libya



Source: REACH Initiative, MSNA 2022

To meet their basic needs, households resorted to livelihood coping strategies which are negative in most cases. According to the REACH initiative, 57 percent of Libyans surveyed in 2022 reported having used livelihood coping strategies classified as for crisis or emergency strategies (67 percent for IDPs and 80 percent for households living in the eastern part of the country).[13] The most widespread coping strategies included taking on an additional job, spending saving (50 percent of households), borrowing money from others, selling productive household assets, and reduce expenditure on essential non-food items (water, hygiene items, etc.). In addition to these coping strategies, 39 percent of households reported having contracted debt mainly from friends and family (29 percent) or from their employer (6 percent) to pay for healthcare (46 percent) food (40 percent) and other basic needs (47 percent). The share of households who contracted debt is more important for IDPs and those who are living in the east with 61 and 44 percent respectively. The main reason to contract debt for IDPs is to pay for rent (76 percent).

[13] These findings are representative at the level of the assessed municipalities only.

According to the World Food Program, more than 324,000 people (4 percent of Libya's population) are projected to be food insecure and in need of food assistance during 2023. Findings from REACH Initiative's MSNA conducted in the third quarter of 2022 show that the Libyan population is to some extent food secure. However, borderline and poor-quality food consumption appear to be more common in the South (15 percent) and among internally displaced persons (11 percent). This is consistent with the fact that internally displaced households are most likely to experience slight or moderate hunger and resort to erosive coping strategies such as relying on less preferred and less expensive food (during more than 2 days per week) or limited the portion of meals at mealtimes or reduced their number (during more than 1 day per week). The MSNA results suggest that household food consumption patterns reflect economic vulnerability to price shocks, with 'food affordability' being an important trigger for low-quality food consumption. According to REACH, 32 percent faced barriers to access markets including higher prices (for 85 percent of the respondents) and lack of access to cash (for 59 percent).

The fragmentation of the Libyan healthcare system compounded by years of conflict and under-investment and lack of maintenance impacted health facilities' ability to remain operational. According to the World Health Organization's assessment conducted in 2021 of 1437 public health facilities (84 percent of the total number of 1656 facilities), only 42 percent were found fully functioning, 31 percent were partially functioning, and 20 percent were not functioning. Lack of finance, lack of equipment, and lack of staff and its misallocation were the main reported reasons for partial functionality.

Access and quality of healthcare services are challenging following consecutive waves of the COVID-19 pandemic and a decade of conflict. The REACH initiative found that 43 percent of households that needed healthcare in the three months before data collection could not access it due to poor quality of health services whereas 43 percent reported the lack of medicines at the health facility as the main reason. In addition, 32 percent of interviewed households could not access health care services due to their higher cost. IDPs and households in the south are encountering more challenges to access health care services mainly due to their non-affordability.

National shortages of vaccines, essential medicines, and mental health services are alarming. The threat of outbreaks of vaccine-preventable diseases, including tuberculosis, measles and influenza, was further heightened due to disruptions to immunization programs and vaccine stock outs. The mental health and psychosocial support needs of the affected population are intensifying due to significant distress and socio-economic effects of the prolonged humanitarian situation, with vulnerable groups being disproportionately impacted by health threats and barriers accessing health care.

The COVID-19 pandemic and the deterioration of livelihood conditions have negatively affected Libyans' access to education services. As reported by REACH, 6 percent of households reported that their school-aged children are not enrolled in school. From those households who have children enrolled in school, 6 percent reported that their children are not regularly attending. The main reasons for not regularly attending school, include school closures due to COVID-19 (39 percent), economic hardship, i.e., not being able afford school fees, transport, materials, or food (10 percent), problems with school infrastructure such as lack of electricity, and a lack of adequate furniture or sanitation facilities (6 percent). In the southern region of the country, 48 percent of households reported the lack of interest in education, while 23 percent stated that the child has to work or the child has health problems. For 10 percent of households in that region, economic hardship is the main reason for school non-attendance.

