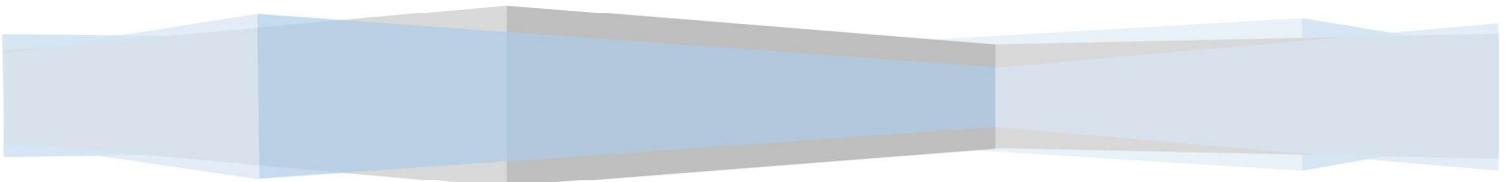




**WORLD BANK GROUP**  
Finance, Competitiveness & Innovation

# Libya Financial Sector Review

February 2020



## Preface and Acknowledgements

The Libya Financial Sector Review represents a snapshot review of the Libyan financial sector which is based on a fact-finding mission to Tripoli, Libya, in January 2019, discussions with leading participants in the financial sector, and desk research. The report is based on the limited information available about Libyan financial sector and is not intended to be a comprehensive assessment. The main objectives of the report were to take stock of developments in the financial sector of Libya, take a more structured approach to the World Bank financial sector support program in Libya and provide recommendations to the financial sector authorities in Libya on strengthening key areas of the financial sector.

The study was undertaken by a team led by Ms. Valeriya Goffe (Senior Financial Sector Specialist, World Bank). The team included Mr. Nicholas Smith (Financial Sector Specialist, World Bank), Mr. Rami Galal (Young Professional, World Bank), Mr. Ken Dorph (Consultant, World Bank), Mr. Mohaned Wefati (Consultant, World Bank), and Ms. Olga Monfiston (Consultant, IFC). The report was prepared under guidance of Mr. Jean Pesme (Practice Manager, World Bank) and Michael Schaeffer (Resident Representative, World Bank). This report captures the valuable comments and suggestions of peer reviewers Mr. Laurent Gonnet (Leader Financial Sector Specialist, World Bank) and Mr. Cedric Mousset (Lead Financial Sector Specialist, World Bank).

The team expresses sincere gratitude to the officials from the Central Bank of Libya (CBL) for the excellent collaboration during the mission to Tripoli in January 2019 and the follow-up workshop in Tunis in September 2019 to discuss the draft version of the study. The World Bank Group greatly appreciates the close cooperation of HE. Saddek Omar Elkaber, Governor of the CBL. The team would like to underscore the excellent support provided by Dr. Abdulatif Altounsi (Director of the Governor's Office), who facilitated the work on the study throughout its preparation. We are also grateful for the support from various people from different organizations, including regulatory authorities, financial institutions, private enterprises, and international donors the team met during the preparation of the report.

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## Abbreviations

ACC	Automatic Check Clearing
AML	Anti-Money Laundering
AQR	Asset Quality Review
ATS	Automated Trading System
BCT	Business Center of Tomorrow
CBL	Central Bank of Libya (Tripoli)
CCDS	Central Clearing Depository System
CFT	Counter-Terrorist Financing
CMA	Capital Market Authority
ESDF	Economic and Social Development Fund
FATF	Financial Action Task Force
GECOL	General Electric Company of Libya
GCC	Gulf Cooperation Council
GPS	Global Positioning System
GNA	Government of National Accord
IBSAP	Islamic Banking Strategy and Action Plan
IFAC	International Federation of Accountants
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IRB	Internal Risk-Based (Classification)
KYC	Know Your Customer
LC	Letter of Credit
LCIC	Libyan Credit Information Center
LDB	Libya Development Bank
LDGF	Libya Deposit Guarantee Fund
LIA	Libyan Investment Authority
LIC	Libyan Insurance Company
LIIDF	Libyan Internal Investment and Development Fund
LISB	Libya Insurance Supervision Board
LSM	Libyan Stock Market
LYD	Libyan Dinar
MENA	Middle East and North Africa
MOF	Ministry of Finance
NCRN	National Commercial Registry Number
NID	National Identification Number
NOC	National Oil Company
NPL	Non-Performing Loan
ODAC	Organization for Development of Administrative Centers
POS	Point of Sales
RAMP	Reserve Advisory and Management Program
RERA	Real Estate Registration Authority
RTGS	Real Time Gross Settlement
SCI	Specialized Credit Institutions
SDR	Special Drawing Rights (IMF)

SME	Small and Medium-Sized Enterprise
SPV	Special Purpose Vehicle
UNSC	United Nations Security Council
UNSMIL	United Nations Support Mission in Libya
WB	World Bank

## 1. Executive Summary

### 1.1. High-level Observations

1. **The Libyan economy remains heavily reliant on the performance of the oil sector.** Libya is the largest oil economy by proven oil reserves in Africa, followed by Nigeria and Algeria, and one of the richest economies in the world by the ratio of oil reserves to the size of the population. Prior to 2011, hydrocarbon sector accounted for more than 70 percent of GDP, more than 95 percent of exports and approximately 90 percent of government revenue. Efforts to diversify Libya's economy in recent years have been more than offset by the political shocks from the current crisis.

2. **Even before the civil war, the Libyan financial sector was not sufficiently developed.** Decades of central planning and the dominance of oil revenues have led to a highly centralized economy with the banks, predominantly state-owned (with the shareholder being the Central Bank), essentially mechanisms to finance government projects with depositors' funds. As a result of this structure, Libyan banks did not develop modern banking tools and approaches, especially in client strategy and risk management. Non-bank financing was particularly limited, with few alternatives to bank financing and almost no capital markets. Private property was severely limited during the revolutionary period and formal financing of private sector activities almost non-existent. Modern tools to aid wide distribution and information sharing, such as mobile banking and fintech, are embryonic.

3. **The government tried to shift the economy in the years preceding the 2011 Libyan Revolution.** The resolution of sanctions, declines in oil prices, as well as other factors encouraged the government to seek a more open economy. Private banking had been introduced and other avenues of financing, such as the stock market, had been launched. However, in view of the years of legacy weaknesses, many of these reforms had only minimal impact, and by the time of the 2011 civil war, the private sector remained weak and disorganized and the banking sector, which still overwhelmingly dominated national finance, remained heavily under the influence of the poorly managed state banks.

4. **The Central Bank remains the majority shareholder of public banks, which still hold 90 percent of deposits and loans in the system, while being the regulatory agency of the banking sector.** This prompts obvious conflicts of interest, including potential forbearance to the benefit of state-owned banks, as well as granting credit to well-connected beneficiaries. As with many state banks, the Libyan state-owned banks act as a mechanism to artificially support employment. Pressure is strong to maintain staffing, even in unprofitable branches, to avoid further increasing unemployment.

5. **An earlier Financial Sector Review (2012) highlighted many of the emerging weaknesses.** These included gaps in the enabling environment, sector governance, skills weakness, both among the banks and within the central bank, and the lack of a framework for Islamic finance as key challenges. One of the key recommendations was re-thinking the role of the state in the financial system, but no progress in that regard has been made, which is not surprising in the

situation of an ongoing conflict. Other significant recommendations related to establishment of movable and immovable collateral registry and overhauling insolvency and creditor's rights regimes, but no progress was made in these areas either. The CBL, however, made strides in some other areas, including developing the credit registry, strengthening the payment systems, and developing an Islamic finance framework, including capacity-building of CBL in Islamic banking.

**6. The current political crisis has put on hold attempts at reform and has further weakened Libya's levels of financial intermediation and financial inclusion.** The results of the civil war and the political fragmentation have been devastating to financial development, creating new challenges and exacerbating existing ones.

**7. The split in the central banks has impaired normal central bank functioning and has had an impact on the financial sector in many different ways.** The split has stymied:

- Control over monetary and fiscal policy as the Eastern branch of the Central Bank prints money and issues bonds without central authority. Spending of the Eastern authorities on salaries, goods and services etc. is partially financed by the government in Tripoli, while the rest is funded through money printing and borrowing independent of Tripoli.
- Performance of full bank supervision of banks headquartered in the East is not possible. The three banks headquartered in Bayda represent up to a third of banking activity.
- Management of foreign currency decisions, both due to lack of control of funds as well as inability to reach formal decisions (e.g., on dinar devaluation).
- Payment systems, as banks in the East operate independently. A dual payment system has been created: banks in the West process payments via the real-time gross settlement system (RTGS), while banks in the East perform transactions manually as the Eastern branch of the Central Bank has been disconnected from RTGS<sup>1</sup>.
- Overall control of banking functions and financial flows given the decline in the respect for the rule of law and the limited authority of the central bank amidst the political chaos.

**8. Difficult access to foreign currency at the official rate and lack of trust in banks led to a massive systemic withdrawal.** By 2018 up to a third of Libyans' cash was outside the banking system. The dramatic decline in the value of the Libyan dinar led to hoarding of hard currency and unequal access, with profit-seeking by more powerful forces and corrupt individuals and entities, further damaging confidence in the banking sector. Devaluation of the dinar would help to solve the problem, but this is currently not possible, given CBL Board's lack of authority caused by the central bank split.

