



INTERNATIONAL DEVELOPMENT IN FOCUS

The Private Sector amid Conflict

The Case of Libya

Aminur Rahman and Michele Di Maio

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Executive Summary

THE CONFLICT AND THE ECONOMY

The conflict in Libya has profoundly affected its private sector. Between May and December 2018, the World Bank carried out a survey of 400 firms (the Libya Enterprise Survey) and conducted 65 interviews across Libya to measure these effects. Of the 400 firms surveyed, 97 percent experienced direct adverse impacts from the conflict, an increase from 77 percent of firms reporting adverse impacts in a similar World Bank survey conducted in 2014.

The conflict has distorted Libya's preconflict business environment. The majority of firms report macroeconomic uncertainty, political instability, limitations on letters of credit (LCs), low domestic demand, corruption,¹ regulatory policy uncertainty, intermediate input prices, access to finance, electricity availability, and crime, theft, and disorder as top constraints amid the conflict, noting that they have worsened since 2013. At the same time, some of the preconflict-era top constraints, such as access to land and tax rates, have become less relevant during the conflict.

Libya's macroeconomic crisis has shattered its traditionally import-reliant economy. Historically, an overvalued exchange rate, fueled by oil revenues, made Libya heavily import dependent at the expense of export competitiveness.² The conflict has disrupted the economy and cut oil output, weakening the Libyan dinar. Until the last quarter of 2018, this situation fueled inflation by increasing the prices of imported production and consumption goods.³ The fall in oil revenues between 2013 and 2017, in the absence of fiscal adjustment, also forced Libya to use its net foreign currency reserves to finance deficits, causing its balance of payments to deteriorate.⁴ The weakening economy has also worsened the already fragile trust that economic actors had in the banking system, leaving them reluctant to deposit their money in banks and thus generating the liquidity crisis.

EFFECTS OF COVID-19

Although the findings of this book refer to the pre-COVID-19 (pre-coronavirus) era, the ongoing COVID-19 crisis would further intensify Libya's conflict-related crisis. COVID-19, in addition to creating a significant health risk for the Libyan people within an ongoing fragile, conflict-torn health system, brings significant economic risks to Libya. Oil disruption under ongoing conflict, combined with worldwide reduced demand for oil due to COVID-19-related economic disruptions and plunging international oil prices, will result in high budget and current account deficits in 2020, representing 32 percent and 11 percent of gross domestic product (GDP), respectively. Foreign reserves are also estimated to drop by US\$3.3 billion in 2020. According to the internal World Bank Libya update of March 15, 2020, under the current situation of disrupted oil production (with average production of 850 million and 155 million barrels per day, respectively, in January and February 2020), GDP is estimated to fall by 19 percent by the end of 2020 from 2019.

Disruptions caused by COVID-19 in global trade and supply chains would hurt both the private sector and households in Libya. The World Trade Organization (2020) predicts that the volume of world trade may fall by between 13 percent and 32 percent in 2020 as a result of the disruption to normal economic activity around the world. It is expected that all regions will see a decline in trade volumes in 2020. This disruption would hurt fragile households and firms in this heavily import-reliant economy in availability of food, health, and sanitary and medical supplies; consumer goods; production inputs; and raw materials. Firms would be affected by both supply-side (lack of access to foreign currency for imports caused by the decline in foreign currency reserves and lack of availability of supplies of imported raw materials, inputs, and finished goods caused by global supply chain disruptions) and demand-side (reduced consumer income and spending) shocks, along with uncertainty about the near-term future. According to the World Food Program, Libya's food security situation in March 2020 was already under tremendous stress. The prices of cooking fuel and several basic commodities had substantially increased, and Libyan families were reducing their spending on health and education as a coping strategy. Moreover, limited issuance of LCs is reducing imports of many of these essential products.⁵ With respect to COVID-19 preparedness, this crisis is expected to be a serious problem at the household level.

CONFLICT-INDUCED CONSTRAINTS

In recent years, measures to stave off reserves exhaustion have been associated with a worsened liquidity crisis and have fueled a currency black market and elite capture.⁶ Restrictions imposed by the Central Bank of Libya (CBL) on LCs and access to domestic cash and foreign exchange at the official exchange rate fueled a currency black market. CBL measures also added to inflationary pressure (and contributed to a drop in domestic purchasing power) by making it harder and costlier for the private sector to import inputs and finished products. The gap between the official and black-market foreign exchange rates promoted capture of LCs and foreign currency at the official exchange rate by influential and connected firms. It also allowed militias to pursue a number of fraud schemes. LC manipulation is a serious issue: US\$1.6 billion of LCs were granted

to 2,159 companies in 2017, but more than 20 percent appear to be fraudulent, according to the 2017 Libya Audit Bureau Report. More than 80 percent of firms in the Libya Enterprise Survey report being heavily affected by LC and foreign currency restrictions. The impact of the government's recent measures—introducing a 183 percent fee on foreign currency in September 2018, which the CBL proposed (on March 5, 2020) to increase to 200 percent, and abolishing the import budget in January 2019—remains to be seen.

In addition to the liquidity crisis linked to macroeconomic policy uncertainty, the conflict has undermined the rule of law, reduced accountability, and affected service delivery, including to the private sector. Payment of bribes is reported as common, notably to obtain loans (before the blockade on conventional loans), to obtain LCs, or to ensure safe transportation of inputs or goods, a constraint 62 percent of companies consider to have worsened since 2013. Anecdotal evidence suggests that public contracts are likely to be executed by politically connected firms, and in the east by the Military Authority for Investment and Public Works.² The proliferation of smuggling, primarily of subsidized products (such as fuel) and products imported at the official exchange rate (for example, wheat flour), is another major concern. Evidence suggests that up to 40 percent of fuel in Libya is stolen or smuggled, a loss of about US\$750 million a year (*Libya Herald* 2018). Fuel smuggling has several negative effects, primarily large losses for the Libyan government, increases in the exchange rate with the dollar, and fuel shortages in the local market, leading to higher production and distribution costs for firms and higher black-market prices. Efforts implemented in recent years to fight the phenomenon (most notably an increase in the Libyan Coast Guard's control operations) have had little impact.

EFFECTS ON PRIVATE SECTOR

The conflict-affected business environment has impaired the private sector in a number of ways. Material damage and site closures are direct effects of the conflict. The eastern region has felt these impacts most intensely, enduring the highest rates of conflict events and fatalities in the period 2013–18. Beyond material damage, firms have experienced reduced revenues, higher input costs, supply disruptions, and lost days of production and operation. Other problems include difficulties in purchasing intermediate inputs, increased obstacles to accessing finance, decreased worker availability, and greater import activity risks. Although these issues have affected all private firms, intensity varies significantly by firm size, sector, and location. In general, larger companies; companies operating in manufacturing, construction, and trading; and companies in the south seem to have been most affected.

The private sector has experienced job loss amid conflict. Firms in the Libya Enterprise Survey reported an overall 10 percent net loss (total gain minus total loss) in jobs between 2013 and 2017. Job loss was most prominent for micro firms (29 percent loss), followed by small firms (15 percent loss), large firms (12 percent loss), and medium firms (2 percent loss). These outcomes are consistent with findings from other conflict contexts, suggesting that whereas large firms facing conflict may suffer loss and shrink, smaller firms may go out of business. The Libya Enterprise Survey shows job loss in Libya most prominently for the construction sector (28 percent reduction), followed by the trading sector (16 percent reduction).

However, the conflict has not caused all firms to lose revenue and jobs. On average, the conflict led to a decline in revenues for 51 percent of firms, based on their reported annual revenues in the Libya Enterprise Survey. This average number conceals substantial heterogeneity among the affected firms. Although a majority of companies (53 percent) mentioned revenue declines, 41 percent reported revenue increases. Although 47 percent of companies reported that reduced demand due to the crisis is a major obstacle, 21 percent mentioned an increase in market demand. Finally, although employment has decreased for 30 percent of firms over the conflict years, for the majority it has remained stable, and for a few it has even increased.

Competition, innovation, informal activities, and access to LCs and public contracts are some potential explanations for the heterogeneity of firm performance during conflict.⁸ The conflict has affected market competition. On the one hand, the market position of some firms has improved because local competitors have exited and foreign companies have left the country because of the conflict, creating space for the surviving firms. On the other hand, anecdotal evidence suggests the number of small-scale businesses has increased since 2014, with more youth and women turning to entrepreneurship in the absence of public sector jobs. To survive amid conflict, many firms also needed to innovate and develop new products or services, or to change business processes. Youth especially have responded with innovative ideas, seizing business opportunities to address market failures induced by the conflict. Finally, informal activities, illicit activities such as smuggling, LC and foreign exchange manipulation, and capture of public contracts are other potential channels through which some firms might have outperformed others.

BUILDING ON OPTIMISM

Overall, the private sector shows strong optimism regarding the postconflict era, with 78 percent of companies queried in the Libya Enterprise Survey believing that the end of the crisis will trigger significant growth. In fact, firms in sectors such as construction and manufacturing and in locations that have seen the most negative impacts from the conflict, such as the southern region, tend to have the greatest optimism. This outlook relates to the significant growth and job creation potential in some key postconflict growth sectors. This study team's interviews suggest construction, private health services, and fast-moving consumer goods (FMCGs) will be key postconflict growth sectors.² Others could include information technology and e-services, manufacturing, and high-value agricultural products, especially in the south.

The book offers some possible measures for consideration by the Libyan authorities. Libya's private sector desperately needs help to overcome the major challenges it faces due to the conflict: there is no time to "wait and see" what develops. A precondition is joint action by partners to curtail the international financial flows linked to distortionary and illicit activities and the accumulation of war economy rents. Some suggested actions for consideration include measures to tackle LC fraud, capture of public contracts, and smuggling (particularly of fuel and essential subsidized items). In this connection, the book offers several measures for consideration.

- First, consider initiating a public-private dialogue (PPD) mechanism to prevent elite capture, particularly as related to LCs and public procurement. Learning from PPD experiences in other fragility, conflict, and violence contexts, such as in Bosnia and Herzegovina, Sierra Leone, and the Republic of Yemen, could help Libya establish an effective and results-oriented PPD platform (see appendix A). COVID-19 disruptions have promoted virtual interactions and online consultation mechanisms across countries. These online tools and platforms could be explored for the functioning of PPD in Libya under ongoing conflict and COVID-19 disruptions. Amid weakened government capacity that in turn has fueled capture, the PPD, at both the central and local levels, potentially supported by international development partners, could facilitate the following:
 - *Public expenditure tracking.* The PPD, using virtual consultation mechanisms, phone surveys, and administrative data under current circumstances, could track the flow and use of public funds from the center to localities, including oil to pumps, and publicize the results in print and social media to raise public awareness about fraud. Tools such as public expenditure tracking surveys and citizen scorecards could be used in this context.
 - *Prevention of LC fraud.* The PPD could consider sensitizing and influencing the CBL and the banks to periodically (such as monthly or quarterly) publish the list of businesses that are awarded LCs, the value and purpose of the LCs, and actual imports undertaken against those LCs (based on customs data). The PPD could publicize the findings based on LC award data to (1) prevent only a select few businesses from repeatedly obtaining LCs, (2) make the LC selection or granting processes transparent, and (3) ensure that LCs are properly used for their intended purposes and not sold on the black market.
 - *Prevention of capture of public contracts.* The PPD could sensitize and influence concerned public entities to periodically publish (1) all public procurement opportunities; (2) a list of businesses that have won the contracts, along with the corresponding contract values; and (3) implementation progress of those contracts. The PPD could analyze and publicize the findings from contract awarding data to (1) facilitate a transparent contract awarding system, including possibly developing an e-procurement or similar system that is feasible in the country's current context; (2) motivate the public procurement system to be more inclusive of broader private sector participation; and (3) ensure that the LC granting mechanism accords with awarded procurement contracts so that projects progress in a timely fashion.
 - *Periodic pulse checking and formulation of priority actions for central and local governments.* Although the PPD could immediately focus on some of the major issues, such as access to LCs and public contracts, it could also regularly check the pulse of the business community (through a pulse survey, for example) to identify emerging critical issues. This mechanism can also serve the PPD's important function of systematically gathering representative views from different private sector players and prevent vested interests from capturing the PPD's agenda-setting function.

Forming a PPD mechanism in a fragile context is not without challenges. Some of these key challenges include difficulty in accessing data, frequent changes in counterparts and champions, and the capture of government functions by a small number of private sector elites. Thus, some key mitigation measures to consider are in-depth analytical work in political economy, broad-based stakeholder mapping, improved data collection (periodic pulse checking, along with public expenditure tracking and citizen scorecards could be useful), and a thorough communication strategy for the PPD. To protect it from elite capture in Libya, representation in the PPD needs to be as broad as possible, including from the Ministry of Economy and Planning, the National Audit Bureau, the CBL, the major banks providing LCs, the major procuring ministries or public entities, key state institutions such as the National Oil Corporation, local governments, local business councils, and private sector participants as representative as possible of the general business community (as in size, sector, and location in the Libya Enterprise Survey).

- Second, promote cross-border partnerships to prevent smuggling, particularly of key commodities and inputs. Libya could consider mobilizing support from the international community and development partners to conduct more effective dialogues with Libya's neighboring countries and trading partners to strengthen measures against smuggling. These measures could include more effective international sanctions against known or identified smugglers, freezing their assets overseas and channeling those assets back to the postconflict stable government for state development, and more effective collaboration between the Libyan Coast Guard and the relevant border protection authorities of Libya's neighbors and trading partners to intercept smuggling activities.
- Third, the private sector's resiliency and strong optimism regarding postconflict growth should be fostered through priority postconflict actions. These efforts could include the following:
 - *To attract private investment in postconflict reconstruction, consider completing the unfinished business regulatory reforms.*¹⁰ Reforms need to provide a predictable and transparent regulatory environment conducive to foreign direct investment (FDI) and public-private partnerships (PPPs); easier entry, exit, and business operation; trade; and a transparent and efficient public procurement system free of elite capture. Building on successful PPP examples in fragility, conflict, and violence contexts, such as in Afghanistan and Liberia (see appendix B), this agenda is critical to drive private investment in Libya's costly postconflict reconstruction and in FMCGs, health, education, and other sectors, and to promote export competitiveness.
 - *Consider promoting a level playing field for the private sector.* Policy actions to consider include enhancing corporate governance of state-owned enterprises, transparent tax and incentive regimes that treat all economic actors fairly, and competition law and regulations that set up a competent competition authority that can effectively tackle monopolies, cartels, and other anticompetitive behaviors.
 - *Consider measures, using a carrot-and-stick approach, to channel the rents generated during the conflict into productive uses instead of losing them to capital flight.* Although accurate estimates are unavailable, the discussion on elite capture suggests that rents generated through illicit economic

activities, such as smuggling of subsidized fuel, LC fraud, and accessing foreign currency at the official exchange rate and selling it on the black market, are worth billions of dollars each year (DRI 2019). Channeling these rents for postconflict development will require a combination of sticks and carrots. In cases in which the offenders are known, more effective international sanctions on them, freezing their assets overseas, and channeling their overseas assets back to Libya could be accomplished. However, in many instances the networks of capture appear to be deeply embedded in Libya's tribe-based communities (and have been strengthened by weakened state capacity within a time of prolonged conflict).

- *Consider promoting an entrepreneurship ecosystem focused on youth and women.* The priority actions to consider include stock-taking, harmonizing, and coordinating various public sector and donor activities and programs begun before and during the conflict; identifying the gaps; and designing and implementing a sustainable strategy (with specific roles for the public sector, the private sector, and development partners).

Libya needs to embark on a private sector development strategy focused on promoting an entrepreneurship ecosystem that supports youth and women, small and medium enterprise development, and export competitiveness (given Libya's small domestic market). The exact composition of this strategy should, ideally, be developed in the postconflict era.

NOTES

1. Corruption is broadly defined as the use of public office, power, or influence for private gain.
2. During 2013–18, imports of goods and services represented on average 61 percent of gross domestic product (GDP), with peaks of more than 70 percent, as in 2014 and 2015.
3. Libya's headline inflation came in negative in the fourth quarter of 2018, the first negative inflation in 12 years (*218news* 2019). In 2019 there was deflationary pressure, aided by reduced domestic demand, which was also an effect of conflict, as discussed in this book. However, under the current situation, prices of food and other essential items have risen again amid ongoing conflict and reduced oil production.
4. Before the ongoing episode of conflict and the blockade of oil production that began earlier in 2020, between 2018 and 2019 foreign currency reserves were increased (compared with the period 2013–17), associated with increased oil production and reduced domestic demand.
5. After several months in early 2020 during which the Central Bank of Libya failed to confirm or issue LCs (access to foreign exchange to buy goods), by early May 2020 approximately US\$400 million in LCs had been issued in an attempt to facilitate imports for Ramadan. During the last week of April 2020, approximately US\$300 million in LCs were issued. The LC facility is limited to food and medicine purchases.
6. For the purposes of this book, elite capture refers to the capture of state resources (primarily oil resources), public expenditure, and institutions; favorable access to foreign currency and LCs; and capture of public contracts by individuals or groups. See box 3.3. Human trafficking is another case of elite capture and rent extraction in which several prominent members of the Libyan Coast Guard and officials at the detention centers appear to be involved (DRI 2019), but this topic is beyond the scope of this book.
7. In October 2017, Khalifa Haftar, head of the Libyan National Army in the east, issued a decree that broadened the mandate of the Military Authority for Investment and Public Works, essentially giving the Libyan National Army a “legal mandate” to manage any service and manufacturing project in the areas under its control.
8. Although the definition of informality varies, typically the informal economy consists of informal enterprises and informal employment. Firms not registered with the registration

office, municipality, or tax authority where businesses are required to register are referred to as informal firms, and workers without any contract and not registered with relevant authorities (such as Social Security and the Ministry of Labor) are viewed as informal workers. A related concept to informality is that of the shadow economy, which includes all market-based legal production of goods and services that is deliberately concealed from public authorities to avoid taxes and other legal obligations. Formally registered firms can also provide informal jobs or involve themselves in shadow economic activities.

9. FMCGs are retail consumer products covering a broad range of items, such as foodstuffs, beverages, prepackaged goods, or basic household needs. Few FMCGs are produced in Libya, which has historically imported most of the goods it consumes.
10. Over the past 15 years or so, Libya has introduced a series of policies and measures, but all remain only partially completed or have been halted because of the prolonged conflict. These include offshore free zones to attract foreign direct investment (FDI) to support the export and manufacturing sectors, efforts to join the World Trade Organization (initiated in 2004 and given a fresh push in 2010), signing of a Trade and Investment Framework Agreement reached with the United States in 2013, a cooperation agreement with Morocco to strengthen trade, and a draft law on PPPs. The foreign investment law in its current form also discourages FDI.

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Abbreviations

ACLED	Armed Conflict and Location Event Data
CBL	Central Bank of Libya
CFR	Council on Foreign Relations
DRI	Democracy Reporting International
EC	European Commission
EIU	Economist Intelligence Unit
ETF	European Training Foundation
FAO	Food and Agriculture Organization
FCS	fragile and conflict-affected state
FDI	foreign direct investment
FMCG	fast-moving consumer good
GCR	<i>Global Competitiveness Report</i>
GDP	gross domestic product
GNA	Government of National Accord
ICS	International Crisis Group
ICT	information and communication technology
IFC	International Finance Corporation
KOC	Kandahar Operations Center (Afghanistan)
LC	letter of credit
LD	Libyan dinar
LEAD	Local Employment in Africa for Development
LEC	Liberia Electricity Corporation
LPRD	Libyan Program for Reintegration and Development
MENA	Middle East and North Africa
OECD	Organisation for Economic Co-operation and Development
PPD	public-private dialogue
PPP	public-private partnership
PSD	Private Stability Fund
PSES	Private Sector Engagement for Stabilization
PSF	Price Stability Fund

SLEIDSE	Support to Libya for Economic Integration, Diversification and Sustainable Employment
SMEs	small and medium enterprises
SOE	state-owned enterprise
UNCTAD	United Nations Conference on Trade and Development
WBG	World Bank Group
WHO	World Health Organization

1 Introduction

CONFLICT EFFECTS ON PRIVATE SECTOR

In recent years, Libya has experienced conflict and instability. In the years from 2014 to 2018, the country has seen 12,000 fatalities, 193,600 internally displaced persons, and 57,600 registered refugees and asylum seekers (Armed Conflict Location and Event Data; CFR 2019). The most recent fight for Tripoli, sparked by an attack in April 2019, reached a stalemate after leaving more than 1,000 dead and 100,000 persons displaced (EIU 2019).

This book assesses the effects of the conflict on the private sector. This book appears to be the first to quantify the effects of the conflict with the most recent and comprehensive survey of Libya's private sector. During 2018, the World Bank conducted the Libya Enterprise Survey of 400 firms across 26 different sectors in all regions in Libya (map 1.1).¹ The findings show that the continued conflict has reduced firms' revenue, increased firms' difficulty in accessing inputs and raw materials, exacerbated investment risk, made access to foreign labor more difficult, and led access to finance to become a critical obstacle. Informal and illegal economic activities and rent-seeking have also increased.

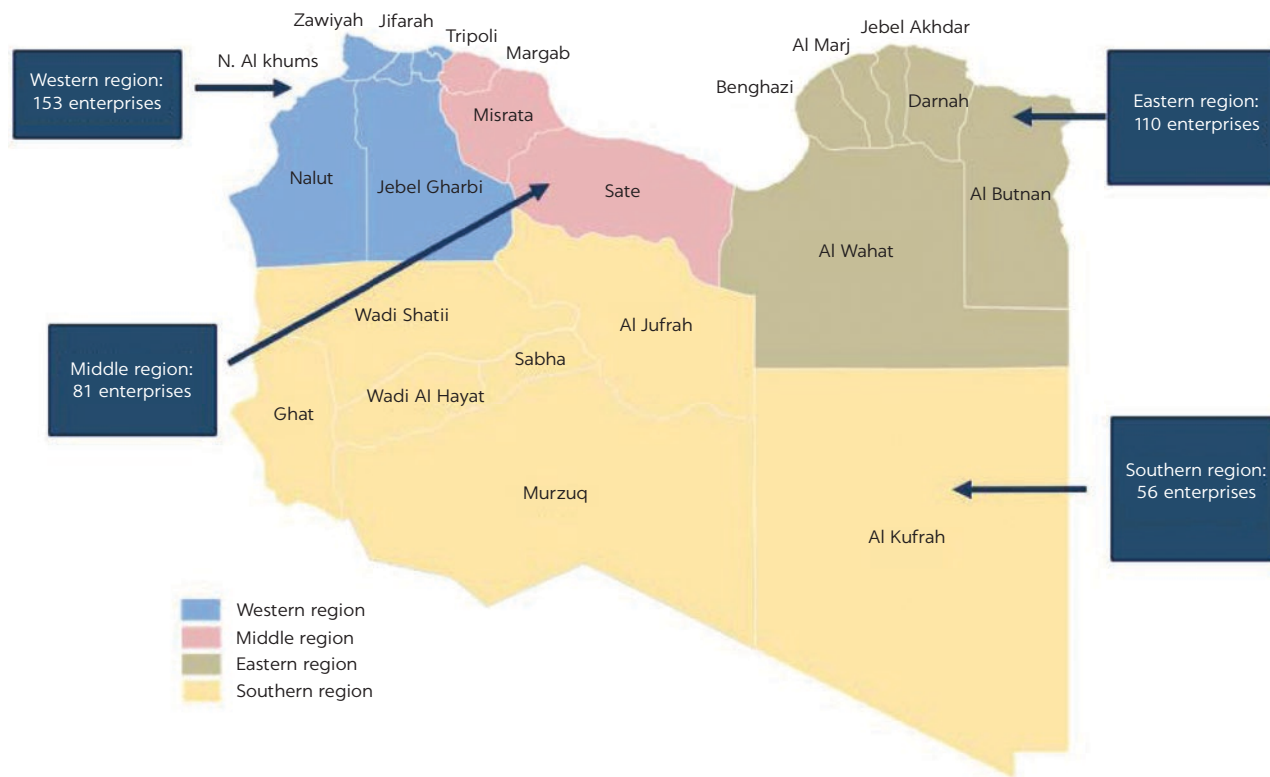
The conflict has weakened the nascent private sector of the preconflict era. That private sector operated in a centralized, state-led, and distorted environment fueled by a huge public oil sector and associated revenues. Oil-dependent growth has bloated the public sector, overvalued the exchange rate, and fostered import dependency at the expense of export competitiveness and private sector development.