A lack of repair and maintenance, continued attacks, and forced shutdowns of water facilities added extra strain on the already aging water infrastructure and further degradation of services availability. The lack of financial provisions for the water and sanitation sector limited and delayed infrastructure repair and rehabilitation, as well as support for the procurement of much-needed supplies. Prolonged electricity cuts have further affected the continuous flow of safe drinking water, while indiscriminate attacks on water structures resulted in the temporary shutdown of several water stations. As per the REACH initiative, during the 30 days prior to the survey, 9 percent of households reported that they could not access water during a week while 13 could access to it rarely (between 1 and 3 days per week) and 26 percent during most of the days (4 to 6 days per week). The MSNA survey also shows that there were times where households could not have enough water to meet domestic purposes such as house cleaning (14 percent), personal hygiene (14 percent) or drinking (12 percent) needs. Surveyed households relied on bottled water (58 percent), and public network (31 percent) as their main drinking source. In the western region, all surveyed households are relying on bottled water for drinking while in the south 9 percent rely on public tap or standpipe to meet this need.

Armed conflict and a lack of public funding have led to severe damage to the electricity infrastructure and disrupted electricity supply. Surveyed Libyan households who accessed electricity mainly from the general grid reported 6.3 hours of power blackouts per day during the week preceding data collection (REACH initiative). Duration of power outages is more important in the western region where it reached 8.6 hours per day. The General Electricity Company of Libya (GECOL) is actively working on developing and diversifying its capacity for electricity production.

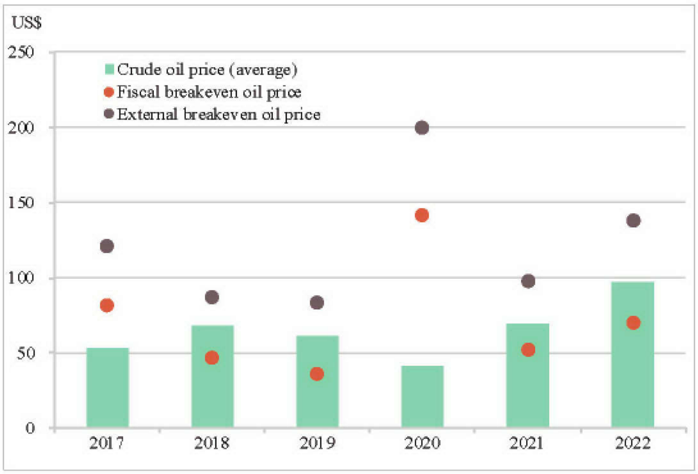
Outlook, risks, and opportunities

Libya's economic future critically depend on the prospects for peace and stability. Relative political stability and security is expected to lead to improved oil production, which in turn will drive growth, and fiscal and external surpluses. Assuming that the current low political equilibrium is maintained, and that oil production is not disrupted, production could reach 1.5 million bpd in 2023 according to authorities and is planned to increase to 2 million bpd in the next 3 to 5 years after coordination with the Arab and international OPEC.

It is expected that non-hydrocarbon output and GDP will grow in 2023. The increase in government expenditure and salaries resulting from the wage unification law will boost domestic demand, thereby supporting growth in the non-hydrocarbon sector. The resultant current account surplus is expected to partially alleviate tensions on liquidity and inflationary pressure.

These positive prospects are contingent on the capacity of the country to face several risks. The competition between rival governments and ongoing negotiations around the management and use of oil revenues may complicate government spending. This, in turn, would impede the state's ability to deliver public services including basic ones, maintain its infrastructures and finance development projects. Libya is also vulnerable to the risk of a downturn in the global economy, which could reduce global oil demand (and prices), resulting in reduced exports and government revenues, and negative impacts on Libya's economic growth, fiscal and current account balances, and foreign reserves. Libya's oil breakeven price is relatively high, at an estimated USD68.7 (USD69.7) per barrel and for its (GNU only??) fiscal balance (external balance)— Figure 27.