**9. As a work-around solution, the CBL moved to narrow the gap between the formal and informal markets with a 183 percent fee on foreign exchange transactions<sup>2</sup>.** This action enabled wider access to foreign currency and resulted in a rapid narrowing of the gap between the black market and official rate. It also created significant inflow of funds into the budget: the FX tax was the second largest revenue item in Libya's budget in 2019 (after oil revenues). However, the FX tax is only a partial solution to the underlying problem: due to gaps in the application of FX tax, there are currently three exchange rates - CBL rate, rate with the tax, and parallel market rate. In addition, the easier access to FX has exposed vulnerabilities at some poorly governed

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<sup>1</sup> The Central Bank does not recognize the manual clearing procedure adopted in the East

<sup>2</sup> The fee was reduced to 163 percent in July 2019

banks: the volume of FX sales has been increasing rapidly in 2019 without sufficient due diligence performed by the banks on their clients. CBL implemented enhanced due diligence of several banks which started facing liquidity problems due to massive sales of FX to their clients. With the recent closure of oil export terminals in Libya, the expectation is that the authorities will now be looking to protect foreign currency reserves and there may be changes to foreign exchange management.

**10. The hurried introduction of shari’ah requirements in banking transactions further set back financial development.** Unlike most Muslim-majority countries, the new Libyan political leadership universally banned interest bearing transactions<sup>3</sup>. This led 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 as well as lack of clarity on pricing, investment account status, and asset-liability management have further dampened credit extension. Loans and credits accounted for only 13 percent of bank assets in 2018. The credit that does flow goes overwhelmingly to the largest firms.

**11. Access to finance for firms has been hindered by a number of supply and demand side factors.** On the demand side, many firms have been directly impacted by the conflict, resulting in difficulties in repaying bank loans. Key players in the real economy have suffered loss of income and of assets either through direct harm to their operations, or due to loss of clients, or to collapse of supply and distribution channels. A significant share of the Libyan private sector was in the business of commerce, primarily import and redistribution. These activities have been hit hard by the loss of civilian income and the decline in the value of the Libyan dinar, and by its volatility, as well as the unreliable availability of foreign exchange.

**12. Banks have neither enough information nor internal capacity to make informed and rational credit decisions.** The still low functioning of the national credit information system and the overall lack of ancillary quality control on financial information, such as audit firms and rating agencies, hinders confidence in the reliability of information. Libya ranks 186 (one of the lowest in the world, out of 190 countries) on getting credit indicator in Doing Business 2018 report and scores 0 on both legal rights and depth of credit information indices. Banks’ credit analysis and credit oversight capacity are weak at all levels, due to poor risk governance, the lack of tools and experience, and insufficient human resource capacity in the Libyan financial sector at this time. Additional challenges stem from political volatility and the upsurge in corruption linked to the rise of militias. Finally, banks are reticent to rely on collateral as a back-up against losses due to many reasons, including the unreliable status of property ownership in view of the dysfunctional land registry, the lack of entities capable of carrying out a rigorous appraisal process and a weak legal and judiciary system that adds time and uncertainty to collateral seizure and liquidation.

**13. The whole banking sector is almost certainly undercapitalized.** CBL has been conservative in requiring banks to maintain high levels of capital. This serves to create a greater cushion to protect but at the same time lowers bank profitability and further squeezes margins, leading to lower risk-taking. At the same time, given the CBL’s inability to conduct rigorous reviews, the overall poor information management within the banks and especially the state banks,

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<sup>3</sup> While in full force in the West, the law has been suspended in the East for five years

and the great shocks to the banks' income flows and asset quality since the current crisis, it is almost certain that the CBL's estimates of bank capital are no longer realistic.

14. **The state-owned banks have particularly questionable asset value.** The state banks have for many years been obliged to finance ailing state-owned firms and to support social objectives, such as affordable housing, with little hope of repayment. A realistic valuation of the state banks' assets, and therefore their capital value, would necessitate a full-scale audit by an independent firm, which has not occurred for many years.<sup>4</sup>

15. **Initiatives and progress in the financial sector beyond banking have all but frozen.** The stock exchange has essentially been on hold with very little public trading. A few private placements, both shares and sukuk, have been proposed but the lack of political and legal clarity has stifled progress. Other forms of finance, such as leasing and insurance, remain embryonic. Insurance is further hobbled by the lack of experience with takaful, shari'ah compliant insurance approaches. The Specialized Credit Institutions (SCIs), such as the Agricultural Bank, which have played a distortionary role in the financial sector, are essentially temporarily suspended due to high levels of defaults and lack of replacement funding. Nevertheless, there has been a positive recent development in the microfinance sector - the opening of the country's first microfinance institution, which is a subsidiary of the existing bank established with donor funding.

16. **Given the underdeveloped state of the financial sector, micro, small and medium-sized enterprises (MSMEs), individuals and households, as well as refugees and migrants tend to be underserved.** The inability of banks to assess the risks and returns of investing in SMEs, a disagreeable business environment, and limited efforts to support SMEs hurts the ability of these firms to function and contribute to the economy. Households and individuals face limited access to financial services for saving, borrowing, and making and receiving payments hindering their ability to prepare for emergencies or make plans and investments for their futures. While two thirds of Libyans hold an account at a financial institution (compared to 48 percent in Middle East and North Africa region), most of these are limited to receiving wages with very little financial intermediation. Savings and borrowing rates are high, but predominantly informal. Refugees and migrants face even greater obstacles to financial services due to their exclusion from the formal sector, leaving many at the risk of robbery with no safe place to store and transfer money.

## 1.2. Key Recommendations

17. Any initiatives to strengthen the Libyan financial sector are invariably tied to the evolving political situation in Libya, including but not limited to the political division between Tripoli and the Eastern region. In particular, reforming/stabilizing the monetary regime is a precondition to any progress in financial intermediation but can only be accomplished following the unification of CBL with its Eastern branch.

18. Resolution of the political crisis and unification of central banks is beyond the scope of this report, however, many initiatives could be launched, to varying degrees, even under the current circumstances in anticipation of an eventual peaceful outcome. Some of these should be

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<sup>4</sup> SCIs, for example, have not been audited since 2013 and none of the state banks have recently published financial statements.

implemented urgently, in the next 6 months. Other initiatives, which will help to lay the groundwork for recovery of the financial system, will take longer. Given that there is no entity in Libya which is responsible for overall financial sector development, the establishment of the **National Steering Committee** composed of main financial sector stakeholders is recommended to spearhead implementation of reforms proposed in this report.

*Measures to be implemented in the next 6 months*

<p>Measures which are politically sensitive and highly conditional on achieving some progress in the resolution of political divide:</p> <ol style="list-style-type: none"> <li>1) International audit of CBL and its Eastern branch to allow for possible reconciliation and re-merger<sup>5</sup></li> <li>2) Discussions between technical teams of CBL and Eastern branch on clearing of payments to reconcile the dual payment clearance system, foreign exchange management, emission of currency and borrowing by the Eastern branch, liquidity challenges faced by Eastern banks and possible ways to address them, and other critical topics.</li> </ol> <p>Other measures:</p> <ol style="list-style-type: none"> <li>3) Identification of key gaps in capacity of CBL to combat anti-money laundering/terrorist financing (AML/CFT) risks and development of a capacity-building program</li> <li>4) Preparations for independent asset quality review (AQR) of the leading banks to determine capital shortfall (preparation of TORs for a consulting firm, analysis of legal and regulatory framework for mergers and acquisitions and banking resolution)</li> <li>5) Development of the legal and regulatory framework for microfinance and leasing and commencement of a capacity-building program for banks in SME finance</li> <li>6) Groundwork for rebuilding the land registry, given land registry's importance for expansion of any type of financing in Libya. This could include initial work on recovering and protecting land records and training of staff of Real Estate Registration Authority (RERA) and judicial courts</li> </ol>
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*Longer-term measures to set the groundwork for recovery of the financial system*

#	Recommendation	Description	Counterpart
1	<b>Revisit role of the state in the financial sector and strengthen financial sector governance</b>	<ul style="list-style-type: none"> <li>- Carry out an AQR of the leading banks to determine capital shortfall and appropriate actions.</li> <li>- Develop a long-term strategic plan for the financial sector, which will involve strengthening, rationalizing, and privatizing or commercializing the state banks, removing CBL from ownership of the banks which it supervises, and rethinking the role of the Specialized Credit Institutions (SCIs) and state-owned funds</li> </ul>	MoF and CBL
2	<b>Continue strengthening CBL capacity</b>	Undertake an assisted Basel Core Principles (BCP) assessment to determine key gaps and determine key areas of focus of capacity-building. Strengthen CBL in areas where gaps have been identified through BCP assessment. Some of the preliminary areas identified include bank governance, risk management (Basel II compliance), and IT risk oversight. Support CBL staff in the areas of financial inclusion and financial stability.	CBL
3	<b>Rebuild the Land Registry</b>	Continue working on rebuilding the land registry	CBL, RERA

<sup>5</sup> The CBL (Tripoli) welcomes international audit and has already prepared all the documents. The contract has been awarded to an accounting firm and the audit is to begin shortly.