The book also provides a snapshot of resilience and postconflict opportunities. The Libya Enterprise Survey is complemented by 65 interviews with government officials and private and financial sector representatives.² On the basis of these interviews, the book discusses private sector opportunities in some sectors with potential for postconflict growth: construction, health care, and fast-moving consumer goods.

The book is structured as follows. Chapter 2 describes the key features of the Libyan economy and the private sector. Chapter 3 highlights the key features of the business environment amid conflict. Chapter 4 documents the conflict's effects on firm performance. Chapter 5 discusses resilience and postconflict

MAP 1.1

Geographic coverage of 2018 Libya Enterprise Survey



Source: World Bank Libya Enterprise Survey.

growth opportunities. Finally, chapter 6 provides concluding remarks and possible actions for consideration during conflict and the postconflict period, drawing from relevant international experience.

NOTES

1. The sample included micro (fewer than 5 employees), small (between 5 and 19 employees), medium (between 20 and 99 employees), and large (100 or more employees) enterprises. Details on the survey methodology, including the sample frame, sample selection, and sample weights, are reported in appendix C.
2. These interviews differ from those conducted for the 2018 Libya Enterprise Survey, and are qualitative and exploratory (covering future perspectives, possible solutions for the current economic crisis in Libya, status of key infrastructure, and so on). Their objective was to identify examples of how the crisis affected businesses in various locations and sectors and to describe mitigation and adaptation strategies developed by individuals and private businesses to cope with challenging circumstances.

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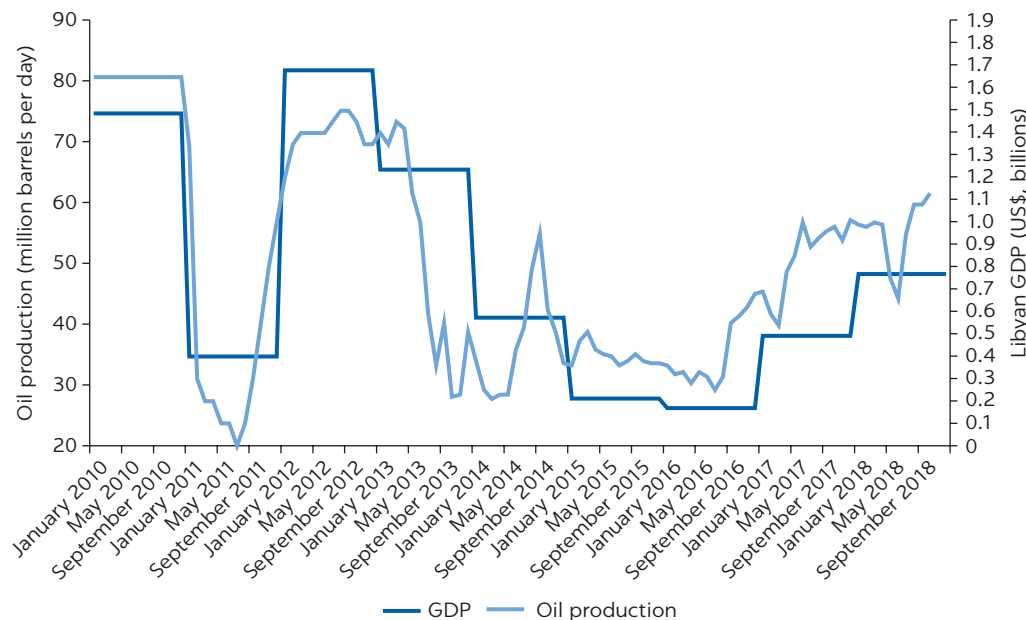
2 Libya's Economy and Private Sector

AN OIL-DEPENDENT ECONOMY

The Libyan economy is highly dependent on oil. The oil and gas sector represents approximately 80 percent of Libyan gross domestic product (GDP).¹ The oil sector accounts for 93 percent of government revenue and 96 percent of exports (CBL 2019). Table D.1 in appendix D shows the estimated sectoral composition of Libyan GDP.

The volatility of Libya's economy is closely linked to oil production, which is vulnerable to effects from the conflict. Repeated closures and shifts in the control of oil fields due to the conflict have damaged the country's ability to produce and export oil. Consequently, GDP declined drastically between 2012 and 2016. Despite some signs of a slow recovery since 2017, Libya's GDP of US\$48.3 billion in 2018 is still only 59 percent of its 2012 GDP. GDP is positively associated with oil production (figure 2.1) but negatively associated with conflict intensity.² According to the internal World Bank Libya update of March 15, 2020, oil production averaged 850 million and 155 million barrels per day in January and February 2020, respectively. Assuming the disruption lasts for only three months and oil production slowly resumes to reach 2019's average production level by the end of 2020, GDP would fall by 19 percent in 2020 from 2019. Oil disruption in Libya, combined with worldwide reduced demand for oil due to COVID-19- (coronavirus-) related economic disruptions and plunging international oil prices, will result in high budget and current account deficits in 2020, representing 32 percent and 11.3 percent of GDP, respectively. The World Bank's conservative estimate suggests that Libyan foreign reserves will drop by US\$3.3 billion in 2020. The loss in oil revenue reduces Libya's ability to invest in physical and human capital.³ Libya's 2020 budget (as approved on March 5, 2020) is 38.5 billion Libyan dinars (LD), down from LD 46.8 billion in 2019 and LD 42 billion in 2018.⁴

FIGURE 2.1
Libya GDP and oil production



Sources: World Bank economic indicators, <https://data.worldbank.org/indicator>; US Energy Information Administration, Short-Term Energy Outlook Data Browser, <https://www.eia.gov/outlooks/steo/data/browser>.
Note: GDP = gross domestic product; US\$ = US dollar.

DOMINANCE OF PUBLIC SECTOR

The Libyan economy has been dominated by a large public sector fueled by oil production and revenue since the preconflict era. Porter and Yergin (2006) describe Libya in the early 2000s as divided into a high-value, low-employment energy sector and a low-value, high-employment nonenergy sector, both led by the state. This economic system caused an overall drag in productivity in the absence of a private sector–led diversified economy. Oil and gas accounted for 60 percent of GDP but 3 percent of formal employment, while non-oil and gas sectors contributed 40 percent of GDP and 97 percent of formal employment. Consequently, in 2003, GDP per worker in oil and gas sectors was US\$345,000, while it was about US\$22,000 in every other major sector in the economy. Public services, including health and education, contributed only 9 percent of GDP but employed 51 percent of the formal labor force.⁵ In 2004, the annual average growth of labor productivity was –2 percent, with negative productivity growth in manufacturing, agriculture, and services since the mid-1990s.

The public sector is still the largest provider of jobs in Libya, whereas globally the private sector provides 9 out of 10 jobs. Almost 48 percent of Libyan GDP is the public wage bill (World Bank 2019). According to the World Bank (2015a), about 85 percent of Libya’s active labor force works in the public sector. This share reaches 93 percent for women.⁶ Public sector employees usually have better benefits than private sector employees. The majority of public sector workers are covered by some social insurance, whereas only 46 percent of private sector workers have such coverage. Public sector employees also benefit from better job security; private sector companies are more

likely to offer informal contracts or no contracts at all. Public wages have also been on the rise in recent years because of a bloated public sector (currently, more than 2 million employees for a population of 6.6 million) but also because of increasing real salaries. Wages and subsidies have more than tripled over the past decade, to reach LD 30.5 billion in 2019, of which LD 24.5 billion is the internationally recognized government (Government of National Accord, or GNA) payroll. However, to address the current financing gap in the budget caused by the blockade on oil production since the beginning of 2020, the GNA decided on April 13, 2020, to cut the salaries of civil servants on its payroll by 20 percent (internal World Bank Libya update, April 14, 2020).

CONSTRAINTS ON PRIVATE SECTOR BEFORE THE CONFLICT

In the preconflict era, the private sector was just emerging. A survey of Libyan small and medium enterprises (SMEs) by Porter and Yergin (2006) indicated that 70 percent of them were very small: they employed fewer than five people, had annual sales of less than LD 50,000, and 80 percent of them reported a profit margin of less than 10 percent. The majority of these businesses were either supplementary entrepreneurs (having a government job in the morning hours and pursuing a small business activity, such as a café, in the afternoon hours or on off days) or necessity entrepreneurs (who could not find a public sector job). Of the entrepreneurs surveyed, 46 percent stated that they would prefer a public sector job.

In the preconflict era, a number of factors restrained the emergence of a dynamic private sector that could compete and grow by improving productivity and creating wealth and jobs. These factors included dominance of state-owned enterprises (SOEs), lack of competition, policy unpredictability, bureaucratic red tape, poor governance, and lack of access to finance, skills, and quality infrastructure.

Preconflict Libya ranked near the bottom in various dimensions of competitiveness. Because Libya was not originally one of the 110 countries in the *Global Competitiveness Report* (GCR) of 2005–06 (World Economic Forum 2005), Porter and Yergin (2006) constructed GCR indexes for Libya and compared them with the 110 countries covered in the GCR. Libya's overall ranking on the business competitiveness index was 110 out of 111 countries. Its competitiveness suffered from the lack of a skilled workforce (110 of 111 in educational quality), poor-quality infrastructure and telecom networks run by the state (Libya ranked as one of the lowest across all dimensions of infrastructure quality), barriers to entry for foreign and domestic firms, an underdeveloped financial sector (111 out of 111),² a small domestic market, lack of business innovation and sophistication, lack of an industrial base, and widespread corruption and favoritism.

The dominance of the state and the lack of competition badly hindered the development of the private sector in the preconflict era. Decades of state dominance in production and distribution and the lack of competition eroded incentives for innovation and business sophistication. The isolation from the international community, lack of foreign direct investment (FDI) in the non-oil sector, and import dependency also impeded Libyan firms' ability to be international suppliers. The government controlled, directly or indirectly, the majority

of assets and enterprises through a substantial portfolio of industries, financial institutions, and real estate. It controlled more than 360 SOEs, five (out of six) commercial banks, three specialized banks, one insurance company, two specialized investment vehicles, and a large real estate portfolio. The inefficiency of this state-led portfolio was manifested in a lack of specialized knowledge and a lack of incentives for SOE managers to improve efficiency, resulting in loss-making SOEs that did not meet public welfare goals.

The productivity of the private sector in the preconflict era was constrained by lack of innovation and business sophistication. As documented in Porter and Yergin (2006), firms' capability for innovation and business sophistication was hampered by a lack of competition and poor information and communication technology (ICT) infrastructure (111 out of 111 countries). During 2005–06, Libya ranked 110 in local competition and 95 in effectiveness of antitrust policy, which is a prerequisite for competition to thrive. The ICT infrastructure was badly affected by a lack of competition and expertise. Lack of clarity in the legal framework prevented entry of private firms (domestic or foreign) into the ICT sector, while the lack of separation between policy-making, regulating, and operating roles created enormous vested interests for the state actors in this sector.

FDI inflow was impeded by a poor business environment and an anti-FDI approach. FDI approvals were subject to long delays, and work permits and visas for foreign company personnel were restricted and delayed. The decision to increase the minimum threshold for FDI to US\$50 million effectively excluded many foreign investors who wished to invest smaller amounts.⁸ The uncertain business environment and policy instability weakened the confidence of investors in the Libyan economy and hindered investment by the Libyan diaspora. Apart from political stability, Libya in 2004 lagged behind the Middle East and North Africa region average by a substantial margin on all Worldwide Governance Indicators, such as control of corruption, regulatory quality, government effectiveness, rule of law, and voice and accountability.

At the time of the 2011 conflict, Libya was still one of the least diversified oil-producing economies in the world (World Bank 2011). As discussed in chapter 3, even though the government started some sporadic reforms to liberalize the economy and promote the private sector in the early 2000s, those regulatory changes were halted by the conflict.

CURRENT ISSUES WITH PRIVATE SECTOR

Consequently, the composition of the private sector has changed little since the preconflict era. Many sectors of the Libyan economy even today include a mix of publicly financed and private companies (see table D.2 in appendix D). In 2018, the Libyan private sector was estimated to have generated LD 11.8 billion (US\$8.3 billion),² which corresponds to 17.3 percent of Libya's GDP. The dynamics of the private sector in the preconflict era, as depicted in Porter and Yergin (2006) and World Bank (2015b), are similar to what is seen in the Libya Enterprise Survey.¹⁰ In the survey, the majority of Libyan companies (84 percent) are micro or small, with fewer than 20 employees. About one-third of companies employ fewer than 5 people, whereas only 3 percent have more than 100 employees. Micro and small firms tend to be more prevalent in trading and services than in construction and manufacturing sectors. About 43 percent of the companies in the trading sector are micro, while the corresponding shares for the

manufacturing and construction sectors are 27 percent and 28 percent, respectively. However, trading companies (aided by Libya's import dependency) tend to have the highest annual revenue (on average, LD 1 million), whereas service sector firms have the lowest (LD 275,000).

The level of informality remains high amid conflict. In the preconflict era, the informal economy was estimated to be about 40 percent to 50 percent of official GDP; the cumbersome business environment was viewed as a key underlying reason (Porter and Yergin 2006). According to the Libya Enterprise Survey,¹¹ 14 percent of companies declared themselves not registered with any institution, and 59 percent stated they were registered at the local Chamber of Commerce, where registration is compulsory by law.¹² Only two in five declared they were registered with the government or the municipality. Informal activities amid conflict could be driven by several factors. First, the conflict may damage trust in state institutions. Second, the conflict may erode the benefits of formalization, such as access to credit (see chapter 3 on the conflict's effects on the liquidity crisis) and access to markets. Third, the overall business environment in Libya also appears to increase the cost of formalization amid reduced formalization benefits. Libya ranks 186 out of 190 countries in *Doing Business 2020* (World Bank 2020).

Libya's workforce is relatively young, and youth unemployment is a major challenge. On average, 58 percent of employees per company are younger than 34, according to the Libya Enterprise Survey. The youth (between 15 and 24 years old) unemployment rate was 45.9 percent in 2017. A nascent private sector, the mismatch between education and the skills needed in the job market, and long queues for public sector jobs all contribute to a high level of youth unemployment (World Bank 2015a). Youth employment is also vulnerable to conflict, because young people are more likely to be in temporary or part-time jobs that are more likely to be affected by instability. Unemployed youth are also prone to militia recruitment.

Female employment is low but broadly aligned with that in other countries in the Middle East and North Africa region.¹³ The average share of female workers per company is 11 percent, according to the Libya Enterprise Survey. The proportion of women active in the workforce is 26 percent of the working-age population,¹⁴ whereas the average for Middle East and North African countries is 21 percent. Despite relatively high levels of education, women in Libya are usually employed in lower-level public sector jobs, mainly in health and education services. Disruptions of these services caused by the conflict have negatively affected female employment. Women also are paid 12 percent less than men (World Bank 2015a).

The presence of youths and females in the entrepreneurship space is also low. The Libya Enterprise Survey shows that 6 percent of company owners are female, and only 8 percent of owners are under age 34. Expertise France (2016) documents that business owners are almost exclusively men (93 percent of business owners in their sample). Family ownership is one of the most common business ownership structures in Libya, and most Libyans taking over family businesses are male. Youth-owned businesses are most likely to be in services and trading sectors, where the initial capital needed is generally lower than in sectors such as construction and manufacturing; services and trading sectors are also more exposed to innovation and new technologies, possibly giving educated youth a comparative advantage over Libya's older generations.

While Libyans have been attracted to public sector jobs, Libyan firms have relied on a foreign workforce. The outmigration of the foreign workforce caused by the conflict has hindered Libyan firms. Before the 2011 uprising, nearly 50 percent of Libya's labor force was foreigners, reaching an estimated 1.2 million to 1.5 million workers. During the uprising, an estimated 1 million foreign laborers fled Libya (World Bank 2015a).¹⁵ According to the Libya Enterprise Survey, Libya's private sector continues to rely heavily on foreign workers: 17 percent of workers in any given company are not Libyan nationals. For high-skill jobs, the disconnect between the Libyan workforce's skills and market needs leads employers to recruit foreign workers (Expertise France 2016). Many foreigners are also hired for low-skilled and manual jobs (mostly in an informal manner) that Libyans are reluctant to take.¹⁶

Libya's oil dependency contributes to its import reliance. Traditionally, an overvalued exchange rate, fueled by oil revenues, has made Libya heavily import dependent at the expense of export competitiveness. During the period 2013–18, imports of goods and services represented, on average, 61 percent of GDP, with peaks of more than 70 percent, such as in 2014 and 2015.¹⁷ Imports include mainly “machines, semi-processed products, foodstuffs, transportation equipment, and consumption goods,” with “approximately half of Libya's food needs being supplied through imports” (OECD 2016, 62). According to the Libya Enterprise Survey, 46 percent of companies import. The majority of companies in the western and eastern regions import goods or services (respectively, 66 percent and 56 percent) compared with 10 percent of companies in the south. These geographical differences are related to the fact that import costs correlate negatively with geographical proximity to import markets and that firms located in the western and eastern regions are larger (and thus more likely to import).¹⁸ As discussed in chapter 3, the conflict has posed a serious threat to the import-dependent economy through a combination of factors: increased transportation costs, security threats, lack of access to letters of credit, and manipulation of foreign exchange rates.

Very few firms export. Most of Libya's industries are underdeveloped and cannot compete in global markets with high-quality products at competitive prices (OECD 2016). According to the Libya Enterprise Survey, other than oil, the country exports a very limited range of products, including cosmetics, wooden works, and honey. Fewer than 3 percent of Libyan companies exported goods or services in 2017. Those that did are mostly medium-sized companies concentrated in the western region.¹⁹ Increased production and distribution costs induced by the conflict (as discussed in chapter 3) further dampen Libyan firms' cost competitiveness in international markets.

Libya's private sector is thus predominantly oriented to the domestic market, which has important policy implications. The Libya Enterprise Survey shows that most businesses (88 percent) sell to the general public. One-third of businesses sell to other businesses as customers,²⁰ which in turn has an important bearing on the need to reduce information failure and search costs for suppliers finding buyers and vice versa. These costs, which are likely to increase during conflict, are generally higher for micro and small firms, which represent the major part of Libya's private sector. Digital technology, through online platforms and digital marketing media, could potentially reduce these costs, particularly when the conflict makes face-to-face interactions costlier and less secure. Online platforms and e-commerce are increasingly becoming important instruments for the facilitation of international trade as well.

Public procurement can also be a critical vehicle for private sector development in Libya. About 17 percent of businesses have the Libyan government as a client, according to the Libya Enterprise Survey. In the preconflict era, the state was also the dominant consumer of goods and services produced in the Libyan economy. However, nontransparency and corruption in public procurement, along with the delay in processing payments, hampered the potential of using public procurement as a vehicle to promote SMEs' access to domestic markets and growth (Porter and Yergin 2006). In postconflict reconstruction, the volume of public contracts would further increase. Thus, public procurement can be a significant source of domestic demand for the Libyan private sector, both now and in the postconflict period.

NOTES

1. Using the GDP figure of US\$38.1 billion, as estimated by the World Bank, the oil revenue of US\$17.4 billion in 2017 implies that hydrocarbons represent 45 percent of 2017 GDP. In 2012, the last year such statistics were released, the Libyan Central Statistics Bureau estimated oil and natural gas activity to be 51 percent of GDP.
2. The correlation coefficient between GDP and number of fatalities (a proxy for conflict intensity) is -0.83 , that between oil production and conflict is -0.65 , and that between GDP and oil production is 0.50 during 2013–18; all are statistically significant at the 1 percent level.
3. Oil production continues to be shut down in the east after allies of General Khalifa Haftar ordered the blockade of ports in the country's eastern region and oil fields in the south. The state-run National Oil Corporation said militias backing Khalifa Haftar had ordered the closure of ports and oil facilities under their military control in central, southern, and eastern Libya. The terminals' shutdown and a resulting halt of oil field operations has cut output by 700,000 to 800,000 barrels a day—more than half of the country's daily output of 1.3 million barrels, officials said. Members of the National Oil Corporation indicated that the blockade would cause about US\$55 million a day in lost revenue (according to the World Bank internal update from the Libya Technical Budget Meeting in Rome, January 23–26, 2020).
4. Based on internal World Bank Libya update, March 9, 2020.
5. The total formal labor force in 2003 was approximately 1,551,000 (Porter and Yergin 2006).
6. According to the labor force survey in World Bank (2015a), the total labor force is estimated to be 1,500,000, of which 1,285,000 are employed in the public sector. Total female employment is 583,783, of which 560,432 are employed in the public sector.
7. Libya ranked 105 on local equity market access. It ranked 98 on ease of access to loans. Some 65 percent of SMEs reported major difficulties in accessing loans from the government banks (Porter and Yergin 2006).
8. On the basis of a review of different sources, including World Investment Report 2019 (UNCTAD 2019), no data have been found on FDI to Libya for the period 2014–18. The only available information for the current crisis period is the estimated stock of FDI in Libya in 2018, which is nearly US\$18.5 billion compared with US\$16.3 billion in 2010. This indicates that some FDI inflows took place between 2011 and 2013, before the beginning of the prolonged conflict in 2014. This lack of data during 2014–18 prevents the book from discussing how conflict may have affected FDI and thus private sector development in Libya. Nonetheless, as this book depicts, anecdotal evidence suggests the exodus of foreign companies from Libya because of the conflict.
9. Exchange rate US\$1= LD 1.41 (<https://cbl.gov.ly/en/%D8%A3%D8%B3%D8%B9%D8%A7%D8%B1-%D8%A7%D9%84%D8%B9%D9%85%D9%84%D8%A7%D8%AA/>, retrieved on October 5, 2019). When compared with the GDP figures provided by the World Bank for 2018 (US\$48.3 billion; available at <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=LY>), the private sector is 17.3 percent of GDP. Estimations of Libyan GDP are very different across sources: the International Monetary Fund estimates Libyan 2018 GDP (current prices) at US\$43.5 billion (<https://www.imf.org/external/datamapper/NGDPD@WEO/LBY>, retrieved on October 5, 2019); the Organization of the Petroleum

Exporting Countries estimates Libyan GDP at current prices at US\$49.71 billion (https://www.opec.org/opec_web/en/about_us/166.htm, retrieved on October 5, 2019). As a comparison, World Bank (2015a) reports that in 2014 the private sector represented between 4 percent and 15 percent of the economy, with a value of between US\$2.2 billion and US\$8.1 billion in 2014 (using an exchange rate of US\$1 = LD 1.25).