Figure 27: Breakeven oil prices in Libya (fiscal and external balances)



Despite the numerous challenges facing the country, the economy could be rebuilt and diversified thanks to Libya's substantial financial resources. There are four critical ingredients to Libya's reconstruction. The first is reaching a sustainable political agreement on the future of Libya. The second is the preparation of a shared vision on economic and social development that is based on accurate assessments of needs and aspirations. The third is the development of a modern and decentralized public financial management system, that is based on an economically sound, effective, and transparent mechanisms for wealth sharing and inter-governmental fiscal transfers, Budget planning, execution, evaluation, and reporting. The fourth is the establishment of a modern and comprehensive social policy that enables the reform of public administration and creates a clear distinction between social transfers and public wages. This will ensure that resources are efficiently allocated to benefit the most vulnerable members of society and foster economic growth.

Social Protection in Libya: Towards A New Social Contract.

Prior to 2011, the Libyan population enjoyed a range of social protection benefits that were supported by a robust legal framework. The foundation of that system was Law No 13 of 1980 that laid out provisions for protecting various groups[14] ; and for providing general welfare assistance, and assistance for households in the event of a disaster or loss of life. The law also extended such protections to non-Libyan residents but with some limitations in terms of actual implementation.

The formal social protection system covered most of the population working in state employment, and social assistance programs targeting those outside of formal employment. All citizens had further access to universal food and fuel subsidies, as well as free healthcare and education at large. As such, the pre-2011 system was, in its way, adequate. The programs were financed by Libya's vast natural resource wealth, with spending on social protection estimated at 4.4 percent of GDP in 2010.

A decade of conflict has severely disrupted Libya's social protection system. The formal social security system has declined as Libya's quasi-universal public employment has unraveled. Similarly, Libya's non-contributory social assistance has also declined, with programs being suspended, access to the eastern half of the country cut off, and increasingly uncertain and unpredictable funding. As a result, overall social assistance coverage of the vulnerable population in Libya is now very limited, even as needs have grown. This is compounded by poor labor market outcomes, materializing in high unemployment particularly among youths.

Social Safety Nets

Libya's SSN system, as originally designed, is comprehensive. Itconsists of three types of interventions: (i) universal subsidies, (ii) cash and in-kind transfers, and (iii) various fee waiver schemes ensuring free or subsidized access to social services including health and education. The system is supported by a comprehensive legislative framework, and focused on the particularly vulnerable, non-working groups including orphans, women and people with disabilities.

The Ministry of Social Affairs (MOSA) has global oversight of the social protection sector in Libya. Under MOSA, the Social Solidarity Fund[15] manages the majority of Libya's social assistance programs. Subsidies are managed by the Price Stabilization Fund, also known as the Compensation Fund.

While comprehensive and generous by design, the SSN system in Libya lacks some of the key features of modern programs. Libya's programs have, for the most part, remained largely unchanged since their establishment, and kept their initial focus on supporting the indigent rather than lifting families out of poverty and vulnerability. Many registration and management processes remain paper-based, and monitoring and accountability mechanisms appear limited. In addition, many programs lack clear objectives, while some remain dor-mant. Further, the national social assistance system

[14] Elderly, the disabled, the sick, those affected by work injury or occupation-related disease, households faced with the loss of the main breadwinner.

[15] Not to confuse with the Social Security Fund, refer to Pensions and Social Insurance section.

has few programs available to respond to the needs arising from an emergency. This came to the fore with the global COVID-19 pandemic, when the Libyan Government was constrained to put in place a comprehensive social protection response, outside of emergency assistance mobilized through the (non-government) Zakat Fund, and price controls on certain food items.

A decade of conflict has disrupted programs and coverage. Increasingly uncertain and unpredictable funding and difficulties in budget approval processes have resulted in delays in the delivery of social assistance benefits. Several programs have ceased functioning: food subsidies since 2017, housing and education benefits since 2010 and 2011, the wife and children and marriage grant from 2014 and 2015 – though these last two were tentatively reactivated in 2021. As a result, overall coverage of the vulnerable population in Libya is now very limited. Excluding spending on universal subsidies, national social assistance expenditure accounts for less than 1 percent of GDP[16].