4	<b>Implement measures to strengthen the payment infrastructure and facilitate shift to electronic payments</b>	Take actions to achieve full interoperability of a centralized and well-supervised payment system: fully integrate the national switch to connect automatically with all banks and Government payment streams, strengthen legal and regulatory framework for payments, facilitate the shift from cash-based transactions to electronic payments, and rationalize POS and ATM systems and to distribute them more broadly	<i>CBL</i>
5	<b>Further develop and implement the national strategy for Islamic finance</b>	Commission the study to inform policy-making on the impact of Islamic banking conversion so far; implement the Islamic Banking Strategy and Action Plan (IBSAP), including the development of supervisory tools for supervising unique risks of Islamic banks. Additional strategies encompassing insurance, leasing, and capital markets will need to be developed in due course.	<i>CBL, LISB</i>
6	<b>Implement measures to enhance access to financial services for population and MSMEs</b>	Strengthen financial infrastructure, enhance financial literacy, develop capacity of banks to better serve these segments. Encourage development of partial credit guarantee fund and other supporting tools.	<i>CBL, MoF</i>
7	<b>Strengthen AML/CFT capacity</b>	To reconnect with the global financial system the sector will need to invest in lowering risk perceptions overall, but urgently in the area of AML/CFT where poor controls have effectively redlined the Libyan banks. It is recommended to undertake national risk assessment to identify, assess and understand ML/TF risks and then take action to mitigate such risks.	<i>CBL</i>
8	<b>Improve collection of financial sector information</b>	The CBL should lead a program to develop high quality supervisory and risk information about the financial sector. A key concern when analyzing the Libyan financial sector is the lack of reliable information, on both a macro-level (e.g. banking statistics) and a micro-level (e.g. reliable financial statements).	<i>CBL, LCIC</i>
9	<b>Strengthen the regulatory framework supporting financial intermediation</b>	Some of the most critical ones include regulations and practices surrounding bankruptcy and insolvency; laws and regulations supporting minority and creditor rights and disclosure	<i>CBL, MoF</i>
10	<b>Strengthen the governance of capital markets oversight and the Libyan Stock Exchange</b>	Enhance governance, autonomy, capability, and transparency of the stock exchange's regulator to ensure the perception of impartiality and information symmetry and encourage both issuers and investors. This could include enhancing the regulatory framework to provide for greater disclosure and a broader array of investment mechanisms, such as funds	<i>LSM</i>
11	<b>Shift the insurance sector oversight to the Libyan Insurance Supervision Board (LISB)</b>	LISB currently enjoys only observatory rights but has no powers to sanction or otherwise control the industry to ensure adequate protection of policyholders. These powers currently reside with the Ministry of the Economy which itself has neither the focus nor the special experience needed to evaluate and actively supervise the insurance industry.	<i>LISB, MoF</i>
12	<b>Determine an approach to grant greater access to finance to Libya's refugee population</b>	This is initially a political decision but will also link to strategies on financial infrastructure and how it is used by visitors and non-citizens, including for transfers, savings, and credit. Libya needs to establish a baseline of data on refugee demographics as well as financial access needs and then a program to fairly address them.	<i>CBL, MoF</i>

## 2. Objectives of the Report

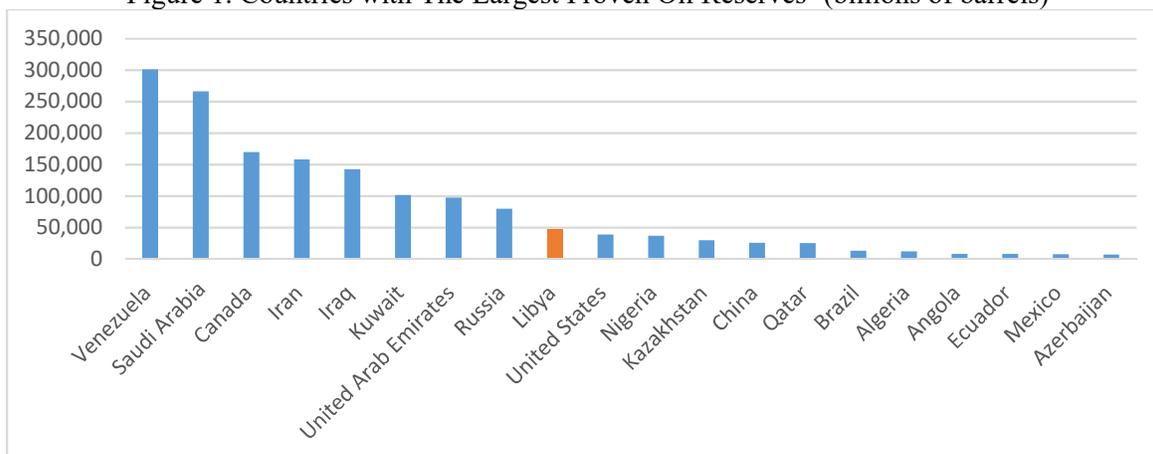
19. The main objectives of the report were to take stock of developments in the financial sector of Libya, take a more structured approach to the World Bank financial sector support program in Libya and provide recommendations to the financial sector authorities in Libya on strengthening key areas of the financial sector. This document represents a snapshot review of the Libyan financial sector based on a mission to Tripoli, Libya, in January 2019, discussions with leading participants in the financial sector, and desk research. The list of interviews conducted is contained in Annex 1. Following the completion of the report, technical assistance will be provided to Libyan authorities with the implementation of key recommendations.

## 3. Country Profile

### 3.1. Economic context

20. **Libya holds the ninth largest oil reserves globally (Figure 1) and its economy is heavily reliant on the performance of the hydrocarbons sector.** Libya is the largest oil economy by proven oil reserves in Africa, followed by Nigeria and Algeria, and one of the richest economies in the world by the ratio of oil reserves to the size of the population<sup>6</sup>. Libya has the potential to have an even greater reserve of fossil fuel than we currently know of, as it remains largely unexplored. There are several international oil companies (IOCs) operating in Libya through JVs with National Oil Corporation (NOC). These include Italy's Eni, Total of France, Austria's OMV and U.S. firms ConocoPhillips and Hess, but some of these companies have stalled operations due to the security concerns. Prior to 2011, hydrocarbon sector accounted for more than 70 percent of GDP, more than 95 percent of exports and approximately 90 percent of government revenue.<sup>7</sup>

Figure 1. Countries with The Largest Proven Oil Reserves<sup>8</sup> (billions of barrels)



Source: The World's Largest Oil Reserves by Country. Available at : <https://www.worldatlas.com/articles/the-world-s-largest-oil-reserves-by-country.html>

<sup>6</sup> Libya has a small population (6.5 million people) and one of the largest oil reserves in the world

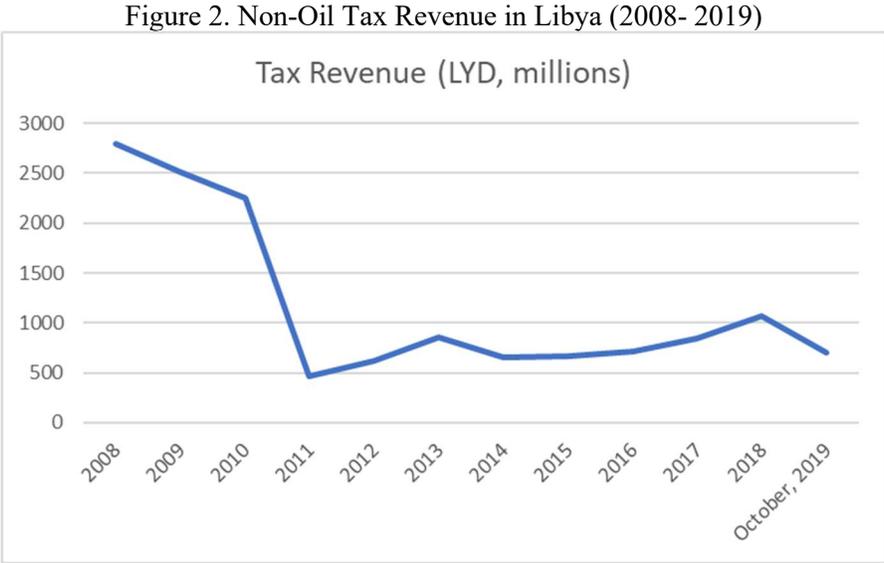
<sup>7</sup> Libya beyond the Revolution: Challenges and Opportunities (IMF report 2012)

<sup>8</sup> The World's Largest Oil Reserves by Country. Available at : <https://www.worldatlas.com/articles/the-world-s-largest-oil-reserves-by-country.html>

21. **High degree of dependency on hydrocarbons makes economic performance of Libya vulnerable to oil shocks.** Moreover, with the hydrocarbon sector not being labor-intensive, few private sector jobs exist for most of the population. The majority of Libyans work in the public sector, putting a significant strain on the budget.

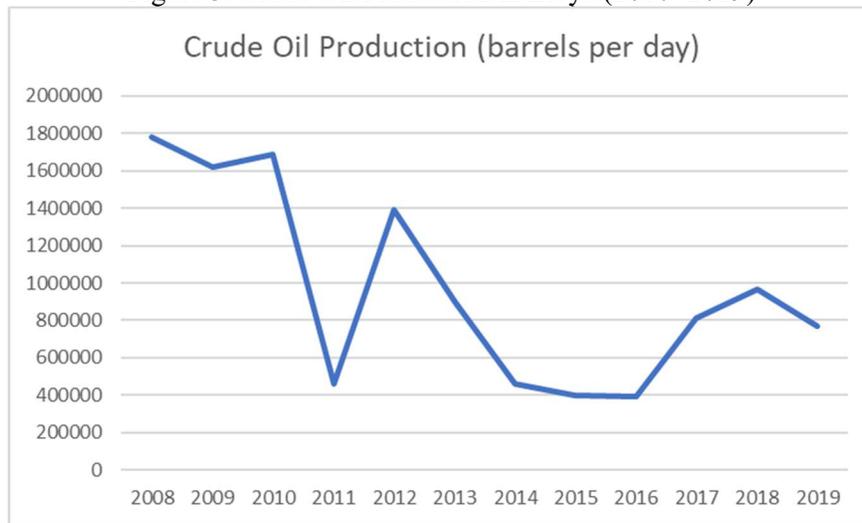
*Consequences of the political conflict for the economy*

22. **The political conflict that divided the country has severely damaged the economy.** Weak security conditions, political divisions, and clashes over the control of country’s oil infrastructure have been disrupting the oil production and exports, damaging the overall economy. Political division negatively impacted the operations of the Tripoli-based NOC that is often challenged by the parallel entity in the east. Non-oil tax revenues have also gone down due to the decline in the economic activities (Figure 2). Libyan economy shrank by an estimated 35 percent when compared to 2010, with GDP recorded at US\$48.32 billion in 2018 compared to US\$ 73.79 billion in 2010. Oil production dropped sharply when compared to pre-2011 levels (Figure 3), and the continued unrest and attacks on the oil fields stifle the growth in oil production in recent years. The collapse of the tax revenue and a drop in the oil production during the conflict combined with the growing current spending resulted in significant budget deficits. Real incomes have eroded during the years of conflict, exacerbated by unparalleled high inflation (Figure 4). Substantial cash shortages emerged, characterized by insufficient banknotes to meet deposit withdrawals.