10. Noting that official data on the composition of the private sector have not been collected since before the 2011 revolution, even these data should be treated with caution, particularly given the large and expanding role of informal activities. These activities touch all aspects of the private sector but are likely greatest in sectors related to trade and financial services, which as a result can be expected to make up a larger share of the private sector than is reported here. On the other hand, the construction sector has especially suffered from the decline in public spending and the reduced private investment due to uncertainty and insecurity, resulting in a smaller share.
11. It is difficult to estimate the share of informal activities in Libya's private sector as a whole: 30 percent to 40 percent of GDP is provided by the informal economy (African Development Bank 2011), and informal employment represents 40 percent to 60 percent of total employment (ETF 2014).
12. The number of registered companies within the Libyan Chamber of Commerce could be considered a useful indicator of the number of private companies operating in each region of Libya, given that registration is required by law. However, these numbers must be viewed with caution, considering that (1) an undefined proportion of registered businesses are actually not active, with anecdotal evidence showing that many use company documents only to obtain bank collateral; and (2) some businesses do not register with the Chamber of Commerce to avoid the registration fee, and no credible system is in place to ensure that companies fulfill the obligation to register.
13. According to the International Labour Organization's 2017 estimates, 26 percent of Libyan women age 15 or older are participating in the labor market, 11 percent more than in Algeria. In only three other non-Gulf Cooperation Council Arab countries are more than 20 percent of women participating in the labor force (Arab Republic of Egypt at 22 percent, Lebanon at 23 percent, and Morocco at 25 percent), while the average ratio in the overall region is 21 percent. Yet the ratio of female-to-male labor force participation in Libya is similar to that of most other non-Gulf Cooperation Council Arab countries, estimated at one to three. Most employed Libyan women (63 percent) work in the services sector, mainly in the state-led education and health sectors. This ratio is higher than in all other North African countries, and 11 percentage points higher than the Arab World's average.
14. World Bank economic indicators, "Labor force participation rate, total (% of total population ages 15+) (national estimate) - Libya," <https://data.worldbank.org/indicator>.
15. The negative impact of conflict on the availability of workers, especially foreign workers, has been documented in other settings as well. In the context of the Syrian conflict, Salmon, Assaf, and Francis (2018) argue that loss of skilled and unskilled workers and managers has been notably severe. In their sample, 75 percent of respondents reported that the size of their workforce had decreased since the start of the crisis, while 12 percent said that it had not changed and 12 percent reported an increase. Ksoll, Macchiavello, and Morjaria (2015) show that violence following the election in Kenya led to worker absenteeism, which hampered productivity. Worker absence, which across firms averaged 50 percent of the labor force at the peak of the violence, was the main channel through which the violence affected production.
16. According to the Libya Enterprise Survey, the average monthly wages for skilled and unskilled employees are LD 1,247 (US\$900) and LD 741 (US\$535), respectively. Proportions of foreigners in construction and manufacturing companies (respectively, 35 percent and 33 percent versus 17 percent in the full sample) are significantly larger than those of domestic workers. The southern and middle regions are the most reliant on foreign workers, with one in four workers not being Libyan nationals. This reliance occurs because these regions specialize in the construction and manufacturing sectors, in which foreign workers (especially low-skilled ones) predominate.
17. World Bank economic indicators, "Imports of goods and services (% of GDP) - Libya," <https://data.worldbank.org/indicator>.
18. The average number of employees in companies in the western region is 25; in the eastern region, 12; and in the southern region, fewer than 7, according to the Libya Enterprise Survey.

19. The concentration of exporting firms in the western region is likely related to the cost advantage of geographical proximity to destination markets and the availability of a port and an airport, which have continued to operate, even though with difficulty, during the crisis.
20. These percentages do not sum to 100 because companies sell to more than one type of buyer.

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3 Business Environment

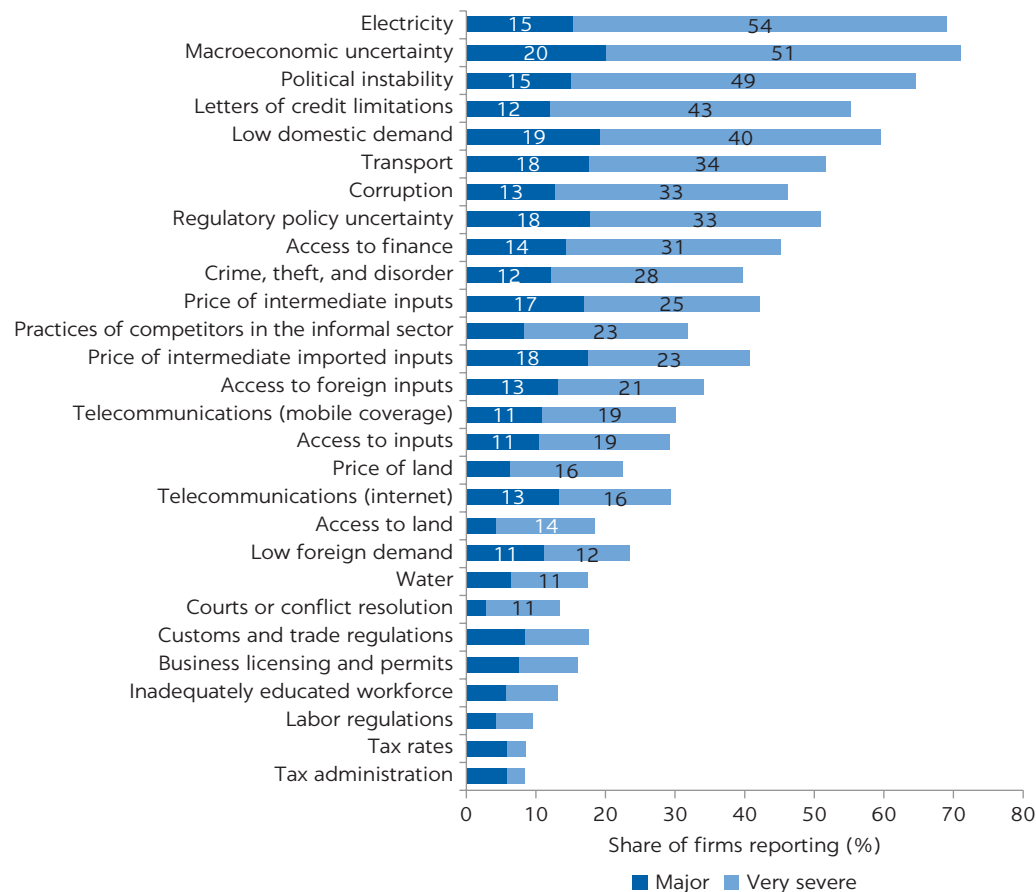
A CONFLICT-PRONE INVESTMENT CLIMATE

Conventional business environment constraints do not always matter amid conflict. Many typical business environment limitations that are routinely rated top constraints in the World Bank enterprise surveys include tax rate and administration, labor regulations, customs and trade regulations, licenses and permits, and access to land. For Libyan firms enduring conflict, none of these seem to matter much.¹ They have bigger concerns.

Electricity, macroeconomic uncertainty, political instability, letters of credit (LCs), transport, and corruption are top constraints during times of conflict. The majority of the enterprises canvassed in the 2018 Libya Enterprise Survey rated these constraints as very severe or major obstacles (figure 3.1). These findings are broadly in line with what firms mentioned as top constraints in 2014 (World Bank 2015). In comparison, according to the World Bank enterprise survey conducted in 2009, the key constraints (in order of importance) in the preconflict era were access to land, regulatory policy uncertainty, access to finance, macroeconomic uncertainty, tax rates, informal practices, corruption, and electricity.

The prolonged conflict has created conditions that allow some of the preconflict-era constraints to further deteriorate while making other preconflict-era constraints less prominent. The majority of firms reported that macroeconomic uncertainty, political instability, limitations on LCs, low domestic demand, corruption, regulatory policy uncertainty, intermediate input prices, access to finance, electricity availability, and crime, theft, and disorder have worsened since 2013 (figure 3.2). Almost all other constraints remained the same as in 2013 for at least 45 percent of enterprises. Access to land, which was the topmost constraint in the preconflict era, became less salient amid conflict. Similarly, the significance of tax rates as a key constraint also diminished between the preconflict and ongoing-conflict periods.

FIGURE 3.1
Key constraints to private companies' growth, 2018



Source: World Bank Libya Enterprise Survey.

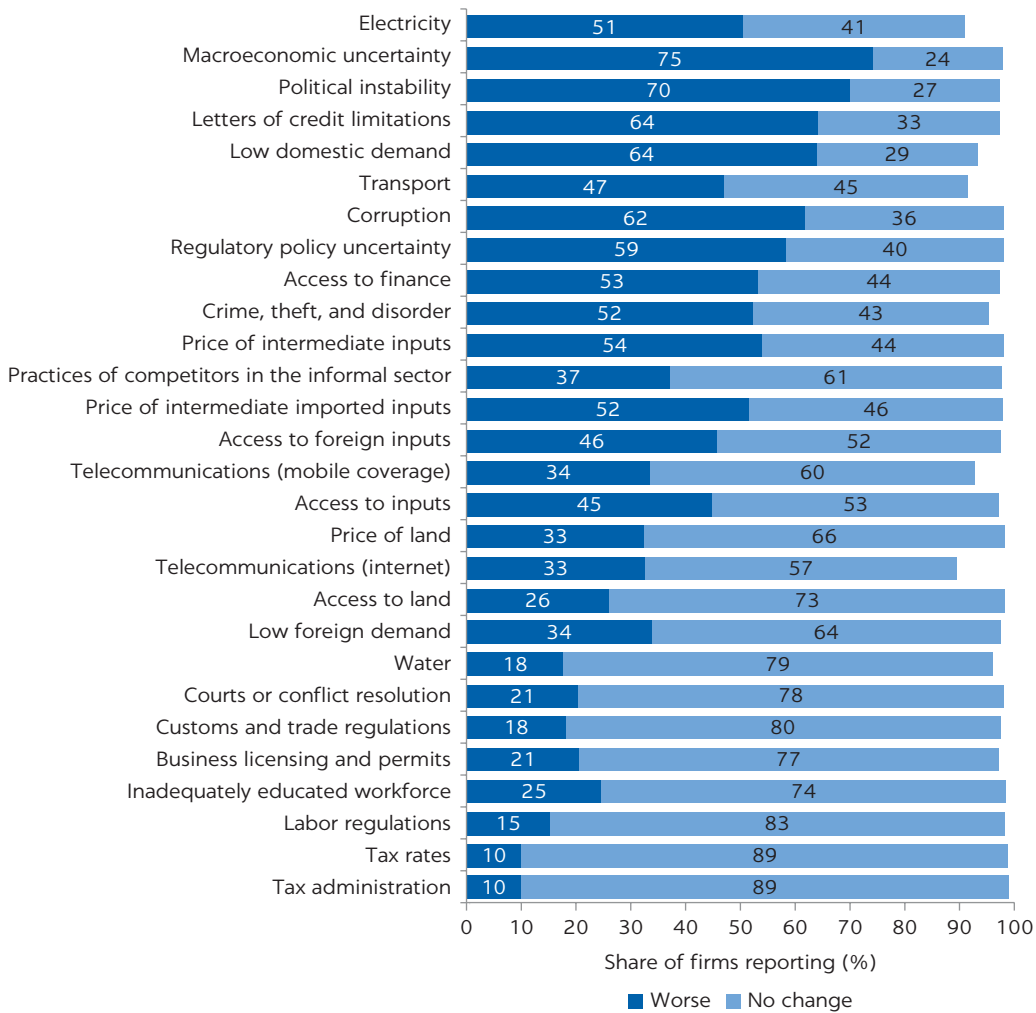
MACROECONOMIC UNCERTAINTY AND LIQUIDITY CRISIS

Macroeconomic uncertainty and political instability, two top constraints, are highly correlated and have affected firms similarly. Political instability is a key determinant of the macroeconomic instability in the Libyan economy, via the fragmentation and short time horizon of economic policy institutions (see the discussions of the liquidity crisis later in this chapter). These constraints are felt most strongly by firms in the southern and eastern regions and by large firms.

The liquidity crisis, exchange rate instability, reduced demand, and inflation are the most difficult factors feeding macroeconomic uncertainty (figure 3.3). A large majority of companies consider the liquidity crisis and exchange rate instability to have further worsened since 2013. High levels of inflation have eroded consumers' purchasing power (during the liquidity crisis) and further dampened the domestic demand that had already deteriorated because of the conflict. Inflation also increases firms' production costs.

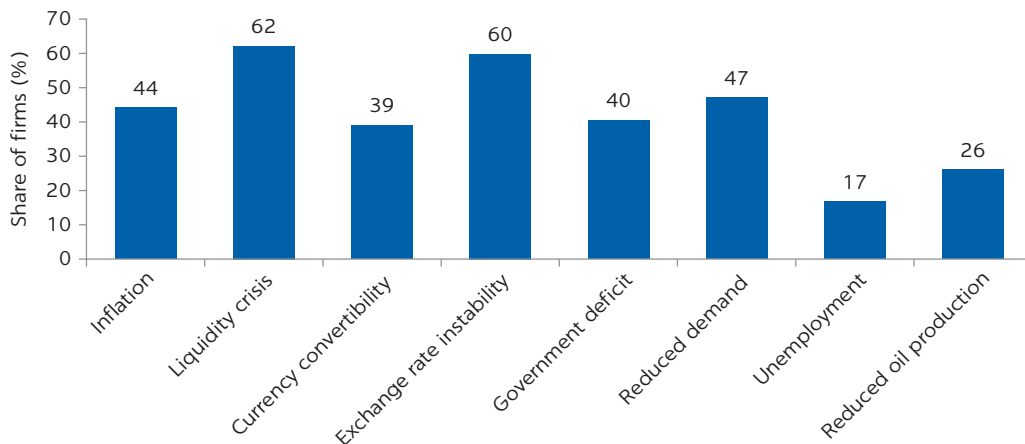
The particular circumstances of the Libyan conflict have created a broad liquidity crisis, undermining both conventional liquidity provision and alternative channels. The conflict-induced collapse of the economy, in combination with rearguard measures by the Central Bank of Libya (CBL) to stave off

FIGURE 3.2
Evolution of key constraints, 2013-18



Source: World Bank Libya Enterprise Survey.

FIGURE 3.3
Percentage of companies experiencing major obstacles, by category, 2018



Source: World Bank Libya Enterprise Survey.

exhaustion of reserves, has generated a severe liquidity crisis. Because of the political divide between east and west, the CBL also needed to restrict access to LCs and foreign exchange to prevent full financing of the budget of the Libyan National Army in the east (which, however, induced currency printing in the east). As experienced by other countries faced with the risk of continuous loss of foreign reserves, domestic currency liquidity evaporates extremely quickly through capital flight as holders seek to switch to foreign currencies. The banking system has often been unable to provide cash because of both insecurity and lack of availability of printed currency (which itself is a de facto measure to limit speculative currency demand). The conflict and the collapsing security situation have disrupted the economy and cut oil output, Libya's primary source of revenue (see chapter 2). The fall in oil revenues between 2013 and 2017 and lack of fiscal adjustment have forced Libya to use its net foreign currency reserves to finance deficits, worsening its balance of payments. At the same time, the weakening economy has exacerbated the already fragile trust that economic actors had in the banking system, leaving them reluctant to deposit their money in banks and thus generating the liquidity crisis (World Bank 2018). As mentioned in chapter 2, the ongoing conflict leading to disruption of oil production combined with globally reduced demand for oil (inflicted by the ongoing spread of COVID-19 [coronavirus]) and plunging oil prices will likely cause Libyan foreign reserves to drop by US\$3.3 billion in 2020.

The liquidity crisis has been further intensified by the unfinished transition to Islamic finance (World Bank 2019). Because of a combination of factors—including an incomplete plan for transition from traditional to Islamic banking, lack of detailed directives from the CBL, low levels of the managerial and operational skills needed to develop and administer Islamic financial products, and fluctuations in the Libyan dinar—the transition has remained unsuccessful, leading to a halt in the supply of conventional loans (see box 3.1). This, in turn, has further amplified the liquidity crisis (Zway 2017).

The macroeconomic crisis has increased foreign exchange rationing and fueled currency black markets. Since 2014, the effects of the conflict have weakened the Libyan dinar. For a heavily import-dependent economy, this is a huge shock. The Libyan dinar's decline in value in international markets has aggravated the liquidity crisis and fueled inflation by increasing the price of domestic and imported intermediate and consumption goods, thus reducing firm profitability (ICG 2019). At the same time, restrictions imposed by the CBL to limit further declines in the Libyan dinar have squeezed the private sector between the difficult-to-access official rate and continuing devaluation in the parallel market rate, making it more difficult to import inputs and

“If you have LD [Libyan dinars] 1 million, you can get US\$700,000 at the official exchange rate. If you can sell this back in the local market, at the black-market exchange rate, you can make LD 4 to 6 million. No business can make such profit in a very short time. It is a big mafia network; they are colluding with people that work inside the Libyan Central Bank.”

Rice importer interviewed in Tripoli

BOX 3.1

Islamic finance in Libya

The 2011 civil war included a strong Islamist faction that demanded a transition to greater Shariah compliance as part of the nation's reconstruction. As a consequence, in January 2013 the Libyan General National Congress adopted Law No. 1 of 2013, which prohibited interest on all civil and commercial transactions.^a

The introduction of the Islamic Finance Law reflected political will but did not mirror awareness of the implications of Shariah-compliant finance: Most firms had little knowledge of the workings of Islamic modes of finance, and most banks were unprepared for this shift. Islamic finance requires a host of supporting institutional tools and capacities to compete effectively with conventional finance, including product structuring, risk management nuances, legal and Shariah compliance functions, and supervision and oversight. None of these processes were in place.

The rapid and ad hoc restrictions on loan and deposit interest paralyzed most banking businesses. Libyan banks already had a clear preference for transaction-based businesses, such as transfers and foreign exchange operations, given their poor credit risk management capacity. The imposition of the Islamic

banking law quashed the banks' already weak credit lines of business, typically a bank's core business, and further damaged systemic profitability and efficiency. The ban on interest-bearing transactions, assets, and liabilities was implemented with very little lead time and with little guidance, leading to a further drop in the already limited financing available and a much longer lead time to develop credit products. Uncertainty about the future of Islamic banking (some bank managers are not convinced that the law will remain permanent, given both how radical it is perceived to be and the volatility of the political landscape) and the lack of clarity on pricing, investment account status, and asset-liability management have further dampened credit extension.

The Central Bank of Libya is struggling to develop the tools for supervising the distinct risk of Islamic banks. The World Bank has worked with Libyan counterparts to develop the Islamic Banking Strategy and Action Plan. The plan contains a series of recommendations, including allowing for the possibility of a dual system, as is common in most Muslim-majority economies, at least during a period of transition.

Source: World Bank 2019.

a. The law proscribing interest is short, less than two pages, with eight clauses. It covers interest-bearing transactions on loans and deposits. Details on nonbank financing, such as insurance and leasing, are not covered by the law. Penalties for intentionally continuing to charge interest include financial fines and up to two years in prison (Bälz and Greco 2014).

finished products. Unable to get LCs for import at the official rate, firms have had to resort to a currency black market. Overall, the situation has created incentives to engage in illicit and informal activities, notably by manipulating discrepancies between official and black-market or parallel exchange rates.

The gap between the official and black-market foreign exchange rates allowed the potential for abuse of the discrepancy, enabling militias to engage in a number of fraud schemes (World Bank 2019). The most common scheme involved obtaining LCs granting access to foreign currency at the official exchange rate and reconverting foreign currency to Libyan dinars on the black market. This is a well-known feature of any parallel currency system (Agenor 1992), exacerbated in the Libyan context by the role of militias.

The crisis has distorted the working of the LC mechanism. Importers need to obtain LCs from the CBL, valued using the official exchange rate for the amount of goods they wish to import. To obtain the LCs, importers need to place 100 percent in Libyan dinars as a down payment, which is a serious deterrent for

“The corruption and the favoritism in giving LCs to certain people is hurting the other businesses. When a company gets an LC to bring in a certain product, its product on the market will seem cheaper than all other competitors that bring the same kind of product and which did not have the advantage of importing their products at the lower exchange rate.”

Furniture importer and wholesaler interviewed in Tripoli

cash-constrained businesses (see the discussion below on access to finance). The crisis has distorted the LC mechanism in two ways. First, the discretionary element in the approval of the LCs by the CBL has been reinforced by the decision to limit the issue of LCs to deal with the liquidity crisis and curb inflation. This limitation has resulted in unfair competition in the import market. At least in theory, LCs—although limited—should be made available to companies importing basic commodities such as food items. What happens in reality is that large and influential businesses have sufficient means to circumvent these rules. As a result, only a few (often the larger and well-connected) firms obtain LCs and thus can import and resell in the domestic market (see the discussion on the differential effects of conflict on firm growth and sales in chapter 4). Second, some of those who obtain LCs have used fake invoices to profit in the black market rather than to import (see box 3.2). In practice, firms holding LCs can demand currency for a larger amount than the value of the goods to be imported. They can then sell the remaining currency (or all of it) on the black market. This manipulation of LCs has become a serious issue: US\$1.6 billion of LCs were granted to 2,159 companies in 2017, and more than 20 percent of the monetary amount appears to be fraudulent.²

The LC fraud system thus creates unfair competition that crowds out firms that are not well connected with the government, politicians, or banks. The result is that influential firms obtain LCs at the expense of other businesses that might badly need access to imported inputs and raw materials for their production process or finished products for trading (box 3.2).

The liquidity crisis has been a serious bottleneck for the private sector. The Libya Enterprise Survey indicates that 88 percent of firms reported that restrictions on obtaining LCs were significantly higher as compared with 2013, and 86 percent of enterprises considered this to have a major or very severe impact on their business. The impact has been felt heavily by firms in the manufacturing and construction sectors: 91 percent of firms in the manufacturing sector and 86 percent of firms in the construction sector stated that LC restrictions had a major or very severe impact on their businesses. On average, the value of imports of firms in the manufacturing and construction sectors has dropped by 75 percent and 67 percent, respectively, between 2013 and 2017.

Restrictions on obtaining foreign currency have been another significant challenge. The Libya Enterprise Survey indicates that 83 percent of companies reported significantly more restrictions on obtaining foreign currency than in 2013. This constraint had a major or very severe impact on the business of

“People come to me and say that they can help me get an LC through a connection in the bank, and I know that they will eventually want a cut of the business once it is done.”

Cheese importer and wholesaler interviewed in Tripoli

BOX 3.2

Impact of letter of credit restrictions on a rice and flour factory

A food processing company based in Tripoli that had as its main client a public institution found its business severely affected by the conflict and the resulting security conditions that led to an exodus of foreign workers. The company was able to adapt by changing its products and client structure, but it was then further hindered by restrictions imposed on obtaining foreign currency and letters of credit (LCs).

Mohamed is the general manager of a rice and flour factory. The company imports rice and flour in loose, large quantities and then mills, sorts, cleans, and bags it in the factory. The factory started operations in 2012. It had four lines for processing 500 tons of raw rice imported from abroad, with a net production of 300 tons of refined rice. The remaining 200 tons were sold as animal feed in the domestic market. The factory had 14 Turkish and 50 Bangladeshi workers. The factory’s only client, the Price Stability Fund (PSF, formerly the Commodity Supply Company), sold its products at a subsidized price.

After problems began in 2014, the company’s Turkish workers left and were replaced by Libyans. But the same year, the company stopped operations because its only client, the PSF, was no longer being paid by the government because of the internal fighting within the General National Congress, and so was not paying the company.

At the end of 2014, the company decided to stop dealing with the PSF and instead to sell to the local market. The company bought new equipment to produce smaller packages (1.5 kilos and 10 kilos instead of 25 kilos) to sell to wholesalers in Tripoli. The factory resumed production in 2015, with two additional flour production lines for processing and bagging smaller quantities of flour. This new product was

very successful. Until April 2016, the company was still able to import bulk rice, notably from the United States, at the official exchange rate, thanks to the collection bonds system (allowing a six-month delay to pay for imports). Imported bulk rice from the United States cost 1,800 Libyan dinar (LD) per ton (LD 1.8 per kilogram). It reached the final consumer at LD 2.25–2.50 per kilogram. After early 2016, however, the company was no longer able to get money transferred through the bank at the official exchange rate and thus stopped bringing in new consignments. According to Mohamed, this happened because all LCs are captured by a few powerful players in the market who want to benefit from the discrepancies between the official and the black-market exchange rate. “They have pushed all the honest people out,” said Mohamed. “If we did bring in rice at the black-market exchange rate it would have been very expensive for the end consumer, and we would not have been able to sell our products.”

In July 2018, the Ministry of Economy and Industry announced it urgently wanted to import wheat, then sell it through the PSF to bakeries in Libya at a low price. Mohamed’s company was listed by the PSF and the Ministry of Economy and Industry, along with 14 other companies, as a company able to process flour. The Presidential Council asked that a committee be established to evaluate the list of companies. The committee included members from the Ministry of Economy and Industry, the Central Bank of Libya, and the Ministry of Finance. Mohamed’s company was removed from the list, along with others, with no explanation. Mohamed asserts that some of the companies added to the list instead are not even real companies.

80 percent of companies. The impact has been highest for trading companies (89 percent), followed by manufacturing firms.

Administrative measures initially introduced to eliminate the possibility of LC fraud contributed to the intensification of the liquidity crisis. Government measures were introduced to tighten access to foreign currency by individuals. However, these measures, combined with growing inflation and local currency withdrawals, had the unintended consequence of increasing the liquidity crisis (Lacher 2018b).