Like many countries in the Middle East region, Libya has a long history of using food and fuel price subsidies as a primary instrument of social protection. Consumer price subsidies covered basic food staples (flour, sugar, and rice) and energy products (gasoline, diesel, and kerosene). After subsidies on food items were placed on hold in 2017, fuel remains as the major subsidized product group, absorbing vast resources. Subsidies and transfers increased from LD6.4 billion in 2017 to LD7.9 billion in 2019, making up over 16 percent of total expenditures. Although expenditures were reduced due to drops in prices and overall production in Libya, subsidies continue to occupy a significant share of total expenditures, including in the estimated 2021 budget (at LD17 billion), which remains unsustainable given current revenues. These subsidies are highly regressive, benefiting higher income households with a larger share of consumption of fuels and who have been better equipped to access other aspects of the consumer subsidies scheme (for example, pharmaceuticals and hospitalization abroad). In 2020, the Government of National Accord adopted plans to reform the existing fuel subsidy system; however, the plans were largely unsuccessful.

There is a need to increase the coverage of social assistance programs to the most vulnerable. Rapidly increasing the scale and adequacy of coverage to respond to Libyans' needs would contribute to mitigating the effects of the crises, support recovery and build resilience and human capital for the future. It would also provide a ready-made compensatory mechanism in the run-up to possible reform of universal subsidy programs. This may include: (i) expanding existing cash transfer programs to include vulnerable populations; (ii) designing new comprehensive programs; and (iii) leveraging the humanitarian system to deliver social assistance in the short run.

Modernization of the Libyan social assistance is needed to help improve both the efficiency and effectiveness of the system. This ought to begin with institutional reforms that promote coordination and efficiency within and across agencies, and that are geared toward specific

[16] World Bank Staff Calculation, Libya Economic Monitor, Spring 2021.

delivery chain aspects, beginning with the establishment of a social registry and interoperable social information systems and digitization of the payment system.

A reduction in subsidies would lay the foundations for macroeconomic stability and create the fiscal space for more targeted interventions. In the mid-term, regressive subsidies should be replaced by targeted social assistance interventions benefitting the most vulnerable.

Pensions and Social Insurance

Libya's social insurance system covers the following programs:(i) old-age, disability, and survivors, (ii) sickness, and maternity; and (iii) work injury. The Social Security Fund was established in 1980 to manage these contributory programs, as well as others non-contributory benefits (family allowances program). The 1980 Social Security Law also requires employers to pay a severance unemployment benefit of 100% of an employee's earnings for up to six months[17] .

Social insurance coverage rate in Libya is among the highest in the region (above 70 percent of labor force) because a large majority of the labor force is still employed in the public sector or state-owned enterprises. Civil servants and private sector workers are in the same scheme, managed both by the Social Security Fund, although there are some differences in eligibility conditions. The self-employed also joined the general Social Security Fund scheme but pay higher contribution rates. In the last few years informality in Libya, as in many countries worldwide, has actually been increasing as individuals not only engage in daily labor but are also employed in formal companies informally, without employment contracts, job stability or access to social insurance[18] .

The main program of Social Security Fund provides benefits for old-age, disability, and survivors and it is designed as contributory earnings-related, pay as you go, and defined benefit. In Libya, the employers contribute 10.5% (11.25% if foreign employer), and the insured 3.75% of gross monthly covered earnings. Self-employed contribute 15.675% of gross monthly covered declared earnings. The Government in Libya in addition to contributing as employer, also contributes 0.75% for insured persons and 0.825% for self-employed. All contributions also finance sickness, and maternity and work-injury. Pay-as-you go, in its strictest sense, is a method of financing whereby current pensions are paid out of current revenues from contributions. In Libya 2.5% (3.5% for certain judiciary officers) of the insured's average monthly earnings in the last three years (last monthly earnings for police personnel and certain judiciary officers) is paid for each of the first 20 years of contributions plus 2% for each year of contributions exceeding 20 years.