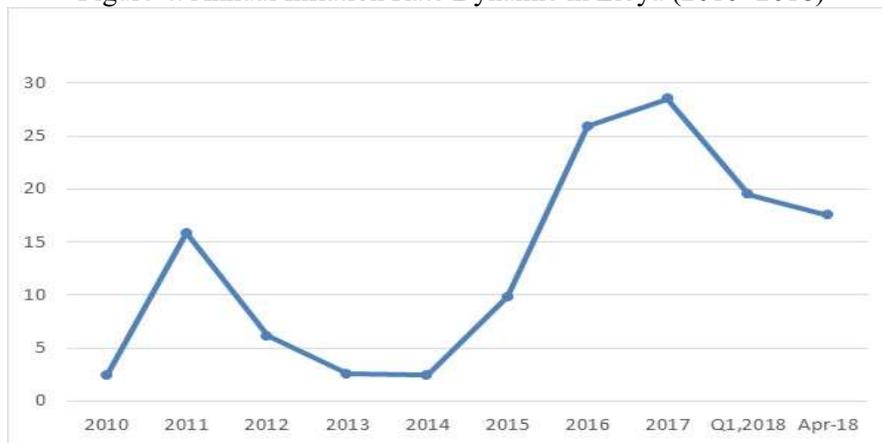
Source: CBL Data

Figure 3. Crude Oil Production in Libya (2010- 2019)



Source: International Monetary Fund, retrieved from FRED, Federal Reserve Bank of St. Louis

Figure 4. Annual Inflation Rate Dynamic in Libya (2010- 2018)



Source: CBL Data

23. **Foreign exchange reserves also experienced a significant decrease:** they sharply reduced from US\$ 117.133 billion in 2012 to its lowest level of US\$ 62.1 billion in 2016. Due to reduction in the foreign exchange reserves, authorities instituted restrictions on access to foreign exchange. A parallel foreign exchange market emerged, where the currency traded at a fraction of its official value. The Libyan dinar has been pegged to the IMF's special drawing rights (SDR) at a rate of SDR 0.5175: LYD1 since June 2003. Currency shortages post 2011, however, combined with limit on cash withdrawals by individuals, imposed by the Central Bank, led to the emergence of the parallel black market. The dynamic of official rate vs. black market rate during 2016-2018 (based on daily data) is shown in Figure 5 below. At its peak, the black-market rate was almost 10 LYD for 1 US\$. Due to the measures taken by authorities in 2018, as later discussed in this report, the black-market rate significantly decreased. As of October 2019, the official rate was recorded at 1.41 compared to the parallel rate of 4.09.<sup>9</sup>

<sup>9</sup> CBL Quarterly Economic and Financial Indicators October 2019

Figure 5. FX Rate Dynamics (LYD/US\$)



Source: CBL Data

24. **The conflict has resulted in the emergence of parallel government authorities.** There are currently two central banks in the country, the CBL in Tripoli and another one in Bayda, which operate independently of one another. Political divisions have also negatively impacted the operations of the Tripoli-based National Oil Company (NOC) that is often challenged by the parallel entity in the east. The Libyan Investment Authority (LIA) has been plagued by a leadership dispute between three executives claiming to be in charge of the country’s sovereign wealth fund, assets of which have been frozen by the UN sanctions since 2011.

25. **The rise of the militia cartel, that controls much of the Libyan capital, presents a serious concern as it has grown into a criminal network that has infiltrated businesses, politics, and the administration.** As the state funding to armed groups, which represent the capital’s security force, started to decline in 2015, the powerful militias turned to other sources of revenue, such as extortion, kidnapping, taxing markets, and financial fraud. The worsening economic conditions subsequently led to the penetration of the financial system by the armed groups. The growing influence of the militias over the banking sector, with rumors of bank employees colluding to provide information on bank depositors to the armed groups, led to further deterioration of consumer trust in the banking sector.

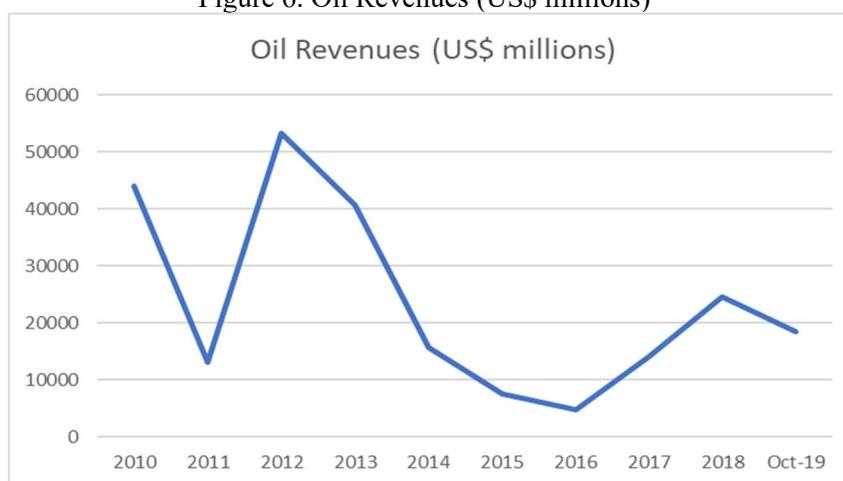
26. **The wide spread between the official and black market foreign exchange rates, in particular, allowed the militias to engage in a number of fraud schemes.** The most common one involved obtaining letters of credit (LCs) that granted access to foreign currency at the official exchange rate and reconverting foreign currency to Libyan dinars on the black market. These and other schemes prompted the government to introduce measures designed to tighten access to foreign currency by individuals, which subsequently, combined with growing inflation and local currency withdrawals, contributed to the creation of the liquidity crisis.<sup>10</sup>

<sup>10</sup> German Institute for International and Security Affairs. April 2018. “SWP Comment 20”

## Recent economic recovery

27. **In 2017 Libya’s oil sector, and subsequently its oil-dependent economy, experienced a recovery.** Oil revenues dynamics is shown in Figure 6 below. This is mainly due to increased oil output and a pickup in global prices. The increase in the oil output is reportedly driven by the resumption of production from some of the country’s largest oilfields, as accords with militias have taken hold<sup>11</sup>. The average production was reported at just under 1 million bpd in 2018, compared with 390,000 bpd in 2016 and 822,000 bpd in 2017. NOC recently reported that BP Plc and Eni SpA are planning to re-start work in Libya, setting the stage for it to boost production by hundreds of thousands of barrels a day<sup>12</sup>. NOC has stated that several IOCs are looking at returning to Libya, due to the country’s “low-cost-to-market” resources and comparatively small amounts of sulfur, a contaminant, in its crude.

Figure 6. Oil Revenues (US\$ millions)<sup>13</sup>



Source: CBL data on oil revenue and expenditure, CBL Quarterly Economic and Financial Indicators October 2019

28. **The gains in oil production levels have made a significant impact on Libya’s economy.** They contributed to positive economic growth, helped ease the liquidity shortages, boosting deposits in the commercial banking sector, recorded at LYD 90,981 million in October 2019<sup>14</sup>. According to the World Bank’s estimates, GDP grew by almost 27 percent in 2018<sup>15</sup>.

29. **With oil revenues increasing in 2018, the fiscal position of the Tripoli-based government started to gradually improve.** In 2019, Libya recorded a surplus of LYD 1.2 billion compared to a budget deficit of LYD 10.6 billion (over US\$ 7.5 billion) in 2017. High wage bills and large subsidies are still putting a significant strain on the government budget. See Figures 7 and 8 below.

<sup>11</sup> Oil dividend could turn Libya into North Africa’s Norway. Arab News. Saturday, October 20, 2018

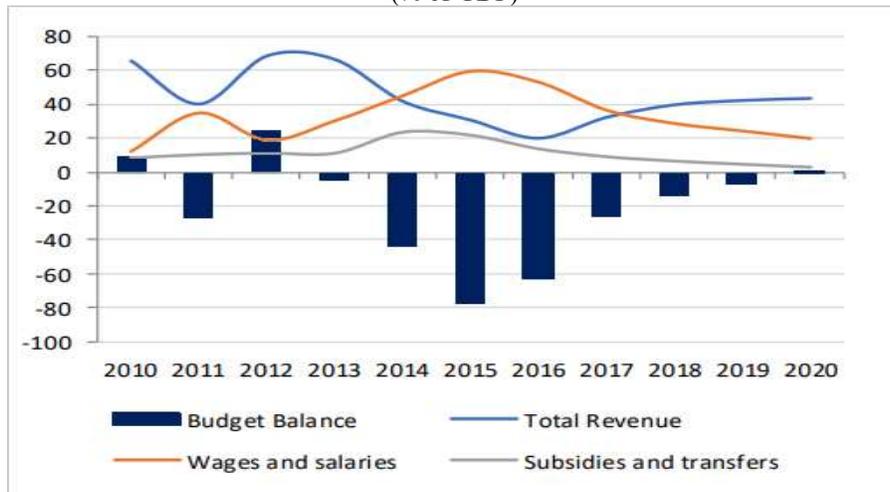
<sup>12</sup> Libya Oil Boss Sees Output Jump as BP, Eni May Re-Start Soon. Bloomberg. October 22, 2018.