Recently, two new government measures were implemented to deal with the LC fraud problem.³ The first one is the introduction of a 183 percent fee on foreign currency transactions to reduce discrepancies between official and black-market rates (September 2018).⁴ Because of a recent significant divergence of the parallel market exchange rate from the official exchange rate, the CBL proposed (on March 5, 2020) to further increase the foreign exchange levy to 200 percent. The second measure abolished the import budget (January 2019),⁵ suspending the previously mandatory requirement that Libyan importers register with the Ministry of Economy and Industry. The impact of these measures remains to be seen.

ACCESS TO FINANCE

Along with the liquidity crisis, the conflict has made access to finance more complicated. Overall, Libyan micro, small, and medium enterprises suffer from financing gaps (EC 2018): 91 percent of the firms in the survey stated that they have no loan or line of credit, and they thus use alternative means of financing (own capital, savings, family, and friends). Access to finance remains largely informal across the Libyan economy (Abdesamed 2017). The ongoing liquidity crisis further adds to this problem. Some 82 percent of companies consider that restrictions on obtaining credit have increased since 2013, a difficulty that has hindered a large majority of firms (64 percent). Access to finance was also a key constraint in the preconflict era (see chapter 2).

The crisis has significantly increased the difficulty that private firms experience in obtaining loans. Constraints include low and uncertain profitability, collateral issues, financial transparency, and the unfinished transition to Islamic finance. First, the crisis has made it more difficult for Libyan firms to access credit because of reduced revenues and profits. The extreme uncertainty concerning the economic context has made banks reluctant to provide credit even to firms that are performing well. Also, the conflict-induced deterioration in the business environment has further weakened an already fragile trust between private businesses and the banks. Second, by destroying firms' property and buildings, the crisis has significantly reduced companies' ability to provide collateral, a situation made worse by the fact that the land registry has been closed since 2011. In the current environment, no clear law regulates land ownership and property rights, and ownership is difficult to prove because most official property ownership documents have been destroyed. In this context, banks are reluctant to accept property—even if it exists—as collateral for loans. Third, the Libyan private sector is characterized by a lack of financial transparency. Firms, especially small and medium enterprises, often do not keep financial records, nor are they able to prepare feasibility studies, making it difficult for banks to evaluate the risk of providing a loan. In this context, corruption has led to a situation in which loans by preference go to powerful businesses, which do not have

to go through the regular process, notably the required feasibility study. Finally, as discussed previously, the unfinished transition to Islamic finance has paralyzed the financial sector at large amid conflict.

INFRASTRUCTURE AND PUBLIC SERVICES

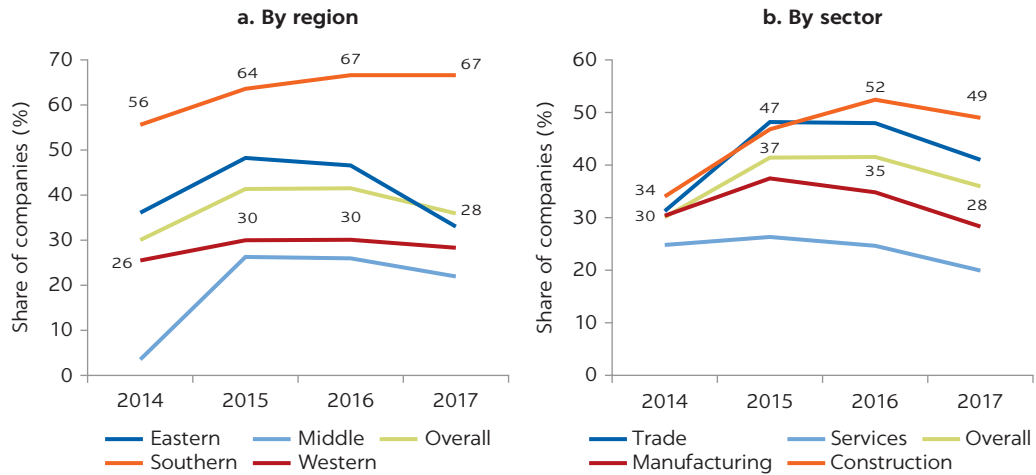
Companies face difficulties in their operations because of poor public services, especially electricity. Access to electricity is a top constraint, with 69 percent of enterprises viewing it as a major or very severe obstacle to growth, up from less than 50 percent of enterprises during the 2013–14 period (World Bank 2015). Although power cuts are frequent across the country, electricity was a more severe constraint to companies operating in the south (16 percentage points above the average), as opposed to those in Tripoli and the western region (22 percentage points below the average). On average, 50 percent of companies consider the constraint to have worsened since 2013 (100 percent of companies in the southern region believed the situation had worsened).

Transport is also a significant constraint to growth. In the survey, 52 percent of companies considered transport to be a major or very severe constraint. This perception was more significant in the southern region (33 percentage points above the average), where roads were damaged by clashes, making them unfit for traffic. Because of conflict-related impacts on the transport infrastructure, 47 percent of companies overall and 99 percent of companies in the south considered transport constraints to have worsened since 2013.

Transportation of goods throughout the country has been subject to militia predation and extortion. Weakened state institutions, lack of security, and the increasing power of nonstate armed groups in Libyan territory have led to various types of illegal payments and extortion. Entrepreneurs are forced to pay to cross checkpoints, both legal and illegal, and to ensure security for transported goods, which are important revenue sources for militias. Increased transportation and security costs, of course, lead to increased input prices, and victims of continuous extortion episodes may relocate or abandon their businesses (see chapter 4).⁶ A significant share of Libyan companies—30 percent to 42 percent—have reported additional costs (beyond official or regular costs) incurred because of the ongoing security and political crisis. Those unofficial costs are much more common in the southern region (up to 31 percentage points above the average). Trade and construction companies seem to experience such additional costs more than other sectors do (figure 3.4).⁷ Most of these illegal payments are associated with transportation costs, again, most pronounced in the south (figure 3.5).

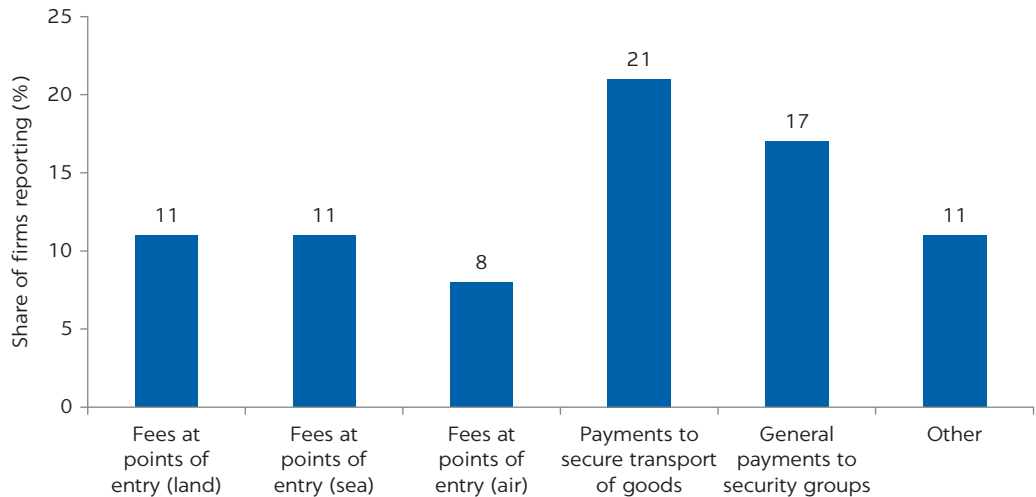
Currently, amid ongoing conflict and the worldwide spread of COVID-19, the transportation problem aggravates Libya's food security situation. According to the World Food Program, Libya's food security situation as of March 2020 was under huge stress. Increasing needs and requests from local Libyan communities and municipalities to provide food go unmet, partly because of transportation issues (caused in part by a lack of fuel supplies) that are hindering the delivery of the food in remote areas (particularly in the south). Consequently, the prices of cooking fuel and several basic commodities have substantially increased, while Libyan families are reducing their spending on health and education as a coping strategy. And COVID-19 preparedness is expected to be a serious problem at the household level.

FIGURE 3.4
Proportion of Libyan companies reporting additional costs



Source: World Bank Libya Enterprise Survey.

FIGURE 3.5
Types of additional illegal costs faced by Libyan firms, 2018



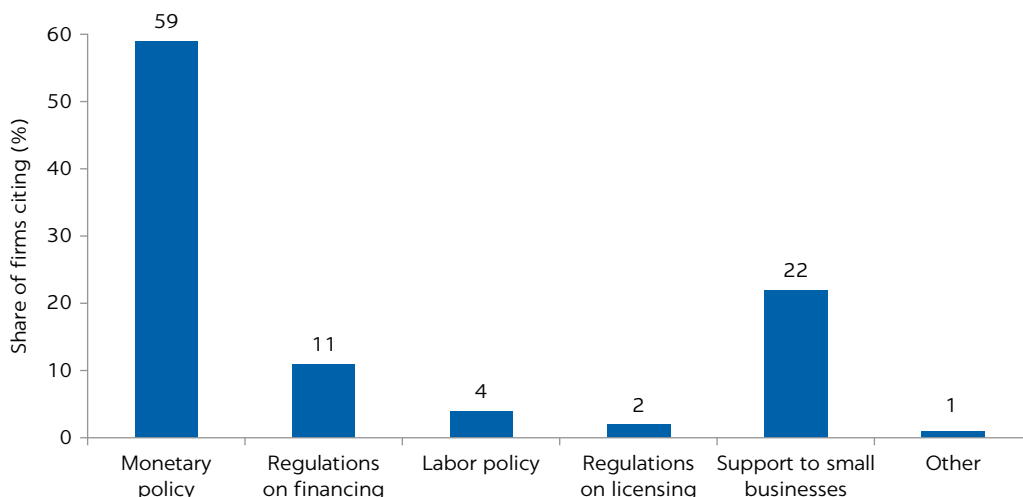
Source: World Bank Libya Enterprise Survey.

Note: These are additional costs (beyond official or regular costs) incurred by firms due to the ongoing security and political crisis.

REGULATORY AND INSTITUTIONAL ISSUES

Since 2011, the policy and regulatory framework for private investment has been unclear. Over the past several years (even during the preconflict era), Libya has introduced a series of policies and measures, but all remain incomplete or have been halted because of the prolonged conflict. These measures include offshore free zones to attract foreign direct investment to support the export and manufacturing sectors, efforts to join the World Trade Organization (initiated in 2004 and given a fresh push in 2010), signing of a Trade and Investment Framework

FIGURE 3.6

Regulatory and institutional issues that urgently need to be addressed, 2018

Source: World Bank Libya Enterprise Survey.

Agreement with the United States in 2013, a cooperation agreement with Morocco to strengthen trade, and a draft law on public-private partnerships. The foreign investment law in its current form discourages foreign direct investment. Aside from the 49 percent limit on foreign ownership, the LD 1 million (US\$715,000) capital requirement is a high barrier to entry for smaller firms. The stipulation that firms must have 10 years of experience to set up a joint stock company is also prohibitive for the private sector in general. Although the government is, in theory, open to foreign investment in eight sectors (transportation, health, education, industry, agriculture, maritime, tourism, and public utilities), in reality, significant opacity surrounds bidding processes and awards. Also, as mentioned in chapter 2, Libya's Doing Business ranking is 186 out of 190 countries. Libya also ranks last in the Economist Intelligence Unit business environment ranking.⁸ Conflicting references to and application of laws and regulations also result in difficulties for private sector actors operating within the formal economy. The prohibitive regulatory environment, along with conflict-induced risks and uncertainty, deters private investment and creates a breeding ground for informal and illegal activities.

Uncertainty over regulatory policy is seen as a major or very severe obstacle to growth by 51 percent of companies canvassed in the Libya Enterprise Survey. This perception has held relatively steady, given that a similar view was expressed by 58 percent of firms in 2014 (World Bank 2015). The majority of enterprises believe the most urgent regulatory and institutional issue to be addressed is monetary policy (figure 3.6), an unsurprising finding given the liquidity crisis.

CORRUPTION, CRIME, THEFT, AND DISORDER

Political instability greatly affects the rule of law and levels of corruption. During the conflict, corruption has indeed increased (OECD 2016). This situation has an impact on market competition because it strongly favors the growth of businesses that resort to bribery or informal and illicit practices and that evade taxes and registration and license costs. Corruption is seen as a major or very severe constraint on growth by 46 percent of companies.

Corruption seems to be present at various stages of business transactions.² Payment of bribes is reported as common, notably to obtain loans (before the blockade on conventional loans), to be granted LCs, or to ensure the safe transportation of inputs or goods (discussed previously). About 62 percent of companies canvassed in the Libya Enterprise Survey consider this constraint to have worsened since 2013.

Crime, theft, and disorder are also major or very severe constraints on growth, as reported by 40 percent of companies surveyed. The issue seems most severe in the construction sector (16 percentage points above the average) and for private companies in the southern region (reported as a major or very severe constraint by 86 percent of companies); in contrast, 25 percent of companies in the eastern region rate the issue as major or severe. For the majority (52 percent) of companies overall, the constraint has worsened since 2013.

ELITE CAPTURE AND ILLEGAL ACTIVITIES

The weak state has subjected the private sector to elite capture (boxes 3.3 and 3.4). The Government of National Accord has limited control over territory, and the country suffers from erosion of the rule of law. The situation has led to increased corruption, but it has also left the private sector subject to elite capture. For the purposes of this book, elite capture refers to the capture of state resources (primarily oil resources) and institutions, favorable access to foreign currency and LCs, and capture of public contracts by individuals or groups. Public procurement, highlighted in chapter 2, could be a key vehicle for private sector development, both now and in the postconflict era. Both the interviews for this book and discussions during previous Libya Development Dialogues suggest that public contracts are likely to be executed by politically connected firms and in the east by the Military Authority for Investment and Public Works. The setup of this authority not only expands the role of the Libyan National Army into the economic sphere but also further divides the economic landscape between Libya's east and west and crowds out space for private sector-led projects and activities in the east. Overall, the capture of public contracts creates a serious risk of misappropriation of government funding, both now and during postconflict reconstruction.

The crisis favors proliferation of a number of other illegal behaviors, the most relevant of which are a foreign exchange parallel or black market and LC fraud, illegal taxation on transportation, and smuggling. According to this book's interviews, these illegal activities tend to implicate politicians, government officials, businesspeople, private companies, bank clerks, and militia groups.

One of the most important consequences of weakened state institutions, in particular the lack of state control over the borders, is the proliferation of smuggling. Smuggling in Libya concerns mainly two types of products: first, those on which Libya offers subsidies (for example, fuel), with estimates that "up to 40 percent of fuel in Libya is stolen or smuggled," a loss of about US\$750 million (*Libya Herald* 2018); and second, those imported into Libya at the official exchange rate (for example, wheat flour) (Eaton 2018). Fuel smuggling has several negative impacts, the most important of which are large losses for the Libyan government, increases in the exchange rate with the dollar, fuel shortages in the local market, and increased black-market prices. Efforts to fight the phenomenon have been implemented in recent years (most notably an increase in the

BOX 3.3

Elite capture and rents in Libya war economy

Libya's war economy^a provides an enabling environment for networks of armed groups, corrupt businesses, and political elites to sustain their activities through smuggling, extortion, and predation on state resources.

Libya's smuggling sector has been transformed since 2011. Muammar Gaddafi, who ruled the country for the previous four decades, had exerted a degree of control over smuggling, allowing favored families, tribes, and groups to participate as part of a system of divide and rule. The fall of his regime brought competition among individuals and networks over smuggling routes and the outbreak of localized conflict across the country.

A key smuggled item is fuel. Some estimates suggest that fuel smuggling has cost the country 5 billion Libyan dinars (US\$3.6 billion). The Libyan Audit Bureau believes that about 30 percent of subsidized fuel is smuggled, causing Libya to lose about US\$1.8 billion annually. Fuel smuggling falls into three principal categories: cross-border overland smuggling of small volumes of fuel; the diversion of fuel supplies within the country, which are then sold at black-market rates instead of subsidized rates; and maritime smuggling of much larger quantities of diesel. Since 2011, the larger-scale schemes to divert fuel from refineries, ports, and warehouses are demonstrations of elite capture, given that these schemes require the use of falsified paperwork to continue fuel delivery to "ghost petrol stations" with the help of complicit public officials. In late 2017, a National Oil Corporation spot check of 105 petrol stations believed to be receiving regular deliveries of fuel found that 87 of them were nonoperational. In January 2018, the attempts by the Brega Fuel and Marketing Company to end deliveries to petrol stations that had registered with the Ministry of Economy after 2010—most of which were believed to be ghost stations—was opposed by the prime minister's office. The National Oil Corporation chairman articulated this incident as an illustration of elite capture of complicit officials. In addition, numerous fuel trucks heading to southern Libya have been hijacked, causing the closure of many official petrol

stations while their unofficial rivals continue to sell fuel nearby at prices that are more than six times the subsidized rate.

Where armed groups are not directly involved in smuggling, they have been able to generate revenues from taxation of the movement of goods through territory under their control. The capture and control by force of key transport nodes, import and export nodes, and oil and gas infrastructure have enabled significant revenue generation through extortion and the establishment of rents. The Central Bank of Libya estimated total losses for the state as a result of oil blockades at US\$160 billion in August 2017. Private businesses and the banking sector are also principal targets of armed groups' predatory activities. The most lucrative scheme is the collusion with bank officials over applications for letters of credit (LCs) to import goods.

The rapid rise of Libya's black market offers another significant opportunity for elite capture and rents extraction. Small-scale ventures have involved the withdrawal of foreign currency (at the official rate) on credit and debit cards overseas by runners known as *asafeer* ("birds"), and the subsequent sale of that currency back into the informal Libyan market at the black-market rate. The most damaging scheme, however, has been the fraudulent use of LCs. On many occasions, the amount of goods actually procured is smaller than the amount agreed in the LC, leaving the fraudster with excess dollars that can be sent to partners or shell companies overseas. When the shipment arrives in Libya, bribes ensure that the customs paperwork is falsified to indicate that the correct amount of goods has been delivered. In addition, the fraudster has a further opportunity to profit by selling the goods at a rate closer to that on the black market. In some cases, no goods arrive at all and the fraudster uses the LC to launder money overseas, or to exchange currency on the Libyan black market for a profit. In the first 11 months of 2016, the Libyan Audit Bureau identified more than US\$570 million in fraudulent LCs, involving 21 banks and 23 companies (10 Libyan and 13 foreign). The actual scope of such fraud is likely many times higher.

Sources: Based on Eaton 2018; Lacher 2018a; DRI 2019.

a. For the purposes of this book, "war economy" refers to the peculiar functioning of an economy during a war or conflict.

BOX 3.4

An entrepreneur's account of elite capture

Omar, an entrepreneur in Tripoli, discussed the corruption that is still pervasive in Libya. His words are paraphrased below.

Most Libyans have heard of the famous cases of embezzlement under former ruler Muammar Gaddafi. The government used to give substantial amounts of money to self-proclaimed entrepreneurs and influential individuals, particularly in remote locations, to subsidize unverified projects. On many occasions, these sums were misappropriated and the projects did not see the light of day. Gaddafi's regime was in fact fully aware of these ploys and exploited them to buy loyalty. Schools, hospitals, and community centers were never built. The government compiled the evidence, keeping track of every transaction and ultimately presenting wrongdoers with the record of their crimes. Needless to say, most people preferred to keep their businesses and collaborated with the government, which thus managed to build extensive loyalty networks throughout almost every part of Libya. The tribal nature of the country, especially in the south, facilitated the government's task. Perhaps more surprising is the fact that these fraudsters regularly asked for money for maintenance even though, as mentioned, these schools and hospitals were never built. Embezzlement and elite capture were therefore institutionalized and became integral to Libya's political landscape. Libya's political elite have been accustomed to these practices. Public funds were rarely invested in actual projects, yet the government has never moved an inch.

Since the revolution, corruption has grown worse. Financial crimes have taken on a new dimension. Because the government is now unable to control the territory, the lack of rule of law and ineffective regulations have enabled bad actors to extend their dirty businesses. Although the state is no longer interested in Gaddafi's stratagems, or lacks the resources to follow his steps, embezzlement and elite capture now

cost state coffers billions of dinars. Unfortunately, even if the government were willing to clamp down on these illegal practices, they would not stop, given the current political chaos.

In addition, these bad actors took advantage of the currency crisis that rattled the country. The strategy remained unchanged: they asked for foreign currencies to import basic goods, managed to get substantial amounts thanks to their networks, and sold these currencies on the black market. Therefore, commodities were rarely available, and our national currency kept slumping. This vicious cycle lasted for four or five years until in September 2018 the government finally decided to halt that drain by imposing fees on any official hard currency transaction.

Moreover, militias pose another threat. War leaders and their partners have no qualms about hijacking projects to sack the public purse. The use of force has added another dimension to this scourge. Elite capture in Libya is a much thornier issue than in most other countries in the world.

In the fourth quarter of 2018, the government gave money to local municipalities to maintain roads in different parts of Tripoli. In the area of Ain Zara in the southeast of Tripoli, the local council gave the road maintenance projects to a dubious company. Unsurprisingly, the layer that was used under the tarmac was "not up to standard," as noted by a friend of mine who works as a civil engineer. One week after the completion of the project, the road cracked, and all the work needed to be redone. Corruption is endemic in all stages of the project, and almost everybody is involved or at least aware of it. Low-quality materials are used to give the impression that something has been done. Because there are no quality control mechanisms, the contractors get paid and then the whole project falls apart and needs to be started over with a new budget and a new embezzlement scheme.

Libyan Coast Guard's control operations), but with little impact. To address the financing gap in the public budget caused by the blockade on oil production, the decision of the Government of National Accord on April 13, 2020, to reform subsidies to generate a potential savings of LD 6 billion should partly alleviate the problem of smuggling of subsidized products out of Libya.

As illustrated throughout this chapter, the conventional constraints on the business environment and business growth become substantially less central in nations facing conflict-generated economic and societal uncertainties and risks to security. In more stable environments, typical concerns include tax rates and administration, labor regulations, customs and trade regulations, licenses and permits, and access to land. In Libya, many respondents to the survey and interviews indicated more fundamental concerns, some of which have the potential not only to curb growth but also to undermine a business entirely, even to the point of relocation or closure. These factors include lack of reliable electricity, macroeconomic uncertainty, political instability, inaccessibility of LCs, lack of security in transport, and corruption. The next chapter takes a more granular look at the effect of these constraints on firm performance across regions, sectors, and sizes.

NOTES

1. About 18 percent of firms indicate customs and trade regulations and 16 percent indicate obtaining business licenses and permits as major or very severe obstacles. Access to land and price of land are considered major or very severe constraints by 18 percent and 22 percent of enterprises, respectively. Other regulatory and institutional issues, such as tax rates, tax administration, and labor regulations, are not seen as significant constraints by more than 90 percent of Libyan companies (figure 3.1).
2. According to the 2017 Libya Audit Bureau Report, fraudulent LCs were estimated to amount to US\$334 million in 2017, which is likely underestimated. Cases of fraudulent use of LCs are regularly in the headlines of Libya's media. Well-known cases include a scheme that implicated Jumhouria Bank in illegally providing LCs worth US\$1 billion to 10 companies located in Tripoli; an influential businessman who conspired with militias to extort LCs from the Libyan Foreign Bank and Jumhouria Bank (*Libyan Express* 2018); and the manager of a branch of the Bank of North Africa accused by the Administrative Control Authority of irregularly granting 24 LCs to three companies that belonged to the same person. Anecdotal evidence attests to empty containers entering Libya unreported, often because of threats (CBL 2018; *Middle East Online* 2018.).
3. In the past, several efforts have been made to fight LC manipulation, including introduction of an electronic LC approval system to control LCs, the addition of administrative layers to the approval process for LCs, and the investigation of the LC system by the Libyan Audit Bureau. The effectiveness of these measures should be evaluated.
4. In September 2018, the dinar's exchange rate on the black market was LD 6.2 to US\$1, compared with the official rate of LD 1.40 to US\$1. As of January 2019, the black-market rate was LD 4.4 to US\$1 versus the official rate, which was still LD 1.40 to US \$1.
5. From the European Commission website, <http://madb.europa.eu/madb/latestupdates.htm>.
6. Klapper, Richmond, and Tran (2013) report that as a consequence of the civil conflict, firms' operating costs in Côte d'Ivoire also increased because they needed to pay for "nonproductive" inputs for security purposes to protect their output and investments. Large firms are more susceptible to predation, and the negative effects of insecurity are also concentrated among larger firms (Besley and Mueller 2012; Blumenstock et al. 2019). These results are in line with the assessment of the evolution of corruption in the country, as reported by Transparency International. In 2018, Libya placed 170 out of 180 in the world ranking (where a higher position indicates higher levels of corruption) (see Transparency International, <https://www.transparency.org/en/countries/libya>).
7. These results are in line with the assessment of the evolution of corruption in the country, as reported by Transparency International.
8. "Libya," Economist Intelligence Unit, <https://country.eiu.com/libya#>.
9. This observation is based on interviews with business leaders and entrepreneurs.