By design, the pension system in Libya is generous, yet inequitable. Benefit promises are not in line with contribution rates and retirement ages. To make the system more financially sustainable and fair, the non-linear accrual rates ought to be lower, and the base wage for pension calculation need to correspond to the entire contribution years average wage, instead of only the average of the last three years. In addition

[17] Social Security Programs Throughout the World: Africa, 2019, USA Social Security Administration.

[18] A mapping of Libya's social protection sector, Maya Hammad and Nourjelha Mohamed,International Policy Centre for Inclusive Growth (IPC-IG), August 2022.

to the design issues, the rapid increase of population dependency ratio and particularly the increase of the system dependency ratio would make the system further unsustainable. The current system design also has several features that damage certain individual incentives, and arbitrarily (unfairly) redistribute income between members. For instance, basing pension entitlements on the average wage of the last three years only, rather than the average wage over the lifetime, is unfair and open to abuse.

The development of adequate data to understand the current pension system and other social insurance programs would be highly recommended. Useful tools could be utilized, such as microsimulation of pension entitlements or income distribution analysis to support equity in delivery, as well as carrying out relevant projections of sustainability, adequacy and equity of pension benefits.

The focus on improving the sustainability, equity and adequacy of income security for old-age, disability, and survivors, would also be highly relevant to ensure fiscal space. There is a need to examine parameters such as non-linear accrual rates, contribution rates, and retirement ages. There is also a need to look into the programs other than old-age pensions, particularly survivorship pensions, which are more generous in Libya than in the rest of the world. On the other hand, there is a need to consider extending some benefits – for example disability and sickness insurance – that may be neglected.

Given the complexity of the pension reform it would need a holistic approach. In addition to implementing parametric reforms to balance the key parameters (accrual rate, pensionable age, and contribution rate) and qualifying conditions, to achieve financial sustainability, the measures could be packaged with new policies on lifelong learning to support longer working lives, and stronger focus on long term care and active aging policies and programs. Also, the adequacy and accessibility of short-term benefits (unemployment, work injury, etc.) could be revised, and improved making the appropriate linkages of emergency responses to multiple risks and long-term benefits (pensions). As part of the holistic approaches, increased focus on different modalities of work (self-employment, flexible work, gig economy) and provide innovative financing mechanisms would also be important, as well as adapting the previously mentioned multi-pillar pension designs in order to improve or maintain the adequacy of benefits and achieve sustainability.

Labor Market and Jobs

The labor market in Libya shares the characteristics of oil-rich countries in terms of dominance of public employment, and those of fragile contexts that face the challenge of unemployment, high informality, and an underdeveloped private sector that is unable to absorb a fast-growing young population. Despite the lack of accurate labor market data[19], it is estimated that around two-thirds of the Libyan population (4.2 million out of 6.7 million) are of working age, i.e., between 15 and 64 years old. However, Libya's demographic pyramid shows a prominent youth bulge and recent data extrapolations show that 27 percent of Libya's

[17] Social Security Programs Throughout the World: Africa, 2019, USA Social Security Administration.

[18] A mapping of Libya's social protection sector, Maya Hammad and Nourjelha Mohamed,International Policy Centre for Inclusive Growth (IPC-IG), August 2022.

[19] Labor market statistics have not been officially updated since 2011. A Labor Force Survey is ongoing, by the Bureau of Statistics and Census

population is aged between 16 and 30[20].