<sup>13</sup> 2011 data available only until March

<sup>14</sup> CBL Quarterly Economic and Financial Indicators October 2019

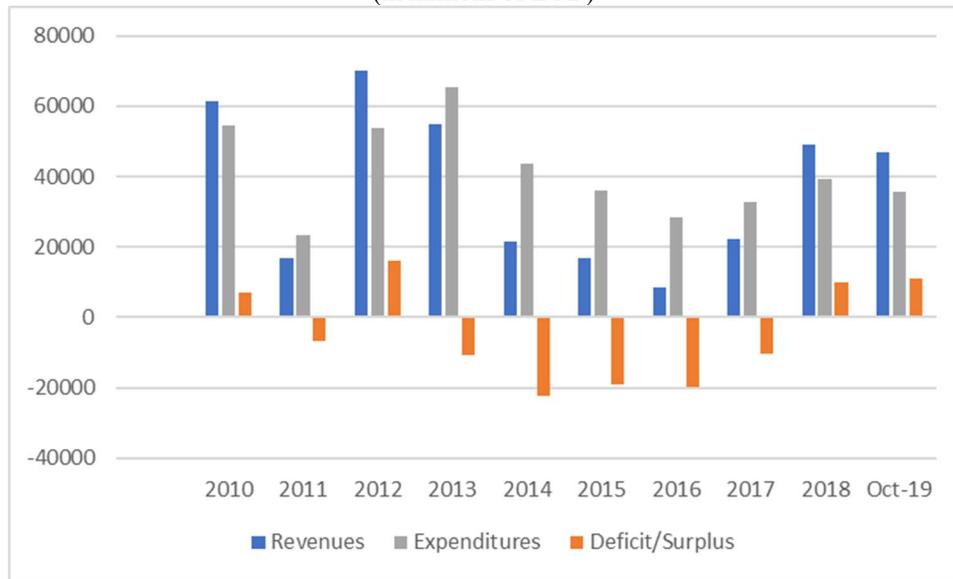
<sup>15</sup> There is no official and updated data on GDP, this is based on World Bank staff estimates

Figure 7. Public Finances  
(% of GDP)



Source: WBG, 2018. "Libya Economic Outlook 2018"

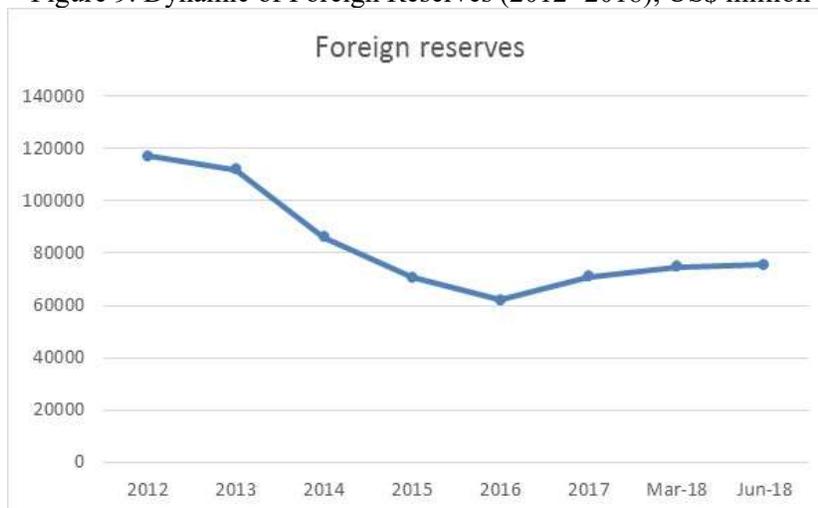
Figure 8. Government Revenue and Expenditures  
(in millions of LYD)



Source: CBL data, CBL Quarterly Economic and Financial Indicators October 2019

30. **Due to rising oil revenues, Libya was able to start growing its foreign reserves again.** The resources reached US\$ 75.6 billion in June 2018. Figure 9 below shows the dynamic of Libya's reserves during 2012-2018. Increasing foreign reserves offered the authorities greater resources to defend the currency peg.

Figure 9. Dynamic of Foreign Reserves (2012- 2018), US\$ million



Source: CBL Data

### *Latest developments in Libya and long-term outlook*

31. **Continuous armed clashes over the control of the oil facilities make the recovery of the oil sector in Libya precarious.** After the attack on two of its biggest export terminals in June of 2018, for example, Libya's oil production fell by 400,000 barrels a day. In December 2018, the Petroleum Facilities Guard, the armed forces charged with protecting the oil facilities, caused the shutdown of the largest oil field in Libya<sup>16</sup>.

32. **In the recent months, Libya has been producing 1.2 billion barrels of oil per day, but after pro-Haftar forces blocked major oil terminals in January 2020, exports were halted and production had to slow down to a minimal level, as tanks for storage fill up quickly.** According to the NOC representatives, Libya is losing around US\$ 70 million of revenue per day now that oil cannot be exported. Given that the revenue base of the Libyan government is very narrow and almost entirely consists of two items - hydrocarbon revenues and FX tax - balancing the budget in the situation of oil terminals shutdown is complicated.

33. **If the oil terminals shutdown lasts a long period of time (e.g., a month or more), authorities may need to tap into their reserves to be able to finance various expenditures in 2020 and make some tough choices in government spending.** Controls will likely need to be put on the purchase of foreign currency by the population and businesses, which will again lead to the rise in the black market. Given that a high budget deficit is anticipated, the government needs to plan their spending in 2020 with a lot of caution and be as conservative as possible: while they have managed to increase reserves in the recent years, these funds could be spent quickly, if no oil revenues flow in. When deciding on the budget, authorities need to take into consideration that once the peace agreement is reached, the country would need to invest significant funds in reconstruction.

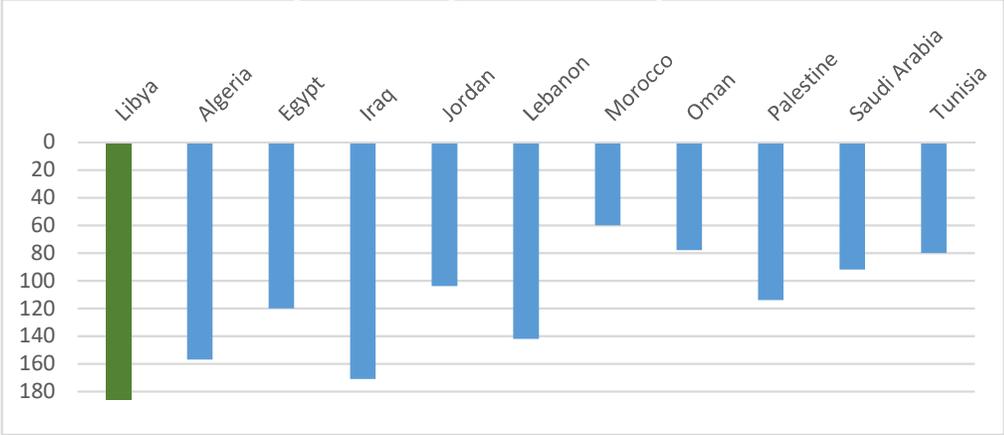
<sup>16</sup> <https://www.ft.com/content/993cb870-0d2c-11e9-a3aa-118c761d2745>

34. **Overall, despite the current political turmoil and challenging security environment, the long-term outlook for Libya remains fairly optimistic** due to the country’s vast oil reserves and the potential that the hydrocarbons sector represents for the long-term economic growth. The GDP growth is expected, however, to be constrained by insufficient capital spending on improving infrastructure, low levels of foreign direct investment, underdeveloped private sector, and continuing political uncertainty. Without significant investment, even if peace is achieved, Libya would not be able to boost production further than 1.2-1.3 billion barrels per day. Libya needs to foster inclusive growth, underpinned by reforms to bolster private sector led economic diversification while ensuring transparency and accountability. Long term economic recovery is largely dependent on the ability of the country to achieve peace and political unity.

3.2. Business Environment

35. **The challenging political and economic history had left Libya with a difficult business environment, even before the crisis.** Numerous formal and informal obstacles to business formation discouraged private sector growth, especially among smaller firms. The lack of a business infrastructure and the disorganization of the private sector have led to very low private sector participation and a harsh environment. Libya was ranked 186 out of 190, the fourth lowest from the bottom (a higher score is worse) and considerably more challenging than either Algeria or Iraq. See Figure 10, below.