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4 Conflict Effects on Firm Performance

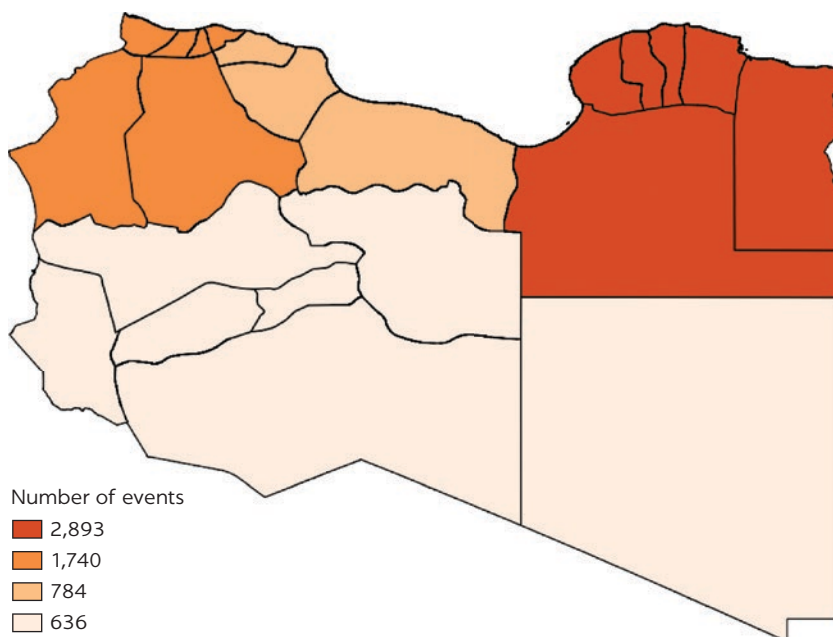
CONFLICT INTENSITY ACROSS REGIONS

The conflict has affected every region of Libya, albeit with varying intensity. Conflict data indicate that during 2013–18, the eastern region, with the highest number of violent events and fatalities, has been most affected, followed by the western region (see map 4.1 and map E.1 in appendix E).¹

The effects of conflict on the private sector, however, are more widespread than is indicated by the intensity of conflict events and fatalities. Irrespective of regional variations in conflict intensity, the private sector at large has been affected (box 4.1). Some 97 percent of firms canvassed in the 2018 Libya Enterprise Survey experienced a direct adverse impact, compared with 77 percent of firms in 2014 (World Bank 2015). The firms most affected by Libya's conflict were not necessarily located in regions where the number of conflict events and fatalities were the highest. Although this number seems to be the highest in the eastern region, firms in the southern region, followed by those in the western region, report suffering the greatest negative effects from the conflict, implying that conflict can affect firms more profoundly than is revealed by physical destruction and material damage. Less visible impacts include loss of markets, networks, connectivity, and distribution channels.

Conflict effects seem to have been most acute during 2015–16, which is in line with the trend in conflict intensity in Libya, based on data from the Armed Conflict and Location Event Data Project (figure 4.1). For companies in the eastern region, 2015 was a particularly troubled year (85 percent reported 2015 as the year during which the crisis was most acute), whereas 2016 was considered very difficult for 78 percent of companies operating in the middle region. Firms may have also adapted to the conflict through various means, such as by changing business processes and innovation (see chapter 5) and by adjusting to bribes and extortion (as discussed in chapter 3).

MAP 4.1

Libya conflict map, 2013–18*Conflict-related events*

Source: World Bank, based on Armed Conflict and Location Event Data Project and Database of Global Administrative Areas.

BOX 4.1**The conflict's effect on a furniture import company**

One partner (identified by the letter M.) of a furniture import company with outlets across the territory disclosed the conflict's severe impacts on his business. With two partners, M. set up a furniture company in 1999. The starting capital was 800,000 Libyan dinars (LD). The partners began with a retail outlet in Tripoli and soon opened four other outlets in Tripoli, one in Sebha, and one in Benghazi. Before 2011, their sales reached LD 10 million (equivalent at the time to US\$7.3 million).

For the first two months after the revolution in 2011, the partners had to completely cease business. They reopened a short time later, but they were just able to break even and pay salaries and rent. Overall sales for 2011 were LD 4 million. In 2012, the situation improved: "It was the golden time for our business." People were given allowances by the transitional government, and

they spent them buying goods, including furniture. Sales rose to LD 14 million in 2012.

In February 2013, the crisis reappeared, however. A series of events, including the bombing of the French embassy, caused foreign businesses and investors to leave Tripoli. In 2014, one of the partners' stores near the airport road was hit by a missile, incurring losses of LD 2 million of Italian furniture. The business survived the 2014 crisis, although they closed two of the five Tripoli retail outlets and the branch in Sebha. When war broke out in Benghazi, the branch manager left the country with his family and moved to Turkey.

M. stated that the three partners had different visions for the way forward. In April 2015, they decided to part. The partner with the largest share continued with the company brand name. Another partner took his share in the form of goods and opened his own furniture shop in Tripoli under a different name.

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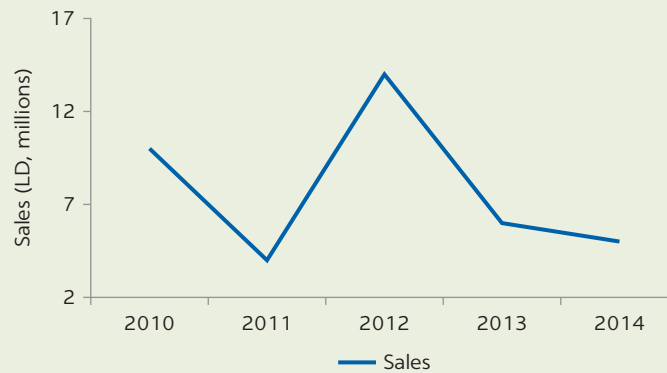
Box 4.1, continued

M. took his 12 percent share in cash and started to look for a new business to invest in.

From April 2015 to February 2016, M. tried different options, including importing food items, cleaning agents, and PVC pipe. Then he decided to go back “to what I know best” and started his own furniture import and wholesale company. Between May 2016 and May 2017 his annual sales were LD 800,000. According to M., the business environment in Tripoli has improved since May 2016 after the Misrata militia was ousted by local Tripoli militias.

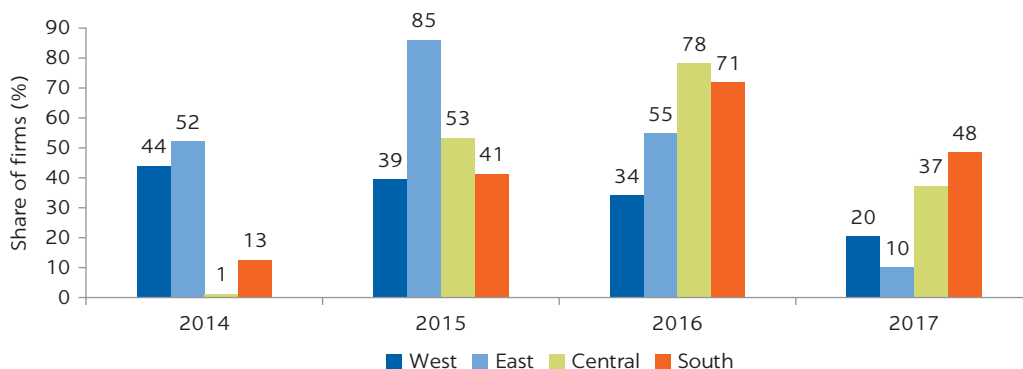
M. says he now earns four to five times less than he did before the 2014 crisis. “This has impacted my whole lifestyle and the way my family lives. For instance, I had to significantly cut education expenses.” M. believes that the liquidity crisis is another major constraint to his business’s growth because of the negative impact it has had on consumer demand. “I can only accept cash from my clients,” he said. “If I accept checks, I will not be able to access the money, which would accumulate in my bank account, and my business would grind to a halt.”

FIGURE B4.1.1
Evolution of sales of M.’s business



Sources: Personal interview; World Bank Libya Enterprise Survey.
Note: LD = Libyan dinar.

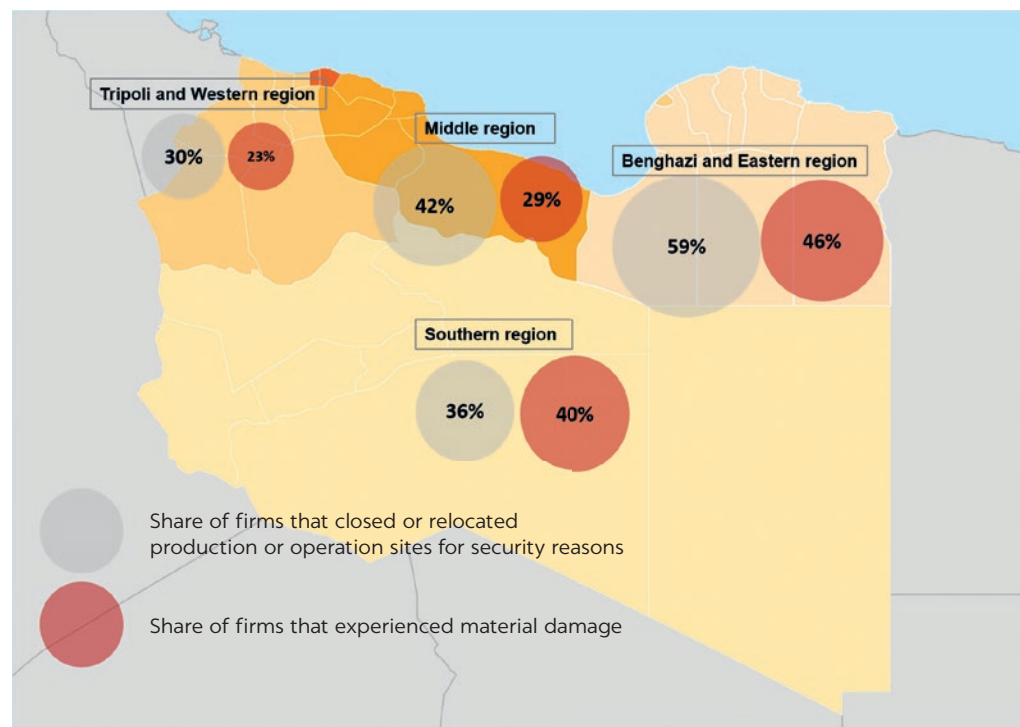
FIGURE 4.1
Percentage of firms affected by the crisis, by region and year



Source: World Bank Libya Enterprise Survey.

MAP 4.2

Percentage of firms reporting material damage and site closures, 2018



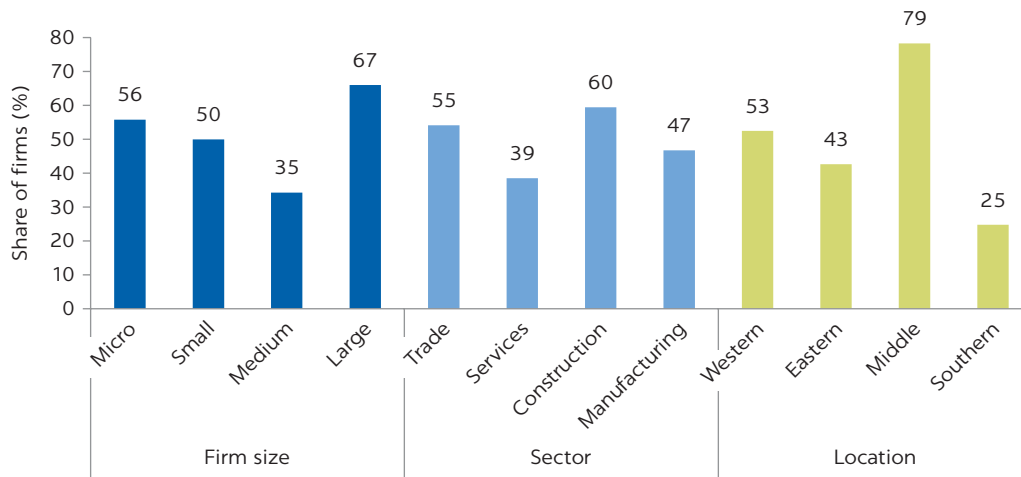
Source: World Bank Libya Enterprise Survey.

Material damage and site closure are two direct effects of conflict. Consistent with the geographic variation in the number of conflict events and fatalities, the Libya Enterprise Survey shows that the highest share of firms affected by material damage and site closure was in the eastern region (59 percent; see map 4.2). As mentioned, the eastern region was hit hardest by violent events and fatalities (maps 4.1 and E.1).

REVENUES, DEMAND, AND COMPETITION

The conflict has not caused all firms to lose revenue. On average, the conflict has led to a decline in revenues for 51 percent of firms, according to their reported annual revenues in the Libya Enterprise Survey. However, this average number conceals substantial heterogeneity. Although a majority of the companies (53 percent) in the Libya Enterprise Survey mentioned that annual revenues declined over the preceding five years, 41 percent of the companies mentioned having experienced revenue increases. This increase could be attributed to the changing nature of market competition, informal activities, favorable access to letters of credit (and their manipulation in the black market), and other means of elite capture, such as through public contracts. The loss of revenues is linked to firm size. Large firms seem to suffer the most (figure 4.2). However, this link with firm size could be a distortion if conflict causes losses that large firms suffer through but that put smaller firms out of business (thus removing them from observation by the survey), as seems to have been the case in the Syrian Arab Republic (Salmon, Assaf, and Francis 2018).² Firms located in the middle region

FIGURE 4.2
Companies reporting lower revenue, 2018



Source: World Bank Libya Enterprise Survey.

of Libya were more likely to experience lower revenues (79 percent of the sample) than were those in other regions.

Market demand and competition are key channels affecting firm revenues. In line with the foregoing analysis of firm revenues, the crisis had a negative impact on market demand for the majority of firms (59 percent), but for 21 percent of companies, sales volume increased. The decrease in demand is likely the consequence of people being forced to use their limited incomes for the most necessary products, such as food and medicine, contributing to stable or increased demand for these categories of products at the expense of others. Firms selling these categories of products could also increase their markups, given the inelasticity of demand for these necessary products, the possibly inadequate supply and availability of these products, and reduced domestic competition.

Conflict has reduced domestic competition. An interesting finding is the way the crisis has affected firm performance by modifying a firm's number of competitors and thus its market share. Several firms (43 percent) in the Libya Enterprise Survey reported that at least one main competitor had stopped operation since 2013. Some companies ended up closing because of a lack of revenue, direct damage to their operation sites, or inability to compete with the companies benefiting from black-market exchange rates or favorable access to letters of credit. Others closed because they or their main clients had to leave the country, an effect felt particularly by oil service companies. Most of the firms reporting a decrease in the number of competitors are in the trade and services sectors (35 percent and 38 percent, respectively, of the sample of firms), while the average number of competitors that exited is highest for firms operating in the manufacturing sector (22 competitors during the crisis period). With regard to size distribution, most firms reporting a decrease in the number of competitors are micro and small firms (42 percent and 39 percent, respectively), which is consistent with the conjecture mentioned previously that conflict may cause smaller firms to totally shut down whereas larger firms experience losses but stay in business. The eastern region is where, on average, the largest number of competitors for a firm seem to exit.

The changing dynamics of competition tend to mirror the change in market share for firms across sectors, size, and location. Of the firms in the Libya Enterprise Survey, 79 percent report that their market share declined during the crisis, and 21 percent report an increase in market share. Yet there is much heterogeneity among firms in different sectors and regions and of varying sizes. Most of the firms reporting an increase in market share are in the trade and services sectors (39 percent and 41 percent, respectively). Firms reporting an increase in market share are also mostly micro and small firms (40 percent and 42 percent, respectively). Finally, most of the firms reporting an increase in market share are located in the eastern and southern regions.

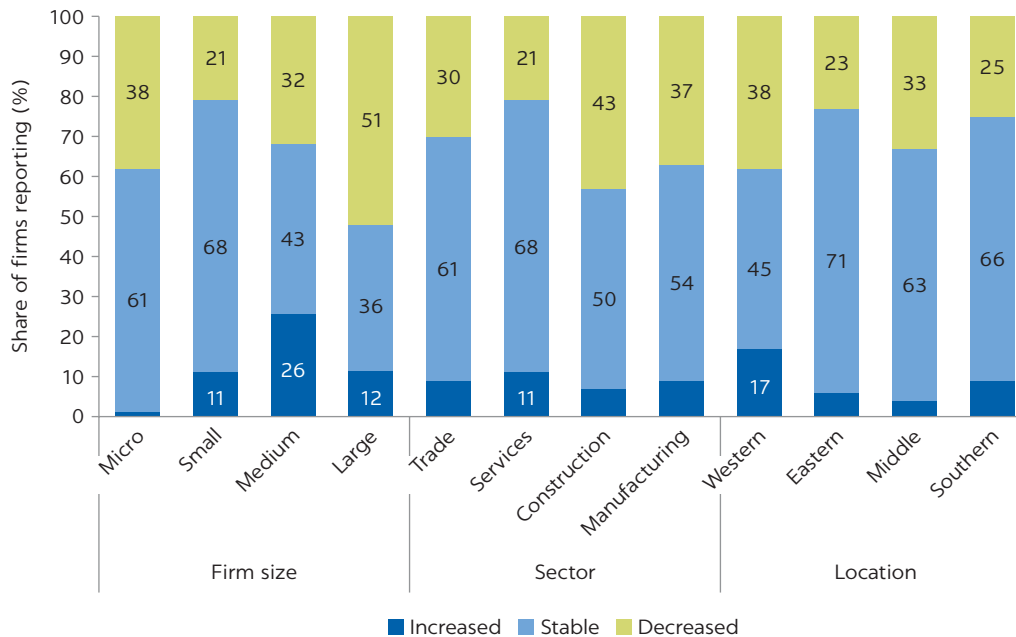
CONFLICT AND JOBS

The crisis has led to job losses in the private sector. Firms in the Libya Enterprise Survey reported an overall 10 percent net loss (total gain minus total loss) in jobs between 2013 and 2017. Job loss was most prominent for micro firms (29 percent loss), followed by small firms (15 percent loss), large firms (12 percent loss), and medium firms (2 percent loss). These proportions are consistent with findings from other conflict contexts, suggesting that whereas large firms facing conflict may suffer loss and shrink, smaller firms may go out of business. Job loss in Libya is most prominent in the Libya Enterprise Survey for the construction sector (28 percent reduction), followed by the trading sector (16 percent loss).

A variety of factors cause job loss. Employment losses occurred because of shedding of jobs by firms, displacement of domestic workers, and outmigration of foreign workers. These are all significant channels through which the conflict has harmed the labor market and thus firms' operations. Firms report the lack of both unskilled and skilled workers, pointing to a significant loss in the supply of human capital. Accumulating human capital takes a long time, making these results particularly worrying with regard to the capacity of the Libyan economy to recover from the conflict in the short term. Overall, the crisis led 30 percent of enterprises in the Libya Enterprise Survey to decrease the number of employees between 2013 and 2017. The reduction in employment was more pronounced in large companies (21 percentage points above average) and among construction and manufacturing companies (respectively, 13 and 7 percentage points above average), and 15 percent of companies reported Libyan staff abandoning their positions because of the crisis, especially in the large companies (28 percentage points above average). In line with the discussion in chapter 2, one-fifth of companies reported foreign employees leaving the country, once again especially affecting construction companies (12 percentage points above average), historically the largest employers of foreign workers. However, consistent with the analysis of firms' revenue, volume of sales, and the changing nature of market competition, a nontrivial share of firms increased their number of employees (figure 4.3).

The top three constraints influencing firms' hiring of additional workers are the general economic situation, wage inflation, and the security situation. The general economic situation was rated a major or very severe obstacle by 63 percent of companies, apparently equally in all sectors, but it has been a more significant issue for hiring in the southern region (29 percentage points above average). In addition, the general economic situation seems to affect fewer large companies (27 percentage points below average). Wage inflation has affected

FIGURE 4.3
Changes in jobs amid conflict



Source: World Bank Libya Enterprise Survey.

Note: Figure shows the percentage of companies stating a decrease, increase, or no change in the number of employees during the conflict between 2013 and 2017.

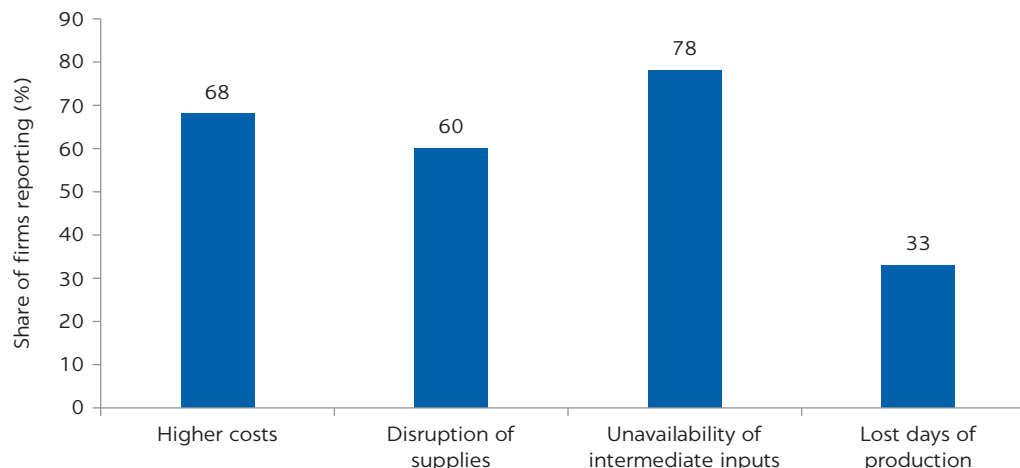
45 percent of enterprises, an effect that seems strongest in the south (48 percentage points above average). The general security situation affected the hiring decisions of 43 percent of firms.

FIRM OPERATION

The conflict has disrupted firms' production and operations in several ways, including higher costs, disruption of supply lines, unavailability of intermediate inputs, and lost of days of production (figure 4.4).

A large majority of firms (68 percent) have faced higher costs. Larger firms tend to feel the burden the most, primarily because larger firms are easier targets for illegal activities, operate in sectors for which the crisis-induced unavailability of inputs is more relevant, and have suffered more from lost days of production. Companies in the south have faced higher costs than those elsewhere. Because the southern region is landlocked, companies have likely experienced higher transportation and additional informal or illegal insurance costs because of the lack of security. The damage to infrastructure in the south is also significant. Firms in the services sector seem to be less affected by crisis-induced cost increases because the effects of high prices for raw materials, intermediate inputs, and consumption goods are less significant for them than for those in other sectors, such as manufacturing and construction. As discussed in chapter 3, the crisis has generated a significant increase in inflation, further increasing the production costs of companies operating in manufacturing and construction.

FIGURE 4.4
Types of crisis-related impacts affecting firms, 2018



Source: World Bank Libya Enterprise Survey.