While the NESDB is the main entity in charge of social protection and labor policy making, there are four governmental agencies that provide employment services in Libya. The Ministry of Labor and Rehabilitation is the main agency overseeing Libya's labor market and providing public sector employment services. Under the Ministry of Labor, the Warrior Affairs Commissionis in charge of combatants' rehabilitation and the re-insertion of demilitarized fighters into the Libyan economy. The Ministry of Economy manages the National Program for Small and Medium Enterprises. The National Planning Boardis a public body that provides support to the General National Congress, through a working group known as the Labor Market Committee that was established to discuss and develop a general labor strategy within the overall framework of national reconstruction with members recruited to represent the labor, education and economy sectors.

Like many oil-rich countries around the world, Libya has a very prominent public sector. In 2015, 85 percent of the active labor force was employed by the public sector (97 percent of the female labor force compared to 79 percent of employed males)[21]. The labor market is therefore distorted, with the public sector as employer of choice, and a structure of civil service benefits that reduce incentives to seek employment in the private sector. The wages and generous non-wage benefits offered by the public sector have resulted in inflated income expectations that have exacerbated the unemployment problem. Queuing for public sector jobs continues despite diminished job opportunities, clearly demonstrating that wages and working conditions in the civil service remain attractive.

The private sector is currently very small and undiversified. It consists of a small number of formal private and foreign companies, and a larger number of mostly informal small and micro enterprises. The most important obstacles to private sector development are insufficient government bureaucracy, policy instability and corruption. The inability to create enough employment within the formal labor market has given rise to a significant expansion of informal sector jobs in Libya.

The issue of unemployment is the key challenge facing the Libyan state. Unemployment rate is high, officially 19.6 percent in 2021, and 26.8 percent for women. It is estimated that the rate is above 30 percent for youth. The issue of unemployment in Libya is structural and has been exacerbated by the conflict. The leading reasons for unemployment in Libya are estimated to be a lack of private sector jobs for both unskilled and skilled Libyans on the supply side; and job seekers who are unequipped with needed education and skills on the demand side.

Employers in the private sector face difficulties in finding skilled and motivated Libyan graduates as the Libyan education system does not provide the competencies required to drive the economy forward, despite the high literacy levels and enrolment rates. Libyan businessmen often mention the mismatch between the competencies required on the job market and the skills brought to the table by

[20] Labor Market and Employment Policy in Libya. European Training Foundation. EU. 2014.

[21] Labor Market Dynamics in Libya: Reintegration for Recovery. World Bank. 2015

Libyan workers, and complain of the negative work attitudes, low responsibility, and excessive white-collar orientation of Libyan employees. Current TVET provision occurs in relative isolation from the labor market.

Only 15 to 30 percent of Libya's labor force is relatively skilled and could be hired readily if given access to basic job training and job search assistance[22]. Jobs that are highly skilled usually are filled by non-nationals. Firms recruit Libyan staff to meet labor regulation quotas while hiring foreign workers at various skill levels to fill actual business needs. On the other hand, women in particular have more difficulties in accessing the labor market than men as they face limited employment opportunities due to social conditions that place higher burdens on women given family obligations, lack of daycare services, poor transportation and inadequate support from husbands and family. Those employed are mostly in the public service sector (education, health, and social work), and earn nearly three times less than men.

Libya is one of the main hubs for irregular migrants in Africa, especially those on their way to Europe. Libyan laws restrict the employment of foreigners by setting numerical limits. They also state that companies only have the right to recruit non-Libyan nationals for positions that cannot be filled by Libyan nationals. However companies are able to request permission to employ more foreign workers in any sector where they cannot find qualified Libyan workers.

There are a few labor programs implemented by several different institutions most in the form of training, livelihood programs and job matching. The coverage of these programs is unknown, as there is no entity responsible for overseeing the coordination or assessment of the different labor market programs being implemented. There is limited coordination between multiple entities involved in the implementation of livelihood programs and no proper impact evaluations have been carried out to assess the potential success of programs. In addition, public employment services face a number of severe problems, such as a lack of proper funding and insufficient staff, while having to operate in the very difficult environment of a demand-deficient labor market, high unemployment and significant informal employment.

To inform a sound labor market policy, it is crucial for Libya to have reliable labor market data and information. Currently Libya has no labor market information system in place. Even basic information sources such as the labor force surveys, establishment surveys and public registry of the unemployed are either missing or not analyzed fully.