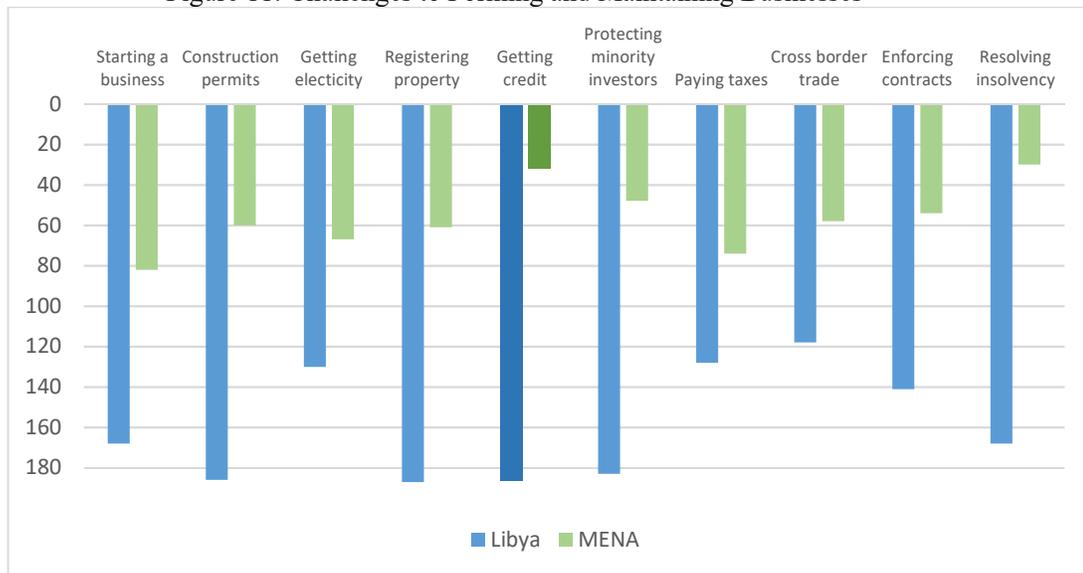
Figure 10: Doing Business Ranking



Source: WB Doing Business Survey; 2018

36. **A wide range of challenges deter private sector business formation.** Bureaucracy and corruption add to business formation hurdles, making it difficult to acquire permits and enforce contracts. The poorly functioning state electricity monopoly offers highly subsidized electricity, which few users pay for, with consequent shortages and obstacles to hooking up new facilities. To start a business requires on average ten administrative procedures, takes 35 days, and costs an equivalent of 30 percent income per capita. This compares unfavorably with other MENA countries, themselves not generally paragons of business formation, where on average it takes 7.7 procedures, 18.6 days, and an equivalent of 18.7 percent of income per capita to launch a business. Not surprisingly, Libya ranks near the bottom in business formation challenges (see Figure 11, below).

Figure 11: Challenges to Forming and Maintaining Businesses



Source: WB Doing Business Survey; 2017

37. **Libya also lacks a strong entrepreneurial culture.** When Libya discovered oil, it was one of the poorest countries on earth, relatively far from major trading routes and with almost no industrial base of any kind. Oil put Libya on the path to a pure rentier culture, with majority of enterprises importing or trading imported goods. As with many oil economies, much of the specialized economic activity was either imported directly or performed locally by imported labor. As a result, many young Libyans expected to find employment in the state economy, where over 84 percent of those employed are on the government payroll, including 93 percent of working women.<sup>17</sup> A Global Entrepreneurship Monitor study performed before the current conflict revealed that the proportion of individuals involved in starting up businesses or those running newly established ones are 6.6 percent and 4.7 percent respectively, compared with 9.4 percent and 12 percent in comparable factor-driven economies. Libya also demonstrates unusual gender and age gaps, with twice as many men participating in early-stage businesses as women, along the levels of India and Iran. Entrepreneurs are also young, more clustered in the under 25 age group, where unemployment is extreme and access to finance severely limited.<sup>18</sup>

38. **Before 2011, some efforts had been made to ease the process of business formation.** A one-stop shop was opened in Tripoli, along with 22 regional offices. Due to the conflict, operations were halted. Without a digital registry, firms now have to travel to Tripoli in order to formally register. This requirement imposes another hurdle on entrepreneurs outside of Tripoli, in terms of travel costs and time.

39. **Many basic government entities that define and control the business environment are missing.** Libya has no practices in place for quality control in construction, liability in the case of flaws, or certification requirements for builders. Libya also lacks dedicated proceedings for resolving insolvency; bankruptcy is covered under Commercial Law. On paper, there is first an attempt to resolve the financial affairs between the business and its creditors in a court-led

<sup>17</sup> “Libya’s 52 Percent,” WB Blog, Heba ElGazzar, 2014.

<sup>18</sup> Global Entrepreneurship Monitor; 2013.

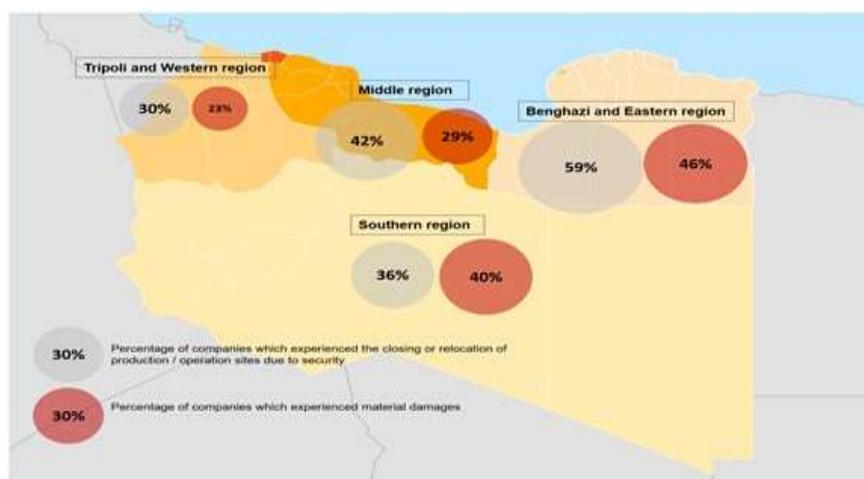
preventative reconciliation. If this fails, then the business is liquidated to repay creditors. In practice, there have been hardly any cases of bankruptcy settled through the courts.

40. **Tax payment and collection is a challenge.** Paying taxes presents a further challenge to many Libyan businesses. Libya ranks 128 out of 190 in ease of paying taxes, and firms spend an average of 889 hours a year dealing with taxes, compared to a MENA region average of 203. New regulations were introduced by the way of an Income Tax Law No. 7/2010 harmonizing tax rates and reducing corporate rates to a flat tax of 20 percent of net profits. However, these reforms have yet to be fully implemented due to the instability. The capacity of tax administration is also weak with inadequately trained staff, an opaque organizational structure, and a lack of digitization.<sup>19</sup>

41. **The lack of a functioning land registry is a grave challenge.** The infrastructure and regulations governing property and land registration are either meagre or absent altogether. Not all privately held property is registered or mapped, not even in the largest cities, and there are limited mechanisms to adjudicate ownership disputes. The national land registry is beset with long-lived problems dating back to the earlier days of collectivist land transfers, effectively rendering it valueless (for more details see the section on the [Land Registry](#), below).

42. **The political conflict that split the country has severely damaged the Libyan economy.** Firms overwhelmingly report direct negative impact on their operations from the conflict with all regions affected (see Figure 12, below). The highest share of firms affected by material damage and site closures were in the Eastern region.

Figure 12: Proportion of companies reporting material damage or site closures



Source: WB Report "Libya: The Private Sector Amid Conflict" (2019)

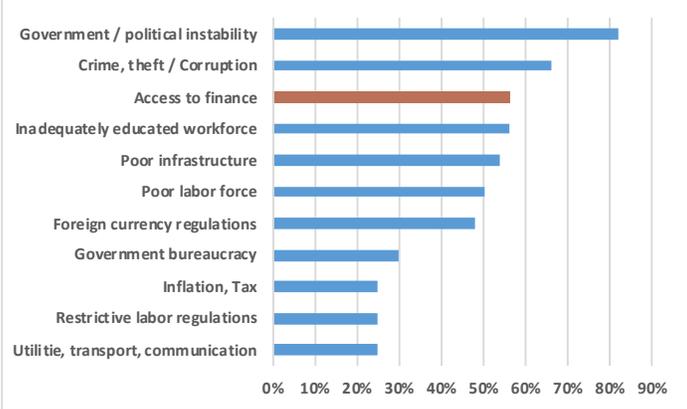
43. **The private commercial sector in Libya is very small and highly atomized.** Private sector activity accounts for less than 5 percent of GDP and employs only 14 percent on the workforce, the majority of these self-employed. Private businesses are generally very small. There is limited analysis and no agreed definition of SME or micro-enterprises in Libya, but a 2006 business census reported about 118 thousand businesses, excluding farmers, with an average of 2.5

<sup>19</sup> OECD 2016; *SMEs in Libya's Reconstruction: Preparing for a Post-Conflict Economy*.

workers, compared with 4.4 workers in Jordan and 6.2 workers in Tunisia. Most business, over 80 percent, are sole proprietorships, and tend to be concentrated in trade and commerce, although light manufacturing has made inroads, especially in food processing and construction materials.<sup>20</sup>

44. **Financial intermediation with the private commercial sector has been particularly limited.** Even before the current crisis, Libyan banks had very little role in financing private sector growth. The state banks which dominate the sector overwhelmingly deal with state firms and their ancillaries. The public firms are also legally bound to give preference to the state banks effectively subsidizing their inefficiency. Private businesses are largely excluded from financing, especially if they are small, as most are. The extreme state dominance and collectivist approach under Gaddafi prevented the evolution of a private value chain of private-led state suppliers. Access to finance is typically cited as one of the greatest constraints facing Libyan businesses, following the challenging political environment (see Figure 13, below).

Figure 13: Most Cited Challenges Faced by Businesses in Libya



Source: OECD Report, 2016

## 4. Banking system

### 4.1. Financial sector overview

45. **Libya’s financial sector for many years reflected the nation’s highly centralized collectivist economy.** At the peak of the socialist expansion in 1970, Law #153 fully nationalized the banking sector, requiring that all commercial banks be fully owned by Libyans. The financial sector thereafter remained overwhelmingly under the aegis of the state, similar to communist economies, with specialized banks supporting state-funded projects along sector lines, such as agriculture and housing, and the central bank acting as a mono-bank. At the height of the socialist period, the private sector virtually disappeared, with the state controlling all aspects of the economy. Banking assets grew by thirty times from 1970 to 1980 as the state massively financed industry, agriculture, and other productive activities.<sup>21</sup> For many years the enormous financial inefficiencies could be at least partially hidden by the high levels of oil wealth proportionate to the population. But the decline in oil wealth during the 1980s, as well as economic isolation during a

<sup>20</sup> SME’s in Libya’s Reconstruction; OECD 2016.