Additional costs related to looting, theft, and vandalism have affected firms. About 41 percent of companies have experienced extra losses from looting, theft, or vandalism since the onset of the crisis. Larger firms (19 percentage points above average) and firms in the trade and construction sectors (respectively, 44 percent and 41 percent) are more likely to be affected. Companies in the middle region are most affected (13 percentage points above average), while those in the western region are the least affected.

The availability and price of intermediate inputs are affected by the crisis. Related to the discussion on the letter of credit crisis in chapter 3, 78 percent of firms have reported a negative effect on availability of inputs, and 42 percent consider current prices for intermediate inputs to be a major or very severe obstacle. As expected, the problem seems to be most acute for manufacturing firms.³ The high level of inflation has increased the price of domestic inputs. The security situation has also meant that firms incur additional costs to ensure safe transport of goods across certain areas of Libya. Firms in the south are particularly susceptible to this issue (see box 4.2). Problems related to access to foreign currency and letters of credit have made purchase of foreign inputs difficult and expensive. Companies in the south are the most affected by input price increases because of higher transportation costs (including informal security payments).

Firms' economic activities have been affected by lost days of production and operation. One-third of companies in the Libya Enterprise Survey report this consequence of the civil disorder. Infrastructure interruptions, shortages of supplies of raw materials, and power shortages also led to lost days of production and operation, but to a much lesser extent than days lost because of the civil disorder.

The negative effect of the crisis on production and operations has been larger for manufacturing firms (72 percent of the sample), especially manufacturing companies in the southern region (17 percentage points above average), and for micro manufacturing enterprises (11 percentage points above average). Manufacturing companies are also more likely to have seen their imports decrease between 2013 and 2017 (29 percentage points above average), mostly because of the restrictions imposed on imports of raw materials as opposed to food products.

BOX 4.2

One farm's experience with the lack of security

The business of a farm owner in southern Libya was very severely harmed by the security situation prevailing there: his workers left, his assets were looted, and he was not able to find alternative sources of income.

Ali owns a 12 hectare farm, 7 kilometers south of Sebha. He purchased the land in 1983, and until 2011 he grew products such as parsley, spinach, and dill. He had five permanent Egyptian employees, and his net profit was 105,000 Libyan dinar (LD) per year, LD 30,000 in the month of Ramadan alone.

When the conflict broke out, an explosive fell close to the farm, causing the Egyptian workers to leave the farm. The crops, worth about LD 30,000, stayed in the ground and were lost. According to Ali, farming in the south in general stopped in 2011 because “workers never came back,” although some people still raise sheep.

The 2014 crisis also had a negative effect on the sector because of deteriorating security. “After 2014, the war with the Chadian Tebus started and we were no longer able to defend our farms,” he said. “The Tebus stole the remaining equipment that we had not sold.”

With the events in the first half of 2018, Ali said he was not even able to visit his farm anymore because of the risk of being shot. Farms in the area were looted, and everything—including the electricity cables—was stolen. “The farm now is just as when I bought it in 1983. It’s bare and dead,” he said.

Ali has little hope that the situation will get better. According to him, the only solution lies in both a strong government and the unification of the tribes in the south. In the meantime, he does not work anymore and tries to pay for treatment for his son, whose foot was badly injured in the most recent fighting in Sebha.

In summary, the conflict has affected firms through a variety of channels, including revenues, jobs, changes in competition and market share, higher input costs, disruption of supplies, material damage, and lost days of production or operation due to civil disorder. At the same time, during the crisis period, the purchase of intermediate inputs has become more difficult, obstacles to accessing finance have increased, the availability of workers has declined, and import activity has become riskier. Finally, political instability, by increasing corruption, has reduced private companies’ trust in Libya’s economy and its potential for long-term growth. These impacts have affected all private firms, but their intensity varies significantly. In general, larger companies; companies operating in the manufacturing, construction, and trading sectors; and companies in the south seem to have been the most affected.

NOTES

1. Data on conflict events are drawn from the Peace Research Institute Oslo/Uppsala Armed Conflict and Location Event Data (ACLED), which covers conflict events through the 1997–2018 period. The ACLED data set covers exact location by latitude and longitude, date, and additional characteristics of a wide range of conflict-related events. The conflict events in the ACLED data are organized into nine categories: (1) battle—government regains territory, (2) battle—no change of territory, (3) battle—nonstate actor overtakes territory, (4) headquarters or base established, (5) nonviolent transfer of territory, (6) remote violence, (7) riots and protests, (8) strategic development, and (9) violence against civilians. Event data are derived from a variety of sources, concentrating on reports from war zones, humanitarian agencies, and research publications. Information from local, regional, national, and continental media is reviewed daily (Raleigh et al. 2010).

2. The evidence on the differential effect of conflict depending on firm size is mixed. Klapper, Richmond, and Tran (2013), looking at the effect of civil conflict on firms in Côte d'Ivoire, document that conflict has a larger impact on larger firms. Salmon, Assaf, and Francis (2018) show that in the context of Syria, smaller firms are more likely to exit because of the conflict.
3. Klapper, Richmond, and Tran (2013) show that the coup d'état in Côte d'Ivoire led to supply disruptions of intermediate inputs, contributing to increased operating costs for manufacturing firms. Amodio and Di Maio (2018) show that conflict-induced distortions in the accessibility of markets for imported material inputs forced manufacturing firms in the West Bank and Gaza to substitute domestically produced materials for imported ones, reducing output value.

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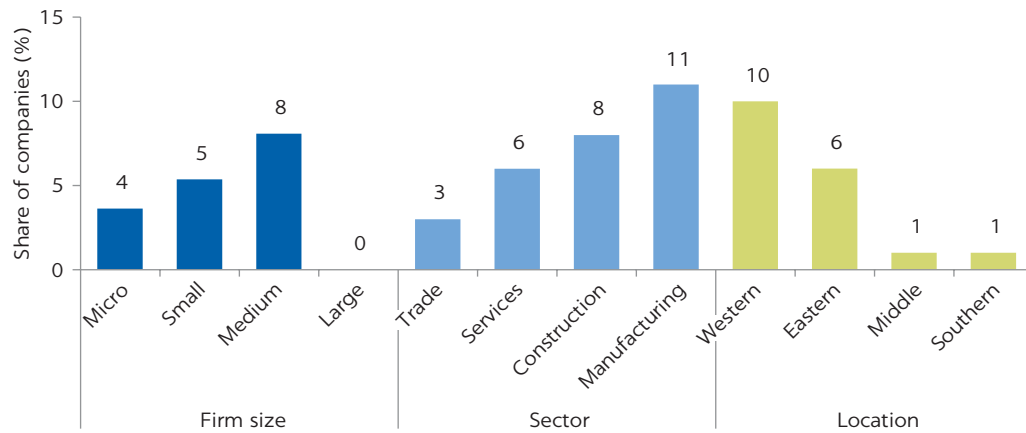
5 Resilience and Postconflict Growth Opportunities

OPPORTUNITIES AND OPTIMISM

To survive during the tough times created by the conflict, many firms have become resourceful and creative. Surviving firms needed to adapt and innovate to navigate the different challenges discussed in the previous chapters. For many firms whose main businesses have been heavily affected by the crisis, that has meant developing new product lines or offering new ways of delivering services when the conventional ways have become unfeasible (see box 5.1). The pressure to survive has made Libyan businesses more resilient and innovative, providing the economy with a good foundation for postconflict growth.

The conflict has had the effect of creating some space for the private sector through a combination of factors. The collapse of government services made room for private enterprises, and the government's failure to pay salaries provided individuals with incentives to leave the government payroll and look for income in the private sector. Because of the crisis, the state has neglected several public services, including health (failure to provide medicines to hospitals and medical centers, for example) and education (failure to maintain schools, pay salaries, or supply materials), creating a path for private investment. The departure of foreign companies has also left an empty space that Libyan private companies can fill. Overall, 5 percent of companies in the 2018 Libya Enterprise Survey stated that the ongoing crisis created new opportunities for their firms. This share is higher among manufacturing companies and companies in Tripoli and the western region (figure 5.1). These new opportunities also relate to the previous discussion that 41 percent of firms in the Libya Enterprise Survey reported an increase in revenues during the conflict as people moved to safer areas, increasing demand for some products and services (repairs, generators, education, health, and so on).

FIGURE 5.1
Companies stating the ongoing crisis created new opportunities, 2018



Source: World Bank Libya Enterprise Survey.

BOX 5.1

A money exchange owner's response to the conflict

A money exchange business based in Tripoli was directly affected by the general deterioration of the economic environment and the drop in value of the Libyan dinar (LD) caused by the conflict. Its owner, however, managed to adapt by developing a new service for his clients that enabled him to invest in real estate and a small furniture business in France. This case study shows that the conflict economy can lead entrepreneurs to decide to invest elsewhere.

In April 2014, Feras started his own money exchange business, together with a partner, in the old souk of Tripoli. Feras had previous experience as a clerk in this field when he was younger. The partners started their business with capital of LD 100,000 (equivalent at the time to approximately US\$70,000). The business consisted in transferring money between Libya and other countries: they received Libyan dinars from their clients, then ordered people in other countries, such as Dubai or Turkey, to send the equivalent in euros or US dollars to their clients' bank accounts abroad.

In 2014, the official and black-market exchange rates were very close. However, people and companies were still coming to money exchanges instead of going to the banks because of the complexity of bank procedures and processes. According to Feras, his business was able to transfer money anywhere in three to four days, whereas a bank would take up to 20 days.

Feras's business transferred money for companies in numerous sectors (such as health, raw materials for manufacturing, food imports, and cars).

The 2014 crisis harmed Feras's business when demand declined. Business owners decreased the amount of money transferred abroad because the liquidity crisis resulted in business slowdowns or closings. Restrictions on obtaining foreign currency and letters of credit also had a severe impact on the business because, as Feras stated, "Companies in the past would bring in 100 containers. Now they will only bring in two containers, and when they are sold they would bring in another two." In addition, after the fall of the dinar, transferring money was no longer profitable. This lack of profitability had a direct impact on revenue, which was made up of a percentage of the transfers. A positive impact of the crisis for Feras, however, was that the foreign currency his business had in reserve greatly increased in value, increasing faster than the value in dinars of property in Tripoli.

Like many money exchange and transfer businesses, Feras's business had to adapt. He now offers a service that keeps clients' money in safes; people no longer trust banks because they know they will be unable to get their cash when necessary as a result of the liquidity crisis. Feras's business acts as a substitute for banks.

As many other money transfer businesses have done, Feras has begun to buy and sell real estate.

continued next page

Box 5.1, continued

He benefits from increasing real estate prices and manages to generate significant profits; as an example, he bought a house in Tripoli for LD 1.4 million and sold it two months later for LD 1.9 million. A house he bought at the beginning of 2018 for LD 1.6 million is now estimated to be worth LD 4 million. In April 2018, Feras also invested in a business producing small pieces of furniture in France. The business was created by one of his friends and employs 15 people. Feras invested €30,000, a 33 percent stake in the new

business. He now receives a net profit of €1,700 to €2,500 every month, and he is investing the profits back into development of the company.

“We had one big safe in the shop. When people started leaving their money with us, we had to buy another big safe to store the money,” Feras said. “People who leave their money with us in cash can get it back when they want it, also in cash. Now, I am no longer using my own money to finance the purchase and selling of real estate.”

BOX 5.2**Creating a catering business amid conflict**

Reem is a 24-year-old entrepreneur who founded her own business in food catering. In May 2016, she started to make cakes at home, together with her mother and sister. A year later, shortly before the month of Ramadan in 2017, she opened a Facebook account to advertise her products and sell them from home. She asked a professional designer and photographer to design a logo and to take photos of the cakes to upload to Facebook. By the next morning, she had obtained more than 5,000 likes. Numerous people began to call to place orders, overwhelming the new business. Reem moved the business to her grandfather’s vacant house. Because the oven was too small, Reem and her staff had to take everything that needed to be baked to a nearby bakery. They hired people to deliver large orders, and opened an outlet for pickups of small orders.

At the end of 2017, an explosive shell hit the top floor of the house, and the firm had to cease operations. Reem spent LD 24,000–LD 48,000, which she borrowed from her father, to open a new shop. The outlet opened in February 2018 on one of the busiest streets in Tripoli. Reem was able to repay her father three months later. The business now employs 10 people to bake, sell, and deliver

its products. It is registered with all the necessary government bodies.

One of the major issues her business faces is power cuts. She bought a small generator, but it is not adequate to keep three electric ovens working. According to Reem, larger generators are too expensive because of the exchange rate and the depreciation of the Libyan dinar. Sometimes even the generator cannot be used because of the diesel shortage. Fuel shortages are also a big constraint for deliveries.

In Reem’s opinion, young entrepreneurs need both funding and advice to make their businesses grow, and they particularly need to learn how to do a market study and how to advertise on social media. “When I don’t put anything new on Facebook I notice that the sales start to slowly fall,” she said. “As soon as I put a new post, our customers remember us. Soon after that our sales go up again.”

For the future, Reem hopes to move to a larger location for baking the cakes to meet the increasing demand. “Last Eid we had to turn down 30 percent of the orders because we could not keep up with the demand,” she said. “I think the food businesses are the fastest-growing sector in Tripoli, as well as sewing businesses. Many entrepreneurs in these two sectors are women.”

Anecdotal evidence suggests that small-scale private businesses have multiplied since 2014, including cafes and catering and retail businesses, which is consistent with figure 5.1. This book’s interviews suggest that the number of women entrepreneurs in trade and food processing has increased, particularly in the municipality of Benghazi (see box 5.2).

Youth have turned increasingly to entrepreneurship because of the collapse of the public sector. According to Expertise France (2016), the majority of Libyan youth (71 percent) are attracted to entrepreneurship. Employed youth are more likely to be entrepreneurs. They use their revenues to invest in their projects and generate more income. Unemployed youth also turn to entrepreneurship because of the lack of other opportunities. Youth in particular have responded to innovative ideas and business opportunities to address different market failures generated by the conflict (see box 5.3). An example is online payment mobile applications, such as Flouzi, created to mitigate the effects of the liquidity crisis.

BOX 5.3

Launching an information technology business amid conflict

In August 2016, Abdulrahman, a 26-year-old entrepreneur, and two partners launched a business in Tripoli centered around a food delivery app. Although the business has been affected by the crisis, Abdulrahman has confidence in the future and wants to develop other business ideas.

Abdulrahman decided to create this mobile app after coming back from the United States, where he was a student. The partners started the business with money borrowed from their families. They wanted to register the business, but they were unable to do so. According to Abdulrahman, the government stopped the registration process to avoid creating more companies willing to take advantage of the letter of credit system. When the company began, it had 6 employees making deliveries. Two years later, the company has 10 people working in the head office and 30 to 40 people making deliveries.

The crisis has had an impact on the business. In particular, Abdulrahman mentioned the following constraints:

- *Security.* Poor security has prevented the firm from having its own fleet of delivery cars. The business used to have three motorcycles, but two were stolen and one broke down.
- *Infrastructure.* Because of power cuts, the company had to buy a generator. The poor internet connection is a major constraint as well, given that the whole business relies on having good internet connections, both for the company itself and for its customers. The lack of mobile coverage also complicates the work of the delivery employees.

- *Transportation.* The poor state of the roads affects delivery times, as do the constant fuel shortages in Tripoli and the difficulty of getting vehicles repaired.
- *Exchange rate fluctuations.* The app was designed by a company in Turkey. Hosting fees and all updates to the app are paid for in cash, and billing in foreign currency leads to increased costs as the exchange rate becomes less and less favorable. The company also imports delivery boxes from abroad because those produced locally are of poor quality.

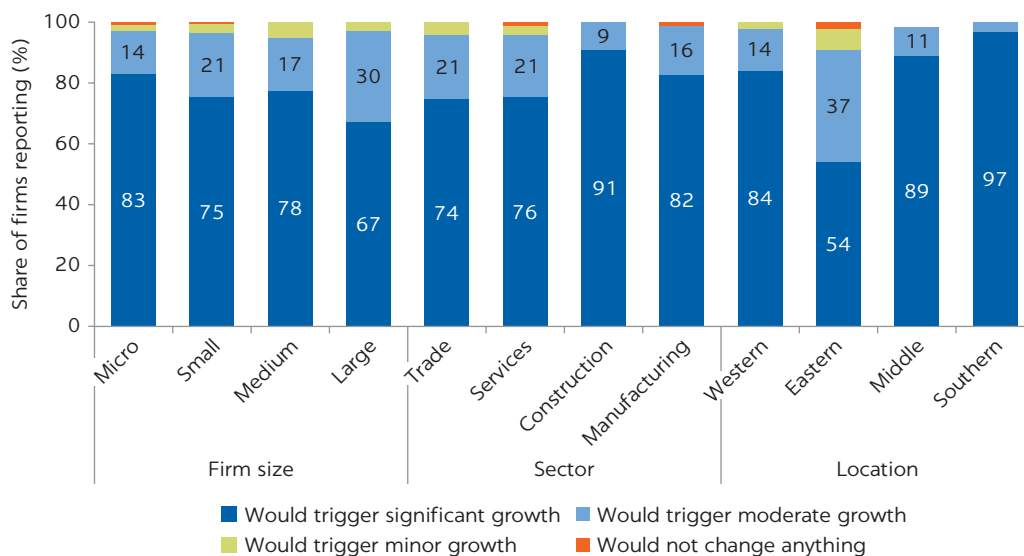
Abdulrahman does not believe his and his partners' young age has been an obstacle. "If you have a good business model, people will listen to you no matter what," he said. But there is still room for progress in supporting entrepreneurship. "Few people have both the idea and the funding. A platform should be created to put those who have the money in contact with those who have the ideas," he said.

Also in his opinion, incubators should accompany entrepreneurs for the long run, not only at the beginning. They should focus on helping entrepreneurs develop their ideas. "Money is the last thing an entrepreneur needs. He needs help with his idea first—the money comes later," he said.

Abdulrahman's business is not yet profitable, but he is confident that if the overall economic situation improves, his business will begin to make money. Abdulrahman thinks the opportunities in the app business are tremendous because Libya is a relatively untapped market for apps, and mobile smart phone penetration is very high. He and his partners already have other ideas for developing new apps.

FIGURE 5.2

Private sector's view on the impact of an end to the crisis, 2018



Source: World Bank Libya Enterprise Survey.

Overall, the private sector shows strong postconflict optimism, with 78 percent of companies in the Libya Enterprise Survey believing the end of the crisis will trigger significant growth. In fact, firms in sectors such as construction and manufacturing and in locations such as the southern region, which tend to have seen the most negative impacts from the conflict, show the greatest optimism (figure 5.2). About 97 percent of the firms in the south have expressed postconflict optimism. In the next two years, 78 percent of the firms plan to increase production, 49 percent plan to increase investment, and 41 percent plan to increase the number of people they employ. All large firms plan on increasing their production, 87 percent of them plan on increasing their investment, and almost half of them plan on increasing jobs.

PROMISING SECTORS FOR POSTCONFLICT GROWTH

The optimism expressed by the firms relates to significant growth and job creation potential in some key sectors. The interviews indicate that these sectors include construction, private health services, and fast-moving consumer goods (FMCGs). Each of these sectors is briefly discussed below, covering the conflict's impacts and exploring the growth potential in the postconflict period. A number of other sectors also have potential and thus should be further analyzed, including the information and technology sector, which is still underdeveloped but is likely to attract young as well as, possibly, foreign investors; the manufacturing sector, if restrictions and obstacles to importing machinery and raw materials are eliminated; services, especially e-services and financial services; and high-value agricultural products, especially in the south (see appendix F for a discussion of dates as an example).

Construction

The construction sector presents the greatest economic potential for Libya. The sector has been disrupted by the conflict, particularly affecting large public works projects intended to be carried out by or in cooperation with foreign firms. However, medium- and small-scale construction projects have continued throughout the recent period. Local firms, although damaged by the disruptions, have adapted to the changing circumstances. The postconflict era presents an opportunity for considerable expansion of this sector because infrastructure, homes, and businesses all require extensive rebuilding or repair.

The postconflict era holds the promise of attracting foreign investment for Libya's reconstruction. Libyan firms in this sector face critical constraints, including quality, variety, and availability of materials; shortages of labor and technical and management expertise; and lack of finance. The distribution of firms by size shows a high number of small and micro firms focused on basic construction (74 percent), a few medium-size firms capable of doing larger and more technical projects (19 percent), and a small number of large full-service companies undertaking complex design-build activities, from larger multistory buildings to physical infrastructure (6 percent). Even these large firms, however, often lack technical and management expertise, which in the past was frequently provided by foreign workers or partner firms. Before the 2014 conflict, planned spending on large public works projects attracted numerous international engineering and construction firms to Libya, many of which were required to work with local firms, helping to grow the sector. However, many of those international firms, as well as most international staff, left the country in 2014, leaving large projects incomplete and creating gaps in both the high-skill (engineering and design, project management) and low-skill (manual labor) portions of the sector. The postconflict era has the potential to persuade these foreign companies to return, thus renewing knowledge and technology transfer to local companies. At the same time, development of an effective public-private partnership framework could also encourage private investment in reconstructing postconflict Libya.

With stability restored, the postconflict period should boost investors' confidence in this sector. The crisis created doubt among investors regarding construction projects, both large and small. The largest public works projects were brought to a standstill, and commercial and residential projects also ceased because the political and security situation made them unattractive. This remains the case in many areas of the country, particularly the south, where investment in homes and infrastructure is still very low. However, some areas, such as Benghazi, appeared to show an uptick in construction activities during late 2018. Also, some foreign construction firms continue to work in Libya, almost exclusively undertaking public works programs, leading to a greater presence of foreign firms in areas where government spending has continued to flow.¹

The postconflict era has the potential to boost growth in this sector by alleviating key constraints. The availability of materials and foreign labor and access to finance are some of the challenges that the conflict has posed for this sector (as for many others). Fuel shortages, lack of foreign supplies, and the high cost of specialized building materials (many purchasers need to acquire the government-produced materials on the black market at inflated rates) currently affect the sector. Similarly, the sector has relied heavily on a large supply of foreign

workers, both skilled and unskilled. The conflict has created a drastic worker shortage and inflated wages. Many firms report difficulty retaining laborers for long-term projects because they are often lured away by other companies offering marginally higher wages. Construction firms also rely on consistent payments from clients and are often advanced materials from suppliers with whom they have steady relationships. The large fluctuations in the Libyan dinar have led firms at many levels of the supply chain to modify their pricing and contracting modalities. Suppliers dealing with imported materials are required to maintain up-to-the-minute pricing, and many firms have moved from fixed-price to cost-plus pricing models. Respondents cite corruption in the loan industry as a deterrent given that bribes are required for approvals. Nearly half of all companies cited corruption as a major or very severe constraint to growth in the 2018 survey. All these constraints must be tackled to unleash the postconflict growth potential of this sector.

Private health services

Provision of health services in Libya, still largely the purview of the state, has seen steady private sector growth in recent years. The sector represents a small portion of national accounts, at less than 1 percent of gross domestic product (GDP). According to the Libyan Ministry of Health, across Libya, 157 hospitals, 503 outpatient clinics, 426 laboratories, 302 dental clinics, and 2,254 pharmacies operate as private businesses.² The ongoing crisis has led to the closure of public facilities due to the conflict and damage to facilities, lack of funding, or misappropriation of funds and supplies. Patients thus seek alternative care options in the private sector.

The postconflict era has the potential to unleash the growth of private health care services. Private health care services are currently concentrated mainly in larger population centers. The absence of health insurance also limits access to private health care services. Given that health insurance is not generally available in the market, all transactions are paid for out of pocket, resulting in the private sector's focus on basic services within reach of this type of payment. Significant potential exists to improve health care services for Libyans by developing both public and private health care insurance products and attracting private investment.

The postconflict era should see the challenges currently posed by the conflict lessen. Shortages of utilities, materials, and equipment; discontinuous maintenance of medical equipment; and lack of qualified employees all constrain the health sector. General shortages, such as fuel and electricity, greatly hinder the ability of health care providers to do their work, and lack of power for pumping water can, in some areas, lead to a lack of clean water needed for procedures and general sanitation. Issues with imports and exchange rate fluctuations cause material shortages, which are further compounded in areas far from ports, where distance, degraded infrastructure, and lack of security have made transport of goods expensive. Equipment and materials present a challenge to the medical industry similar to that experienced in most other industries. The need to import materials, when combined with unstable exchange rates, considerably increases costs and unpredictability. As with other materials, receiving stock can be challenging outside of ports, particularly in the south. Finally, because most private institutions are self-financed, private health facilities face the same restrictions on accessing

credit that other sectors of the Libyan private sector do, greatly limiting investment and the ability to purchase updated equipment.