Libya ought to build the fundamentals for sustainable, diversified growth by improving the business environment. If Libya is to react successfully to the challenges of globalization it needs to change the engines of growth toward a market economy driven by the private sector. Reforms facilitating investment in the business sector could combine with national SME development programs to greatly boost job creation.

Libya needs to enable a business environment that is favorable for the development and growth of the private sector. . A dynamic private sector cannot be

[22] Ibid

created without a comprehensive reform of current public administration system. One key policy would be to reduce the dichotomy between the public and private sectors, offering comparable benefits for both public and private sectors (e.g., job safety, working hours, and social protection).

There is a need to reform education system to adequately prepare the Libyan youths to meet the needs of the private sector. Such reform may include measures to improve the quality of the secondary education system, orient the youths towards fields of study that are in high demand in the private sector (trends to be generated through labor market information systems). It will also be important to improve the school-to-work transition in the medium term to facilitate labor market insertion among youth and women, especially given Libya's particularly high tertiary enrolment.

Along with education, there is a needs to target job-relevant skills development, which will help reduce barriers faced by firms in recruiting qualified nationals for both high- and low-skilled jobs. Targeted interventions would need to be designed for advanced skills development, vocational training, reconversion, and apprenticeship and entrepreneurship programs. The attractiveness of vocational education and training should be significantly increased in order to encourage more families and learners to opt for technical and vocational qualifications.

Conclusion

Libya's social protection sector is based on solid legal and institutional foundations but requires of additional policy reforms to enhance its efficiency and effectiveness. First, social assistance, pensions and labor market programs need to increase their coverage to integrate a larger share of the vulnerable, and specially women and the youth. Existing fragmentation of programs should be addressed, and regressive social protection programs should be replaced by better targeted social assistance interventions. Specifically for pensions, and in order to make them sustainable, a reform of the pensions system through a review of the adequacy and equity of pension benefits is necessary. Second, Libya needs to address the distortion between the public and private sector through a comprehensive reform of the current public administration system and the support to a market economy driven by the private sector. The strengthening of the private sector would have important impacts on the unemployment rate and therefore on the number of workers contributing to pension schemes. Finally, the Government of Libya should invest in the modernization of the social protection sector that would include the development of adequate delivery systems (social registry, targeting system, payment system, etc.) and the collection and use of updated data on poverty, pensions and labor markets that would allow a proper design and monitoring of the sector.

Despite the challenges, Libya has the opportunity and the significant strengths to rapidly strengthen its social protection system to respond to the population's needs. Libya's policy framework, institutional arrangements and programs provide a solid foundation to build a robust, reactive, and sustainable social protection system for the future. In turn, national oil wealth provides significant fiscal space to act. The Libyan population is urbanized, and financial inclusion is high. This is a time for the Government and its policymakers to take appropriate policy actions.

The World Bank is supporting the Government of Libya, to develop a new social protection policy. The new policy would be informed by evidence, and that promotes the shift from a rentier economy to a productive one, while protecting and promoting its human capital. For that purpose, a roadmap to policy making will require a more in-depth understanding of the sector, which is hoped to be achieved if up-to-date data and information is made available, including from the ongoing national surveys, and consultations with decision makers and social protection stakeholders in Libya[23].

[23] For the SSN and Labor Market pillar, the ongoing household expenditure and the labor force surveys led by the Bureau of Statistics and Census, and poverty related work (maps) will be highly informative and important. For the social insurance pillar, in order to properly assess and produce an in-depth analysis of the financial, fiscal, economic, social, and welfare implications of the programs, administrative data would be required. In addition to the current pension law/s and practices, parameters and qualifying conditions for both private and public sectors, individual records or a representative sample of contributors and beneficiaries (with some specific characteristics on age, gender, wage, length of service, age of retirement, type of benefit, pension amount, etc.) would also be particularly needed.

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