<sup>21</sup> “Influences on the Development of the Libyan Banking Sector,” Omer M Elsakit; 11/17

period of US-led sanctions, resulted in economic stagnation and drops in foreign currency. The rate of unpaid loans soared on the books of the state banks.

46. **Libya’s financial sector began to liberalize long before the recent revolution.** After the United Nations suspended sanctions in April 1999, the Libyan government made halting but genuine moves towards greater liberalization to spark its economy.<sup>22</sup> These efforts were initially focused on the oil and gas sectors, but the financial and commercial sectors were also the targets of liberalization. Law #1 of 1993 allowed the return of foreign banks in Libya, as well as private capital.<sup>23</sup> In January 2004 the General Board of Privatization was set up to plan and implement a broad privatization strategy, which included the financial sector. In 2006, the government founded the Libyan Stock Exchange, which by end year listed seven firms, four of them banks.<sup>24</sup> Key financial sector highlights are presented in **Box 1**.

47. **Libya’s financial sector remains heavily dominated by banks, especially state banks.** The commercial banks represent 81 percent of the assets in the financial sector.<sup>25</sup> These in turn are dominated by a handful of poorly functioning state banks. The five state banks hold over 90 percent of Libya’s deposits, both thanks to the channeling of government salaries mainly through state banks as well as the many hidden advantages given state banks, including the broad perception of implicit deposit guarantees. Consumer account penetration is technically high, given the salary deposits, but financial intermediation beyond salary transfers is extremely narrow. Private sector businesses are almost wholly excluded from the formal financial sector.

48. **The Central Bank is the shareholder of public banks, while being the regulatory agency of the banking sector.** This prompts obvious conflicts of interest, including potential forbearance to the benefit of state-owned banks, as well as granting credit to well-connected beneficiaries. Libya is one of the few countries in the world where the state owns financial institutions through a central bank. In particular, Russia has a similar situation where Central Bank of Russia is both a regulator and the major shareholder of the largest bank (Sberbank). This arrangement has worked reasonably well in practice owing to solid corporate governance practices and a strong and professional team at Sberbank. Clear measures have also been taken over the years to ensure a separation between the ownership function of Sberbank and the supervisory function of the CBR. Nevertheless, this ownership arrangement may impede the longer-run transition to a more market-oriented and competitive banking system. Some of the lessons learned from Russia experience could be leveraged by Libya.

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<sup>22</sup> “The Changing Libyan Economy” Winter 2008; JSTOR.

<sup>23</sup> However foreign ownership remains limited to 49%.

<sup>24</sup> “Influences on the Development of the Libyan Banking Sector,” Omer M Elsakit; 11/17

<sup>25</sup> Troug and Sbia, 2015; World Bank, as of 2013. Re-quantifying the size with 2019 numbers is not possible given data challenges in the current environment.

### Box 1. Key Financial Sector Highlights

#### **Banking sector regulation.**

- Split in the central bank resulting in 2 central banks (Tripoli and Bayda).
- Majority of banks headquartered in the West and reporting to CBL Tripoli. Banks headquartered in the East control about a third of banking activity and report to the central bank in Bayda. CBL (Tripoli) has limited visibility on their activities. All banks have operations in both East and West of the country and they hold reserves at CBL Tripoli and in Bayda.

#### **Banking sector.**

- Controls over 80 percent of financial sector assets.
- 19 banks, 5 of which are state-owned. Public banks are owned by CBL, they dominate the banking system and control approximately 90 percent of deposits.
- Banking system assets- LYD 124 billion (2018), out of which loans and credits are LYD 16 billion (13%). 87% of deposits are short-term. Capital adequacy ratio was above 15% over the last 6 years.
- National Deposit Guarantee Fund established in 2005 under oversight of CBL. Covers up to LYD 250,000 for current accounts. No payout has been made since inception.
- In 2013 Law #1 was adopted prohibiting interest on all civil and commercial transactions, which led to reduction in credit extension.

#### **Non-banks.**

- 22 insurance companies (top 2 control 60% of the industry assets).
- Libyan stock exchange was founded in 2006 but has been inactive since 2014 due to political instability.
- 1 leasing company focused on automobile leasing.
- First microfinance institution established with donor funding in 2019.
- Law #4 of 2016 established legal basis for sukuk, but none issued to date.

**Specialized Credit Institutions.** These include Savings and Real Estate Investment Bank, Agriculture Bank, Development Bank and Rifi (Rural) Bank.

**State Owned Funds:** Libyan Investment Authority (Sovereign Wealth Fund), Libyan Economic and Social Development Fund and Libyan Internal Investment and Development Fund.

#### **Financial infrastructure.**

- Libyan Credit Information Center created in 2009. Provides limited information and quality is a concern.
- Dysfunctional land registry and no movable assets registry.
- Payment infrastructure: National switch has been instituted but not all banks are yet connected. Volume of transactions processed through the national switch has been increasing. There are 11,453 POS and over 500,000 customers.

#### **Financial inclusion and access:**

- Credit to private sector as % of GDP- 17.7% (2018). In 2015, only 2% of private firms reported having a loan or credit from a bank.
- While two thirds of Libyans have an account, most of the accounts are limited just to receiving wages. Saving and borrowing rates are high (60% and 50%, respectively) but largely informal.
- Refugees and migrants are excluded from formal financial services.

49. **The informal sector plays a major but hard-to-quantify role.** By 2018, almost 30 percent of Libya's cash was outside the banking system (see [Banking sector overview](#), below)

mainly held in households. 44 percent of individuals report receiving financing from informal sources, mainly friends and families.<sup>26</sup> Businesses are overwhelmingly self-financing, with informal channels, such as family members, being a key source of credit.

**50. Formal non-bank financing is extremely limited.** Commercial banks contain over 80 percent of financial assets held in formal institutions. Businesses and consumers have very little access to leasing, factoring, or other financial activities beyond the banking system. The stock exchange is essentially moribund, intentionally closed since 2014 to avoid a crash, but even when it was active trading typically did not reach 50,000 daily trades.

**51. The ongoing military struggles have further damaged the financial sector.** Exacerbating the already poor state of the private sector, the civil war and many conflicts have damaged infrastructure and broken value chains and business networks. High levels of bureaucracy and corruption, in addition to the rising criminality accompanying the poorly controlled militias, has devalued the rule of law, further discouraging legitimate private sector activity.

## 4.2. The Central Bank of Libya

### 4.2.1. Political background

**52. Libya has been riven by civil war since the failed attempt at a unified parliament in 2014.** A new Council of Deputies was elected in June 2014 to replace the earlier constituted GNC (General National Congress). However, the election's legitimacy was not recognized by GNC, given the low turnout, and they refused to surrender the national capital to the new parliament. Two competing factions resulted, one representing the GNC in Tripoli and the other, representing the Council of Deputies in the east (Tobruk, Bayda, Benghazi).

**53. In March 2016 a body called the Presidency Council (PC) absorbed much of the Council of Deputies and largely replaced the GNC.** The PC was born of the UN-brokered 2015 Libyan Political Agreement (LPA) and is based in Tripoli. The center of power based in the east was also supposed to migrate under the LPA as the legitimate House of Representatives but this has yet to happen, maintaining the split but albeit with a greater shift of legitimacy to Tripoli, including UN recognition.<sup>27</sup> This binary split is complicated by the reality of multiple actors with independent agendas representing various militias, city-states, and tribes, whose allegiances shift frequently. Outside powers have their own interests and also contribute to the complexity.

**54. The political split has led to rival institutional bodies, each claiming legitimacy over Libya's resources and representation.** This has directly and critically impacted the functioning of the financial sector with a split in the central bank as well as rival offices of key financial entities, such as the Libyan Investment Authority, Libya's sovereign wealth fund. Critically, as of 2019, the NOC and the Central Bank in Tripoli have pledged allegiance to the PC in Tripoli and have retained control over oil production and revenues.<sup>28</sup> Since the overwhelming majority of Libya's income comes from oil revenues, this control translates into de facto power. Oil revenues partially

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<sup>26</sup> Findex, 2017.

<sup>27</sup> "A Quick Guide to Libya's Main Players;" European Council on Foreign Relations; June 2016.

<sup>28</sup> Reuters; "Libyan central bank governor says key reforms will come this summer." June 2018.

recovered in 2018, further cementing power. Nonetheless, the rival central bank in Bayda, Eastern Libya, remains under the control of the Eastern government which has military and oil resources of its own. The Eastern branch of the central bank has remained a potent force in Libya's financial system, acting independently and with little or no foresight from the Tripoli central bank. The Tripoli-based PC and central bank control an annual budget of about US\$ 29 billion and they continue to fund wages of state employees hired before 2014. It is estimated that since 2014, the Tripoli government has accumulated debt of over US\$ 46 billion. Tripoli is also printing currency, in the United Kingdom.<sup>29</sup>

**55. Critically, the Eastern branch of the central bank has also been issuing Libyan currency.** Based on our understanding, it is distinguishable from the currency used in the West (it looks slightly different and has a signature of a different central bank governor). It is accepted in other parts of the country (although not universally).