Fast-moving consumer goods

The operations of FMCGs has been deeply affected by the crisis. The basic building blocks of the FMCG sector,³ such as the logistics system, transport and storage, and importing, face significant obstacles in Libya today. Logistics are difficult, given that transport between regions has been affected by both deteriorating road infrastructure and insecurity. Frequent power cuts further imperil goods requiring refrigeration. Frequent power outages lead to the use of generators, but constant fuel shortages make maintaining refrigeration by generator uncertain. Furthermore, key informants report that before 2014, their refrigeration equipment had been maintained by foreign workers, but in most cases, these workers have left. These same informants state that Libyan staff are too expensive and too unreliable to do the job. Companies importing goods have been dramatically affected by the letter of credit (LC) system and its manipulation (as discussed in chapter 2). Although foodstuffs are prioritized under this system, corruption within the system has made LCs difficult to obtain for established companies, which often receive only one LC over the course of several years.

FMCG is another potential high-growth postconflict sector with expansive private sector activity. Libya has historically imported most of the goods it consumes. Few FMCG goods are produced in Libya. Because of the sheer importance of this sector in supplying everything from basic household needs to machinery and inputs necessary to various industries, as well as the sector's primarily private status, it promises fast growth if the supply chains severed because of conflict could be effectively restored in the postconflict era.

NOTES

1. The Ministry of Housing and Utilities is responsible for regulation of the construction sector. In practice, however, construction firms operate largely unregulated. Although many companies do register their businesses with the Chamber of Commerce, as is normal across all sectors, no regulations or restrictions on the industry itself seem to be actively applied, including, but not limited to, building codes, materials testing, or other standards.
2. Libyan Ministry of Public Health, as cited in WHO (2018).
3. FMCGs are a broad range of retail consumer products, and can include foodstuffs, beverages, prepackaged goods, and so on. The FMCG market relies on high volumes and turnover, typically with low margins on individual items. FMCG companies, often working with imported and branded goods, rely on strong logistics to ensure products are delivered and replenished at an adequate rate to build the volume needed to generate a profit from low-margin items.

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6 Concluding Remarks

FOSTERING RESILIENCE AND POSTCONFLICT RECOVERY

Libya's private sector is in desperate need of help to overcome the key challenges it faces because of the conflict—there is no time to “wait and see” what develops. As highlighted in the previous chapters, these challenges include several interconnected issues: limited access to imported inputs, raw materials, and machinery (due in part to difficulties in obtaining letters of credit); displacement of domestic workers and outmigration of foreign workers; and elite capture and illegal activities. The conflict has weakened the state and its enforcement capacity, exacerbating many of these challenges. Urgent action needs to be taken to enable the private sector to survive the conflict era and to create a solid foundation for postconflict growth.

Resiliency and private sector optimism for a postconflict recovery should also be fostered through priority postconflict actions. As discussed in previous chapters, the private sector was just emerging when the conflict began, and circumstances during the conflict have made it more resilient, justifying optimism regarding the postconflict period. Priority actions, ready to take effect after the conflict, are needed to translate this optimism into actual postconflict growth.

A precondition for effective support to the Libyan private sector is joint action by external partners to curtail the financial channels that enable elite capture and militia control of economic activities. In the Libyan war economy, large amounts of wealth are being generated through distortions in foreign currency, price subsidies for fuel and other basic products, smuggling, and weak controls over the disbursement of public funds. As anecdotal evidence implies, much of this wealth is flowing through the financial systems of neighboring and other countries. Although these distortions originate in policy inconsistencies and institutional fragmentation within Libya, their impact is magnified by these international financial flows. Libya's development partners can commit to using existing mechanisms such as United Nations sanctions (especially those related to finance and oil trade), anti-money laundering, Know Your Customer, and sharing of tax information, all of which would tighten the enforcement net around the underlying activities. These actions would complement the cross-border partnership suggestions mentioned in the following section.

IMMEDIATE ACTIONS FOR CONSIDERATION

Immediate high-priority private sector development actions are needed to tackle LC fraud, elite capture, and smuggling (particularly of fuel and essential subsidized items). As discussed in previous chapters, LC fraud is a key constraint keeping businesses from accessing a wide range of production inputs and finished products. Both the construction and the fast-moving consumer goods sectors, among others, are heavily affected by LC fraud, which contributes in turn to the overall inflation that hurts Libyans at large.

Elite capture in public procurement and LC access has created significant problems for the private sector, as several case studies have highlighted. Libyan businesses have suffered from a drop in domestic demand because of the conflict. A fair and transparent public procurement system is an important source of demand for the private sector, to particularly in sectors such as construction. Even developed countries, such as the United States, have used public contracts for construction and infrastructure development during economic slowdowns to boost demand in the economy. Promoting small and medium enterprises' access to public procurement could be key to promoting their development in Libya. Rigorous evidence from Brazil shows that winning at least one contract in a given quarter increases a firm's growth by 2.2 percentage points over that quarter, with 93 percent of the new jobs in that firm given to those who are either unemployed or operating in the informal sector (Ferraz, Finan, and Szerman 2015). Thus, in postconflict Libya, public procurement could also be an important vehicle for addressing informality.

To address these issues, the following actions are suggested for consideration in light of international experience:

- *Consider initiating a public-private dialogue (PPD) mechanism to prevent elite capture, particularly as related to LCs and public procurement.* International experience, such as that from Bosnia and Herzegovina, Iraq, Nepal, Sierra Leone, and the Republic of Yemen, shows that PPDs can play a special role in fragile and conflict-affected states by supporting institutional development, trust building, peace processes, and rebuilding of the private sector (Herzberg and Sisombat 2016; see appendix A on PPD in fragile and conflict-affected states). A PPD platform could also be an effective tool for reestablishing institutional structures in postconflict societies that can build capacity and governance systems for the local private sector (McIntosh and Buckley 2015; Mercy Corps 2011; World Bank 2011). Rebuilding institutional structures will be particularly important in Libya, where historically the private sector has been nascent and lacked a strong voice in policy making. The private sector, now subject to elite capture, could be supported by a PPD platform that gives it broader representation (particularly in a society with so many tribes and factions). COVID-19 (coronavirus) disruptions have promoted virtual interactions and online consultation mechanisms across countries. These online tools and platforms could also be explored for the functioning of PPD in Libya under ongoing conflict and COVID-19 disruptions.
- *Challenges that may jeopardize the functioning of a PPD in a context of fragility, conflict, and violence should be addressed.* Some key challenges highlighted in World Bank (2014) based on interviews with 27 task team leaders in implementing PPD projects in fragile and conflict-affected states include difficulty in accessing data, frequent changes in counterparts and champions, and the

capture of government functions by a small number of private sector elites. Mitigation measures emphasized in that report to properly design the PPD are the need for in-depth analytical work in political economy, broad-based stakeholder mapping, improved data collection, and a thorough communication strategy for the PPD. To protect the PPD from elite capture in Libya, representation in it needs to be as broad as possible, such as from the Ministry of Economy and Planning, the Central Bank of Libya, the major banks providing LCs, the major procuring ministries or public entities, key state institutions such as the National Oil Corporation, local governments, and private sector participants as representative as possible of the general business community (as in size, sector, and location in the Libya Enterprise Survey).

Amid weakened government capacity that in turn has fueled capture in Libya, an effective PPD mechanism, at both the central and local levels, potentially supported by international development partners, could facilitate the following:

- *Public expenditure tracking.* The PPD, using virtual consultation mechanisms, phone surveys, and administrative data under current circumstances, may consider tracking the flow and use of public expenditure from the center to localities, including oil to pumps, and publicize the results in print and social media to raise public awareness of fraud. Tools such as public expenditure tracking surveys and citizen scorecards could be used in this context.
- *Prevention of LC fraud.* The PPD could consider sensitizing the public to the issue of LC fraud and influencing the Central Bank of Libya and other banks to periodically (such as monthly or quarterly) publish the list of businesses that are awarded LCs, the value and purpose of the LCs, and actual imports undertaken against those LCs (based on customs data). The PPD may consider publicizing the findings based on LC award data to prevent a select few businesses from repeatedly obtaining LCs, make the LC selection or granting processes transparent, and ensure that LCs are properly used for their intended purposes and not sold on the black market.
- *Prevention of capture of public contracts.* The PPD may consider influencing concerned public entities to periodically publish all public procurement opportunities; a list of businesses that have won the contracts, along with the corresponding contract values; and progress of the implementation of those contracts. The PPD could analyze and publicize the findings from contract award data to facilitate a transparent contract awarding system, including possibly developing an e-procurement or similar system that is feasible in the country's current context; to motivate the public procurement system to be more inclusive of broader private sector participation; and to ensure that the LC granting mechanism is in agreement with awarded procurement contracts so projects progress in a timely fashion.
- *Periodic pulse checking and formulation of priority actions for central and local governments.* The PPD can immediately focus on some of the major issues, such as access to LCs and public contracts, related to the importance of data for the successful functioning of the proposed PPD, but it could also regularly check the pulse of the business community (through a pulse survey, for example) to identify emerging critical issues and to design actions to address those issues. This regular pulse-checking mechanism could also serve the PPD's important function of systematically gathering representative views from different private sector players and prevent vested interests from capturing the PPD's agenda-setting function.

- *Cross-border partnerships.* Partnerships should be promoted to prevent smuggling, particularly of key commodities and inputs. The conflict has weakened the Libyan government's capacity to prevent smuggling activities. Although the government has tried to enhance its security measures to protect against those activities, ongoing conflict continues to hamper the effort. International cooperation is needed to curtail the channels of elite capture and militia control previously discussed. The international community and development partners should help Libya conduct effective dialogues with its neighbors and trading partners to design and implement cross-border measures against smuggling, focusing on the priority items most needed in the Libyan economy (particularly in the current context of food security amid the spread of COVID-19 around the globe), such as fuel, foodstuffs, and essential inputs. These measures should include more effective international sanctions against known or identified smugglers, freezing their assets overseas and channeling those assets back to a stable, postconflict government for state development; and more effective collaboration between the Libyan Coast Guard and the relevant border protection authorities of Libya's neighbors and trading partners to intercept smuggling activities. At the same time, although it is easier said than done, Libya must further enforce security measures to prevent fuel truck diversions and black-market sales of fuel, informal taxation of transportation of goods, black-market sales of many subsidized key commodities, and smuggling of critical inputs and commodities out of the country.

POSTCONFLICT PRIORITY ACTIONS FOR CONSIDERATION

Building on the immediate urgent actions, postconflict priorities need to focus on promoting a growth agenda based on an inclusive private sector. The overall priority would be to heal the scars left by the conflict as quickly as possible through an inclusive approach. Concretely, these efforts could include the following:

- *To attract private investment in postconflict reconstruction, consider completing the unfinished regulatory reforms.* As discussed in chapter 3, over the past several years, Libya has introduced a series of regulatory policies and measures, but all remain incomplete or have been halted because of the prolonged conflict. Thus, a postconflict priority would be to embark on a regulatory reform agenda that provides a predictable and transparent regulatory environment conducive to foreign direct investment and public-private partnerships; overall easier entry, exit, and business operation; trade; and a transparent and efficient public procurement system free of elite capture. This agenda would be particularly critical for driving private investment in Libya's costly postconflict reconstruction and for supporting its fast-moving consumer goods sector; attracting private investment in health, education, and other sectors; and promoting export competitiveness. Private investment through public-private partnerships could play a critical role in rebuilding postconflict Libya, as experience from Afghanistan and Liberia suggests (see appendix B).
- *Consider promoting a level playing field for the private sector.* To promote an inclusive growth agenda led by the private sector and to prevent the elite capture common in the conflict era, a critical measure would be to ensure a level

playing field through regulatory policies and measures that eliminate undue advantage for state-owned enterprises, including the Military Authority for Investment and Public Works in the east and politically connected firms, over other private firms. Policy actions in this regard could include enhancing corporate governance of state-owned enterprises; transparent tax, credit, and incentive regimes that treat all economic actors fairly; promoting competition law and regulations; and setting up a competent competition authority that effectively tackles monopolies, cartels, and other anticompetitive behaviors. World Bank (2019) reviews the experience of countries in the Middle East and North Africa region in promoting the level playing field that could be leveraged to advance this agenda.

- *Consider instituting measures to channel the rents generated during the conflict for productive use instead of losing them through capital flight.* Postconflict reform efforts would also focus on how to channel the rents accumulated during the conflict into productive investment. This process would require a combination of sticks and carrots measures. In cases in which the offenders are known, more effective international sanctions on them, freezing their assets overseas, and channeling their overseas assets back to Libya could be accomplished. However, in many instances the networks of elite capture appear to be deeply embedded in Libya's tribe-based communities (and have been strengthened because of the deterioration of state capacity amid prolonged conflict). The country faces a serious risk of a huge amount of capital flight if constructive measures are not taken immediately in the postconflict era.
- *Consider promoting an entrepreneurship ecosystem with a focus on youth and women that harnesses and harmonizes donor activities.* As discussed in chapter 4, the rising trend of entrepreneurship, particularly among youth and women, could be nurtured in postconflict Libya by further developing an entrepreneurial ecosystem. The priority actions to consider include taking stock of, harmonizing, and coordinating various public sector and donor activities and programs begun before and during the conflict; identifying the gaps; and designing and implementing a sustainable strategy (with specific roles for the public sector, the private sector, and development partners).¹

The medium-term priorities need to be defined in the postconflict era. Libya needs to embark on a private sector development strategy focused on promoting an entrepreneurship ecosystem that supports youth and women, small and medium enterprise development, and export competitiveness (given Libya's small domestic market). The exact composition of this strategy should, ideally, be developed in the postconflict era. At the same time, Libya will also need to build its statistical capacity and monitoring and evaluation system in key government entities to effectively track private sector activities, the contributions that the private sector makes to Libyan development and jobs, and the response to public policies designed to foster economic growth.²

NOTES

1. A first set of programs has provided various types of training to entrepreneurs and workers (the Libyan Economic Empowerment Project; Libya's Resilience and Recovery; and the Support to Libya for Economic Integration, Diversification and Sustainable Employment program [SLEIDSE], which also helps provide access to finance). Others have provided

instruments to improve the business environment (Private Sector Engagement for Stabilization; Libya Finance and Private Sector Development Technical Assistance) or access to finance (SLEIDSE; Libya’s Resilience and Recovery; and Assaray Namaa). Another group of projects has tried to support private sector development by creating business incubators (Local Employment in Africa for Development [LEAD]; Libya’s Resilience and Recovery). Finally, some programs have specifically targeted women and the youth to increase their participation in economic activities (LEAD; Assaray Namaa; Economic Stabilization for Libya; and the Libyan Economic Empowerment Project). See appendix G.

2. Improved availability of economic data is absolutely crucial to designing any strategy for private sector development. Information on the Libyan economy is largely out of date, making it difficult for policy makers and donors to plan, and limiting businesses’ ability to fully understand the context in which they operate. Data are lacking for multiple reasons. However, a number of steps could be taken both to facilitate improved short-term information collection and to assist in developing a sustainable long-term solution that ensures availability of economic indicators. Key to this process is establishing an institutional development plan for the Libyan Bureau of Statistics and Census. At the same time, it would be useful to support the Ministry of Economy and Industry and the Ministry of Labor in developing a comprehensive and periodic industry survey and a labor market information system.

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APPENDIX A

Public-Private Dialogues in Fragile and Conflict-Affected States

LESSONS FROM PREVIOUS EXPERIENCE

Public-private dialogues (PPDs) could be crucial to advancing the reform agenda in a fragile context. PPDs are mechanisms that “bring together government, private sector and relevant stakeholders in a formal or informal process to achieve shared objectives and play a transformational role for a particular set of issues” (Herzberg and Sisombat 2016, 11). PPDs can take the form of competitiveness partnerships, investors’ advisory councils, presidential investment councils, business forums, water forums, public-private alliances, state-business relations, public-private collaboration, reform coalitions, and so forth, but they are all synonyms for interventions, cultures, or institutions that promote stakeholder engagement between the government and the private sector. PPDs are particularly important in fragile and conflict-affected states (FCSs) when there is a lack of legitimate institutions or lack of institutional coordination, lack of trust among stakeholders, and challenges in prioritizing reforms and interventions that can improve the business environment and attract investment.

Experience shows that PPDs can play a special role in FCSs by supporting institutional development, transparency, trust building, and peace processes (Herzberg and Sisombat 2016). In a discussion paper, GIZ asked, “Is there a case for private sector development interventions in contexts of open and sustained violence?” and concluded that “Public Private Dialogue has a particular peace-building element as it promotes dialogue between usually conflicting groups such as the public and private sectors” (GIZ 2016, 6). PPDs in FCS economies can be considered part of a “peace dividend” and can serve as a means to tailor necessary reforms that will generate new investments and jobs that reinforce the peacebuilding and reconciliation process (Herzberg and Sisombat 2016). Insights generated from the Middle East and North Africa–Organisation for Economic Co-operation and Development (MENA-OECD) Competitiveness Programme in the framework of the project to improve the business and investment climate in Iraq agreed that engaging nonpublic Iraqi stakeholders improved results because it opened new, wider perspectives in discussing policies at the meetings (OECD 2016).

The high costs of crime and violence to the private sector are another perspective the World Bank Group (WBG) is looking at in FCSs. Findings from the World Bank’s Enterprise Surveys, discussions with chambers of commerce and business associations, and the WBG’s Country Partnership Strategies are referencing the losses in Latin America and the Caribbean, for example, at an estimated 9.0 percent of gross domestic product (GDP) in Honduras, 7.7 percent in El Salvador, and 3.6 percent in Costa Rica (Goldberg, Kim, and Ariano 2014).

The WBG-sponsored PPDs were found to be effective tools in prioritizing and promoting reforms. The WBG has conducted several PPDs in FCS settings, including Afghanistan, Iraq, Liberia, Nepal, and the Syrian Arab Republic. These PPDs facilitated the reform agenda in the International Development Association and postconflict countries based on their ability to provide “quick wins” in implementing mitigation strategies and reaching important results established at the project design stage (Harwit 2011). This was confirmed in other evaluation reports (IEG 2013). A postcompletion evaluation of the Nepal Business Forum undertaken by the WBG’s Independent Evaluation Group (World Bank 2011) found that promoting PPD around private sector reforms in the context of a country struggling to establish democracy has been useful. By the end of the project’s second phase, results included

- Implementation of more than 41 of 120 PPD recommendations
- Savings of US\$5.67 million in private sector costs
- Establishment of public-private and private-private dialogue in an environment of political turmoil

A number of evaluations also point out the success of PPDs. In 2009, an evaluation conducted on the impact of PPD in Cambodia, the Lao People’s Democratic Republic, and Vietnam showed that over a five-year period, the partnerships have had important measurable economic impacts in private sector savings: US\$237.9 million in Vietnam, US\$69.2 million in Cambodia, and US\$2.7 million in Lao PDR, for a total of US\$309.8 million (World Bank 2007). Based on the direct impact evaluated, return on investment or the private sector gains for each dollar invested in the partnerships by the IFC and donors across the three countries is at least US\$291. The study conducted in 2016 on behalf of the United Kingdom Department for International Development (now called the Foreign, Commonwealth and Development Office) to capture lessons learned from a dozen PPDs in Sub-Saharan Africa supported by various donor programs concluded univocally that (1) good PPD, institutions, and laws enhance economic growth, even when controlling for the general quality of institutions and other factors; and (b) membership of a business in an organization increases a firm’s productivity by 25 percent to 35 percent. Firms benefit from reduced corruption, improved public utilities, and higher labor productivity. The effect is similar for firms of all sizes and includes both domestic and foreign firms (United Kingdom 2016).

An International Finance Corporation (IFC) Investment Climate survey of 27 task team leaders on PPD projects in FCSs highlighted key challenges in establishing and managing PPDs, such as difficulty accessing data, continual changes in counterparts and champions, and the capture of government functions by a small number of private sector elites. The report points to good practice in designing and managing PPD in situations of fragility, conflict, and violence. In particular, it emphasizes the need for in-depth analytical work in political economy, broad-based stakeholder mapping, a thorough communication strategy, and improvements to access to data and their collection (World Bank 2014).

Government and stakeholders interested in starting a PPD should visit the PPD website, www.publicprivatedialogue.org, where more than 1,000 PPD practitioners interact and support each other. The website offers a “community of practice” approach and supports knowledge exchange among PPD

practitioners with the objectives of (1) enabling interactive knowledge exchange, innovation, and sharing within the community; and (2) providing a vehicle to capture and disseminate knowledge products.

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APPENDIX B

Public-Private Partnerships

AFGHANISTAN AND LIBERIA

Afghanistan and Liberia demonstrate successful examples of public-private partnerships (PPPs) in fragile contexts. These PPPs were supported by the International Finance Corporation (IFC). Afghanistan's national power utility, Da Afghanistan Breshna Sherkat, had major operating challenges and was unable to sustain services to meet power demands across the country, despite significant investments in the transmission and distribution network. The Kandahar Operations Center (KOC) in particular had losses estimated to be in excess of 60 percent. The IFC was then engaged as a lead advisor on the structuring and tendering of a performance-based PPP to address KOC's dire need for improvement in its financial and operational performance.

The Liberia Electricity Corporation (LEC), the state power company, was supported in 2006 by an Emergency Power Program through an international donor group after 20 years of having no infrastructure, no fuel source, and no customers as a result of a prolonged civil war. The IFC helped the LEC bring private sector participation into the power sector. The role of the IFC in the PPP in Liberia was to design the transaction structure to guarantee the commitment of the private actors to a set of key performance indicators, which Manito Hydro International of Canada seemed most fit to achieve as compared with other bidders. The donor agencies then agreed to fund the investment, given the lack of market appetite for a fully private option. Under these circumstances there would be a partial transfer of operating risk but no financial exposure through investments. The IFC and the donor agencies also compensated for the weakened capacity of the state to ensure commitment of the private firm, and the management contract was designed as a framework agreement between the operator, the Liberian government, and the donors. Manito Hydro International Canada was then accountable for improving the operational and financial performance of LEC, rebuilding the electricity system in Monrovia, and expanding access to electricity to an additional 150,000 people for the first time since the war in the 1990s.

The IFC's successful experience in Liberia was considered a good practice for Afghanistan. The Liberia experience has helped to define the range of activities to be transferred to a private contractor and to design an appropriate incentive mechanism in Afghanistan. The IFC proposed two work streams, one for administrative support services and one for revenue improvement services. Power Generation Solutions, based in Dubai, United Arab Emirates, won the bidding, and the IFC ensured the agreement fairly allocated risk between KOC and the

private contractor. The US Agency for International Development was then leveraged to fund the project with US\$27.5 million in grant funding to cover the contractor fees as well as additional network investment, given that the business environment was far from conducive to private investment. The PPP is expected to provide electricity services to 300,000 people and 10,000 businesses and thus boost private sector development in the region, while providing extensive capacity building to KOC staff and developing two new customer care centers.

APPENDIX C

Methodological Note on the Survey

SAMPLE DESIGN

The field work for the firm survey was conducted between May and December 2018. The survey consisted of interviewing 400 enterprises in various sectors, of various sizes, and in different regions.

The firm sample was built gradually. Surveyors first aimed to interview companies identified during a prescreening, then interviewed other companies following a snowball approach. A prescreening survey from the Tripoli call center was conducted during July 2018, during which a total of 846 previously surveyed companies were contacted to identify businesses that were still operational at the time of the survey, and to plan an interview with them for the 2018 Libya Enterprise Survey. The previous surveys included the following:

- Simplified Enterprise Survey and Private Sector Mapping, World Bank (2015): 457 enterprises (<http://documents.worldbank.org/curated/en/910341468191332846/Simplified-enterprise-survey-and-private-sector-mapping-Libya-2015>)
- Youth Employment and Entrepreneurship, Expertise France (2016): 75 entrepreneurs (<http://www.alticonsulting.com/insights/youth-motivations-employment-entrepreneurship/>)
- Private Sector Research and Future Project Scoping in Misrata and Benghazi, Department for International Development (United Kingdom 2013): 314 enterprises.

The resulting response rate for the prescreening was low, with only 22 percent of the 846 interviews completed, as a result of inaccurate phone numbers, respondents not answering, and respondents being unavailable for interviews. For these reasons, of the 846 enterprises interviewed in previous surveys, only 183 participated in the full prescreening questionnaire. Among the participants, 141 companies stated that their businesses were still operational; among these, 15 said they were not willing to be interviewed as part of a longer survey. Thus, a total of 126 companies that participated in previous surveys agreed to again participate in the 2018 private sector survey. Phase 2 of prescreening allowed the research team to convince an additional 129 companies to take part in the survey. In total, 255 agreed to participate in the 2018 survey. However, when surveyors attempted to schedule interviews, many refused the interview or constantly postponed. In the end, surveyors were able to interview 70 previously surveyed enterprises, 56 of which were interviewed at the end of 2014 for the 2015 World Bank Simplified Enterprise Survey and 14 of which were interviewed in 2013 in the frame of the project by the

United Kingdom Department for International Development (now called the Foreign, Commonwealth and Development Office). In addition to these 70 firms, another 330 firms were interviewed to create the final sample of 400 firms.

In the absence of updated macro-level data and a census of Libyan firms, it was not possible to ensure that the sample was representative of the Libyan private sector.¹ However, the size (number of employees), location, and sector of activity of the surveyed companies were carefully tracked to strive to broadly outline the key features of Libya's private sector.

The following groupings were used:

Size. Micro enterprises (fewer than 5 employees), small enterprises (between 5 and 19 employees), medium enterprises (between 20 and 99 employees), and large enterprises (more than 100 employees).

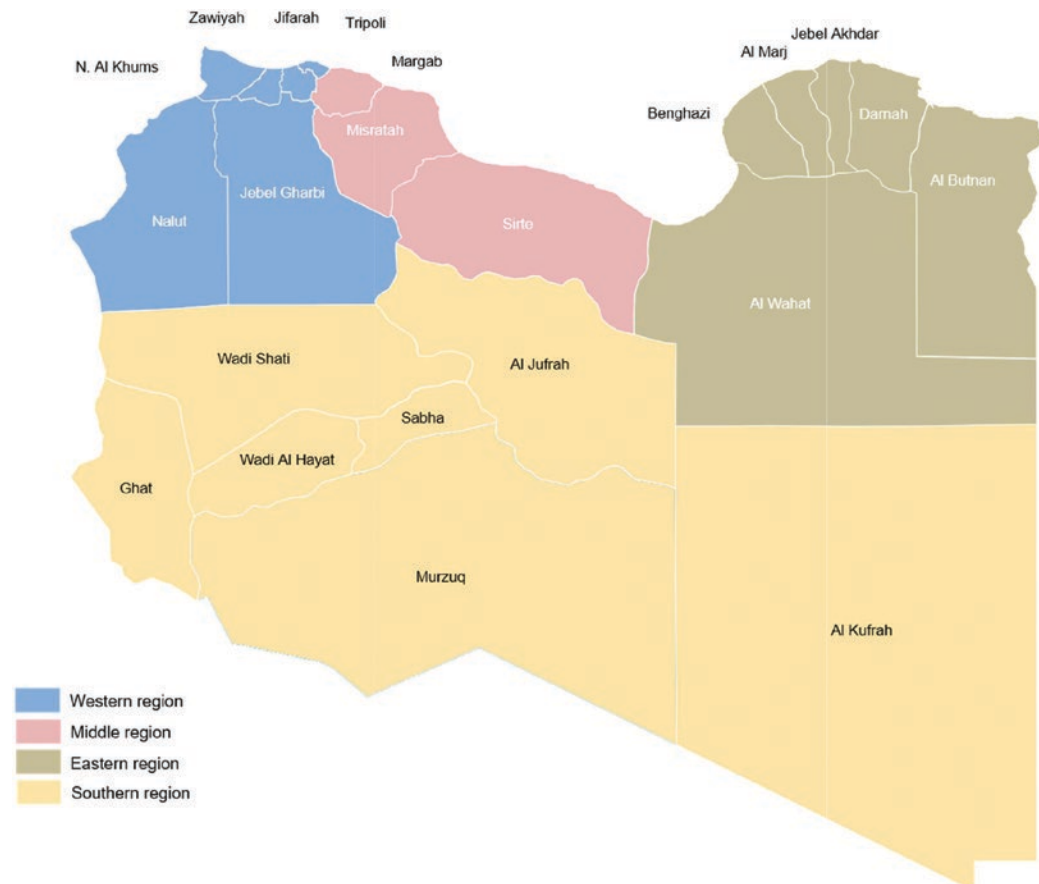
Sector of activity. 26 sectors.

Geographical areas. Companies were interviewed in the following regions (see map C.1):

- *Tripoli and the western area*, composed of the major towns west of Tripoli, mainly Zawiyah and Sabratah, as well as Sorman and Ajelat

MAP C.1

The four regions used in the sampling procedure



Source: World Bank Libya Enterprise Survey.

- *Middle area*, located to the east of Tripoli, mainly composed of coastal cities and including the economic hub of Misratah as well as cities such as Zliten and Sirte, and the province of Waddan (south of Sirte)
- *Eastern area*, comprising the main economically relevant cities in Cyrenaica of Tobrouk and Bayda, but excluding Benghazi, as well as the Wahat province
- *Southern area*, mostly in Sebha

WEIGHTING PROCESS

The weight for companies in a selected (sector-region) cell (such as trade companies in the western region) is the ratio of the firm-level average number of workers based on the data from the 2006 official census and the firm-level average number of workers based on the Libya Enterprise Survey for the given cell.

These weights are based on the most recent figures published by the Libyan Bureau of Statistics and Census in 2006. Although these figures are the most up-to-date business census available, they could be very different from the current situation. Moreover, the weighting process does not address the totality of the biases that may be presented by an unweighted sample. In fact, given the lack of available and reliable data, the adopted weighting model uses only two variables (region and broad sector). Unfortunately, company size could not be included in the weighting process because of the absence of reliable and consistent data. However, the applied weights do partially correct the biases in the initial sample and represent the best estimates that can be made using available data, given the lack of an updated business census.

A few additional adjustments were made to ensure the highest possible degree of representativeness:

- The total number of employees per sector and city was aligned with the research sample. Thus, workers employed in sectors not covered by the study were excluded. The remaining workers were grouped in line with the research's segments: geographically split in four regions (western, middle, eastern, and southern) and economically clustered in four broad sectors (trade, manufacturing, construction, and services).
- Discount factors were applied to discard the share of workers in the public sector. To maintain consistency, these data were also taken from the 2006 official census. Because of the lack of granular data for both geographic and economic segments, discount factors were applied only by economic sector (trade, manufacturing, construction, services) as assumed to be equal by region. The resulting weights applied to the sample are presented in table C.1.

TABLE C.1 Weights

	TRADE	MANUFACTURING	CONSTRUCTION	SERVICES
Western	1.48	0.49	0.88	0.36
Eastern	2.44	0.69	1.25	0.33
Middle	1.10	1.21	0.43	1.33
Southern	1.39	1.25	2.60	1.16

Source: World Bank Libya Enterprise Survey.

LIMITATIONS

Survey fatigue. Surveyors faced major difficulties in reaching and convincing previously surveyed companies to take part in the survey, even among the companies that had agreed to participate during prescreening and despite incentives put in place that helped motivate participants to a limited extent. These difficulties were manifestly caused by “survey fatigue” among interviewees who have been interviewed by many organizations and have come to consider participation in surveys to have little impact on their situations. Many businesses are reluctant to answer because they see no results.

Security context. At the time of data collection, the city of Sebha, where a large share of southern Libya’s economic activity is concentrated, suffered an alarming escalation in armed clashes between two tribes, the Awlad Suleiman tribe and armed groups loyal to Tubu tribes. This led to rising fatalities, including many civilian casualties. Two interviewers in Sebha each lost family members and friends, and many Sebha residents fled to Tripoli. In addition, Sebha residents had limited electricity, with communications down for long periods, and a fuel shortage impeded movement. This situation slowed data collection in the southern region. In addition, starting on August 26, 2018, Tripoli witnessed a military escalation on a scale nearing the 2014 conflict. Initially limited to southern Tripoli, the conflict escalated on August 31. Indiscriminate shelling affected nearly all neighborhoods in the capital, damaging civilian and commercial areas. Mitiga Airport was closed, and widespread power cuts were reported. On September 4, a United Nations Support Mission in Libya–sponsored meeting in Zawiya between the conflicting parties led to a cease-fire agreement. The fragile situation in Tripoli also created delays in the organization of the key informant interviews.

NOTE

1. Macro-level data regarding the Libyan private sector are very difficult to obtain and mostly out of date. The Libyan Bureau of Statistics and Census last performed a census of Libyan businesses in 2006. Outdated information reflecting the Libyan economy and population before the 2014 crisis is available but does not include any data specific to the private sector. Although the information available from the Bureau of Statistics and Census is limited, information provided by the 2006 census regarding labor force by type of employment, region, and sector of activity was used within the analysis and weighting of the data in this book.

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APPENDIX D

Sectoral Composition of Libya's GDP

TABLE D.1 Estimated sector values and shares in GDP, 2017

	VALUE (US\$, BILLIONS)	SECTOR SHARE ^a (%)
Oil and natural gas extraction	23.672	49.01
Public services, defense, and basic social services	10.503	21.75
Real estate and promoting activities	3.512	7.27
Wholesale and retail of vehicles and personal or domestics goods	2.836	5.87
Manufacturing industries	2.279	4.72
Transportation, storage, and telecommunications	2.144	4.44
Construction	0.924	1.91
Electricity, gas, and water supply	0.866	1.79
Financial services	0.644	1.33
Agriculture and fishery	0.560	1.16
Hotels and restaurants	0.106	0.22
Private health and social care	0.085	0.17
Private education	0.068	0.14
Other social and personal services	0.059	0.12
Mining	0.043	0.09
Total GDP	48.300	100.0

Source: World Bank elaboration based on its economic indicators, Central Bank of Libya data, and World Bank (2015).

Note: Data for GDP are from the World Bank, <https://data.worldbank.org/indicator>. Data for oil and natural gas extraction are from Central Bank of Libya, <https://cbl.gov.ly/en/wp-content/uploads/sites/2/2019/05/2019-1st-Quarter-Economic-Bulletin.pdf>. Exchange rate as of October 5, 2019: US\$1 = Libyan dinar 1.41. GDP = gross domestic product; US\$ = US dollar.

a. Sector shares are computed in two steps. First, the GDP share of the oil and gas sector is determined using the value of oil and gas production. Then, the value for each of the remaining sectors is computed using the non-oil GDP (total GDP minus the value of oil and gas production) and the corresponding sector shares as reported in World Bank (2015), which themselves were based on the most recent official data on sector share in GDP published in 2012 by the Libya Bureau of Statistics and Census. In practice, using this methodology, the proportion across the values of non-oil sectors is the same as that reported in table 4.1 in World Bank (2015). The main assumption behind this methodology of computing the value of sectoral GDP is thus the assumption that between 2015 and 2018 the relative sector weights have not changed within non-oil GDP.

TABLE D.2 Estimated distribution of sectors between private and public activity

SECTOR	PUBLIC OR PRIVATE STATUS	SHARE OF GDP, %
Oil and natural gas extraction	Exclusively public	70.1
Public services, defense, and basic social services		
Electricity, gas, and water supplying		
Other social and personal services		
Mining		
Transportation, storage, and telecommunications	Mostly public	7.5
Financial services		
Agriculture and fishery		
Real estate and promotion activities		
Manufacturing industries	Mixed	15.2
Construction		
Hotels and restaurants		
Wholesale and retail of vehicles, personal, or domestic goods		
Private health and social care		
Private education	Exclusively private	6.7

Source: World Bank elaboration based on its Libya Enterprise Survey and World Bank (2015).

Note: Exclusively public = all sector GDP produced by publicly owned enterprises. Mostly public = 75 percent of sector GDP estimated to be produced by publicly owned enterprises. Mixed = 75 percent of sector GDP estimated to be produced by private firms. Exclusively private = all sector GDP is produced by private companies. GDP = gross domestic product.

REFERENCE

World Bank. 2015. "Simplified Enterprise Survey and Private Sector Mapping: Libya 2015." World Bank, Washington, DC.

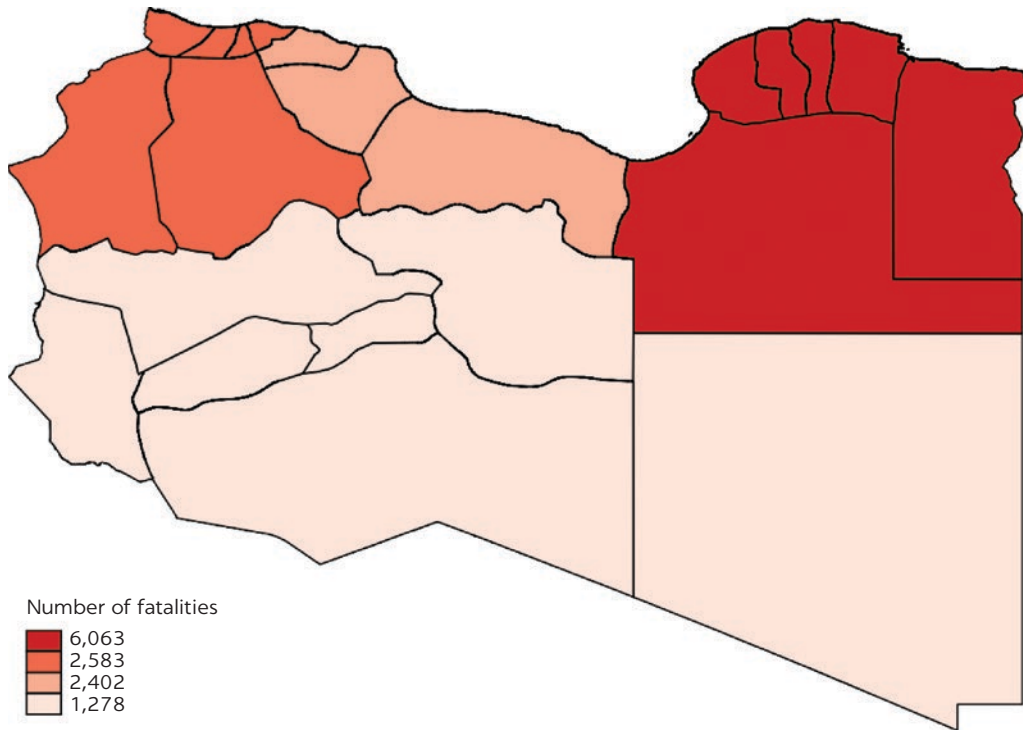
APPENDIX E

Conflict Intensity across Regions

MAP E.1

Libya conflict map, 2013-18

Conflict-related fatalities



Source: World Bank, based on Armed Conflict and Location Event Data Project and Database of Global Administrative Areas.

APPENDIX F

Date Production: A Case Study

A POTENTIAL GROWTH SECTOR

Agriculture is a primary economic activity for only a small minority of Libyans, accounting for less than 2 percent of the overall economy. Although agricultural activities are manual-labor intensive, agricultural workers tend to be largely foreign, limiting the degree to which the sector contributes to Libyan employment. Agricultural production is limited by the country's small amount of arable land (approximately 8 percent),¹ leading to imports of a large share of consumption needs. Large-scale public works projects, particularly for irrigation, have been dedicated to expanding the agriculture sector.

Libyan olive oil production has been highly promoted, with estimates placing Libya among the top 20 global producers.² Primary crops include wheat and barley. However, the largest agricultural land area is dedicated to olives, used for, among other things, production of olive oil (see figure F.1).

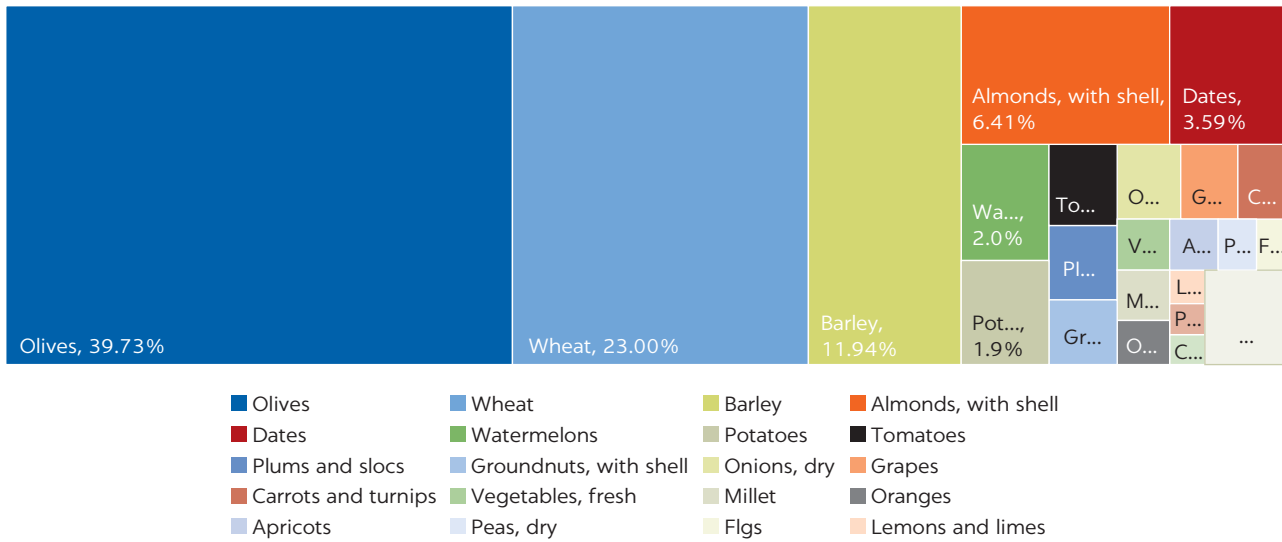
Although a variety of crops are actively cultivated, dates are a high-value crop with a strong domestic market and the potential for export as well as for expanded processing opportunities. Several large, well-established companies trade in and sell dates in the Libyan market.³ Although high-quality fruit is produced, marketing is limited by poor transportation infrastructure. Marketing is further complicated by an unclear regulatory environment, including confusion among rival governing bodies that produce conflicting restrictions on export.

Acquiring inputs has become difficult as farmers experience high black-market prices for low-quality goods. In fact, availability and price of inputs can vary dramatically from one region to another because of poor distribution networks exacerbated by transportation difficulties, including insecurity and poor upkeep of road networks in some regions. Extension services have stopped, although associations have now been organized that may eventually be able to provide these services.

An important obstacle to new investment comes from the current governance and security climate in much of Libya, which makes land acquisition difficult. Proof of ownership and subsequent registration are currently not possible. It should also be noted that many farms, particularly in southern areas, have been abandoned as a result of destruction caused by intermittent and ongoing conflicts.

Another issue affecting the sector is the lack of quality pesticides. Although quality pesticides are nominally available, farmers more likely only have access to them through the black market. The lack of pesticides has led to infestations that have dramatically harmed production, as in 2017 when an outbreak of date

FIGURE F.1
Percentage of cultivated land, by crop, 2016



Source: FAO (Food and Agriculture Organization) statistics.

pit scale resulted in several date farmers in the southern region burning trees to try to contain the outbreak. Consequently, production from the region may have fallen by as much as 40 percent.

Labor is the second-largest expenditure in date production. Libyan farmers have traditionally employed foreign laborers. Because of restrictions placed on foreign workers following the 2014 crisis, as well as ongoing efforts to limit irregular migration, labor is scarce, and farmers report difficulty retaining workers who are easily lured away by marginal increases in salary.

NOTES

1. FAO (Food and Agriculture Organization) estimate from <http://www.fao.org/countryprofiles/index/en/?iso3=LBY>, accessed September 20, 2018.
2. Figures and rankings vary by source, with many placing Libya as the world’s 12th largest producer. FAOStat shows Libya as the 17th largest producer; however, the most recent figure is an unofficial estimate from 2014, and substantial changes in the market have likely occurred since then.
3. Before 2011, much of the value chain structure was owned, subsidized, or organized by the government, including provision of inputs and equipment, spraying of pesticides, extension services, and purchase of the dates themselves from producers for final marketing. Because of subsequent changes in the government there was no longer an authority to provide these services.

APPENDIX G

Donor Programs on Private Sector Development in Libya

SELECTED EXAMPLES

- *Economic Stabilization for Libya*. This US Agency for International Development program implemented by Pragma Corporation from October 2017 to December 2018 assisted 120 select Libyan private firms to expand and create 1,500 jobs, primarily for youth.
- *Libyan Economic Empowerment Project*. This US Agency for International Development program implemented by the Libyan organization MEDA began in 2013. It aims to strengthen businesswomen's capacity to develop businesses through training, coaching, mentorship, and networking. The program, targeting youth, would run until September 2019.
- *Support to Libya for Economic Integration, Diversification and Sustainable Employment program (SLEIDSE)*. This European Union program, implemented in 2017 by Expertise France, reactivated the national guarantee fund, motivating banks to give loans to small and medium enterprises (SMEs). The fund will offer a guarantee of 70 percent for start-ups and 50 percent for SMEs.
- *Libya's Resilience and Recovery*. This program from the United Nations Development Programme, funded and launched by the European Union in 2017, provides training, guidance, and a co-working space through a public incubator (Tatweer) owned by the Libyan Local Investment Development Fund. The aim is to promote 90 start-ups by the end of the project in 2020.
- *Private Sector Engagement for Stabilization (PSES)*. A pilot (2016–18) for this US Agency for International Development project covered five communities with the aim of creating a better business environment.
- *Assaray Namaa*. Begun in June 2018, this United Kingdom–funded project, implemented by Expertise France, is a microfinance project providing technical assistance to a private bank to fund microentrepreneurs. It aims to support about 2,000 microentrepreneurs, especially youth and women.
- *Libya Finance and Private Sector Development Technical Assistance*. Implemented by the World Bank between January 2014 and January 2017, the project's goal was to invest in sustainable growth and to improve the business environment for SMEs by supporting private sector development strategies.
- *Local Employment in Africa for Development (LEAD)*. This Dutch program, implemented by SPARK together with the Libyan think tank Jusoor, 2016–19, offers training and finance to young entrepreneurs, women, and SMEs. The project created the first women's business incubator in

Tripoli (LEAP). The services provided included matchmaking with potential funders and partners, technical support to design business plans, and provision of co-working space, business advice, mentorship, and more.

- *Libyan Program for Reintegration and Development (LPRD)*. This program, started in 2012, aims to reintegrate combatants into society. The program has established six business centers across the territory and 23 Municipal Career Centers. In four years, 8,000 SMEs have been created and 70,000 ex-combatants have been reintegrated.

ECO-AUDIT

Environmental Benefits Statement

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Libya's economic stability should be a priority for the international community. Although the private sector is an integral part of the Libyan economy, limited systematic information is available on how the prolonged conflict in Libya affected the private sector and the implications for a postconflict recovery. Using original survey data, *The Private Sector amid Conflict* aims to fill this gap by analyzing how the private sector has coped with the conflict and examining resilience and postconflict optimism.

The conflict has profoundly affected the Libyan private sector. The conflict-induced macroeconomic crisis has generated a liquidity crisis, weakening the banking sector. Firms' revenues, jobs, and production have been reduced and value chains have been disrupted. The conflict has distorted the business environment, undermining the rule of law, reducing accountability, and affecting service delivery. Not all firms have been negatively affected, however. The conflict-induced changes to competition, access to inputs and markets, innovations, and informal activities tend to affect different types of firms differently. Overall, the private sector shows signs of resilience and optimism for a postconflict recovery.

The analysis in the book draws on novel data and other conflict experiences. The results presented offer suggestions for policy actions to address private sector constraints amid conflict and in the postconflict era.