**56. The ability of the Eastern branch to print currency independently greatly complicates monetary policy in Libya.** The Eastern-based government has been paying salaries in the areas under its control, estimated at up to LYD nine billion (US\$ 6.4 billion) annually since 2015.<sup>30</sup> To support these and other obligations, the Eastern branch of central bank is said to have issued at least US\$ 10 billion worth of LYD printed in Russia and have purchased bonds issued by the eastern government's Ministry of Finance.<sup>31</sup> Reuters reported that these bonds totaled up to US\$ 23 billion as of 2019, nearly as large as the annual national budget. CBL staff recently estimated the amount to surpass LYD 45 billion (about US\$ 29 billion) by end 2019. This uncontrolled issuance of currency and bonds clearly thwarts any attempted monetary policy by the CBL given the leakage of funds across the divide. CBL's inability to control the money supply exacerbated several distortions in the financial system. Foreign exchange rates have been volatile, with a long slide in the value of the Libyan Diner, and for several years banks suffered a growing of cash over checks, up to 40 percent.

**57. The CBL is not able to follow the developments with the banks in the East.** The banks that are headquartered in the East, NCB, Al-Wahda, and Bank of Commerce and Development, tend to fall under the purview of the Bayda central bank while the remaining, the majority, are headquartered in Tripoli and so reporting to the Tripoli central bank. The Eastern-based banks nonetheless make up a significant portion of banking transactions, running historically at about a third of lending<sup>32</sup> and estimated at up to 30 percent of banking needs<sup>33</sup>. All Libyan banks have presence in both parts of the country. CBL is only able to supervise banks headquartered in Bayda remotely.

**58. Payment systems remain under the control of CBL.** The Eastern region resorts to more informal private mechanisms to transfer funds, such as Western Union. Clearing among the banks

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<sup>29</sup> "Debts pile up as rival Libyan governments struggle for power." Reuters, March 2019.

<sup>30</sup> "Of Tanks and Banks: Stopping a Dangerous Escalation in Libya;" Middle East and North Africa Report N°201, May 2019.

<sup>31</sup> "Libya's Looming Contest for the Central Bank;" Jalel Harchaoui, April 2019; and discussions with CBL management.

<sup>32</sup> CBL statistics.

<sup>33</sup> "Of Tanks and Banks: Stopping a Dangerous Escalation in Libya;" Middle East and North Africa Report N°201, May 2019.

under the Bayda regime is done manually, as they have been disconnected from RTGS. There is no clearing between the two central banks and CBL does not have any way to track the transactions taking place within that system.

**59. The two central banks have agreed to an international audit that will be necessary before any possible reconciliation and re-merger.** The Terms of Reference were negotiated and agreed to by the governors of the two central banks, under the auspices of UNSMIL (the United Nations Support Mission in Libya). The audit firm has been recently selected and the audit process is expected to begin.

#### *4.2.2. Monetary policy*

**60. The CBL has expressed a conservative view on monetary policy.** The CBL has attempted to use its position to maintain low inflation, however its tools have been severely limited by several political factors:

- The split within the central bank, with the Eastern branch issuing its own currency and bonds, thereby injecting liquidity into the system which is uncontrolled by the CBL.
- The inability to directly manage the exchange rate given the lack of authority of the CBL board (see also *Foreign Exchange Management*, [below](#)).
- The prohibition of all interest-bearing instruments under the Islamic Banking Law #1 of 2013 and its interpretation, precluding the use of the interest rate as a liquidity management tool (the Bayda central bank suspended this prohibition in 2017 for five years).
- The de facto dollarization and the massive overhang of grey or black-market deposits undermines the monetary power of dinar deposits.

**61. Planning is nearly impossible, given the political uncertainty.** The state has not enjoyed a formally agreed budget since 2014<sup>34</sup> and most fiscal expenditures are reactive, often due to political pressures. Long-term government financing, both national and municipal, to support such needs as infrastructure development and maintenance, have largely been on hold.

**62. Both the CBL and its Eastern branch are under enormous political pressure to inject money in the system.** This is used to support the declining purchasing power of the Libyan population, and specifically the subgroups allied with the various factions. As such they are pouring funds into wages, both through raising LYD salaries as well as with new hires. Oil revenues are expected to increase as some stability returns to the eastern oil fields, but this is not yet expected to fully cover the rising wage outflow. Any shortfall must be made up by printing money.<sup>35</sup>

#### *4.2.3. Foreign Exchange Management*

**63. Libya has suffered serious foreign exchange availability shortfalls for several years.** This is at its base often linked to the political crisis and to the ups and downs of oil revenues. Given that Libya so overwhelmingly relies on imports to sustain itself, foreign currency availability and

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<sup>34</sup> Central Bank of Libya, interviews.

<sup>35</sup> “The World Bank in Libya: Overview,” April 2018

pricing are critical concerns. Firms overwhelmingly view the shortage of foreign currency as having worsened since the 2014 civil war.

64. **The CBL has implemented a department that reviews the balance of payments as an input for evaluating exchange rate pressures.** This initiative resulted as part of the IMF reform. At this stage they can only evaluate foreign currency that is exchanged in cash; exchanges via telephones or other means are not captured. The CBL had for some time determined that the Libyan Dinar (LYD) should depreciate against the US dollar. The access to foreign exchange was highly restricted and the gap between the black market and the official rate had widened dramatically.

65. **Since devaluation of the dinar is not possible under the current political conditions, as a work-around solution, the Presidential Council instituted a 183 percent surtax (fee) on foreign currency purchases in September 2018 and increased allowances for the population to buy foreign exchange.**<sup>36</sup> Government purchases of foreign currency are exempt from the tax. There was significant demand from the population and the volume of foreign exchange sales to households in 2019 was LYD 7.8 billion. The monies collected from the levy were partially used to finance the budget and some of the funds were used to settle government debt.<sup>37</sup> Access to foreign exchange became easier and transactions started happening through the official system rather than through the black market.

66. **The results were largely as desired, with a rapid narrowing of the LYD against the USD, dropping below the psychologically important 5:1 rate, with the gap between the black market and official rate narrowing by well more than 20 percent.**<sup>38</sup> However, this is only a partial solution to the underlying problem: due to gaps in the application of FX tax, there are currently three exchange rates - CBL rate, rate with the tax, and parallel market rate. In addition, the easier access to FX has exposed vulnerabilities at some poorly governed banks: the volume of FX sales has been increasing rapidly in 2019 without sufficient due diligence performed by the banks on their clients. These banks have not been able to put in place policies and procedures which would provide CBL comfort that funds were not used to finance illegal activities. CBL implemented enhanced due diligence of several banks which started facing liquidity problems due to massive sales of FX to their clients.

67. **The reforms included several other initiatives to take pressure off the shortages of foreign exchange and overall liquidity.** The lower pressure on the exchange rate has in itself raised liquidity of LYD. At the same time the government required that all imports be with official bank transfers, decisively lowering demand for black-market currency (the implementation of this decision has been postponed till now). At the same time, rising oil production and exports have raised hard currency revenue for the government. All this has, at least in the short term, somewhat relieved inflationary pressures. However, with the recent closure of oil export terminals in Libya, the expectation is that the authorities will now be looking to protect foreign currency reserves and there may be changes to foreign exchange management.

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<sup>36</sup> The fee was reduced to 163 percent in July 2019.

<sup>37</sup> Central Bank of Libya, interviews and written comments.

<sup>38</sup> "Libyan dinar gains value as economic reforms take effect;" Libya Herald, December 2018.

#### 4.2.4. *Banking supervision and oversight*

68. **CBL has invested in improving banking supervision over the past several years.** This was at least partially a result of an IMF capacity-building program. CBL has a regular banking supervision program that includes both on-site and off-site visits. They require regular statements from the banks, including a monthly balance sheet and income statement. The credit portfolio is graded against the classic 1 – 5 overdue classification (Current, Watch List, etc.) with a general provision of 1 percent against all credit risk and a total required write-off after 360 days. There is no additional classification requirement to reflect Basel 2 evolution. Few banks in Libya have any kind of internal risk-based (IRB) classification system and the building blocks for eventual advanced IRB provisioning are not in place. CBL has a distinct classification system for Islamic banks, with six classifications. The justification for the separate classification system was not clear (see *Islamic Banking and Finance*, [below](#)). CBL has instituted a deposit insurance program which covers current accounts (الحسابات الجارية) at both conventional and Islamic banks. A fee of 0.2 percent is charged against deposits to cover the costs.

69. **Despite the investments, supervisory capacity remains weak.** The lack of digital capacity, at the banks and at CBL, forces reliance on paper trails with high error rates. The lack of systematic risk management at the banks also hampers supervision. Bank supervisors need expanded capacity and better tools, including risk-based management and early warning systems. CBL is also lacking a sanctioning capacity, legally and technically. They also do not have a clear understanding of the distinct risks of shari’ah compliant products and approaches.

70. **CBL is concerned about the solvency of two banks, one of them in Benghazi.** However, they note that when they report concerns to the Attorney General about specific banks or incidents, these are largely not acted upon, presumably because of security concerns. The lack of response from the relevant authorities obviously hampers CBL’s ability to manage risks in the banking system.

71. **The split in the banking system frustrates CBL’s oversight of banks in the East.** CBL has stated that they have tried to coordinate with the Bayda central bank but to no avail. They can still conduct off-site reviews with data sent to Tripoli but on-site reviews are not possible. Banks and bank branches in the following towns are under the Bayda bank’s supervision: Benghazi, Brega, Ihgabia, Kofra, Bayda, Almarg, Darna, and Tobruk.

#### 4.2.5. *Information management*

72. **The dearth of information is a key challenge in Libya.** Lack of data stymies the CBL’s monetary and fiscal policy-building and its planning more generally. The last national population census was in 2006 with a partial census in 2012. The GDP has not been officially published since 2013. The lack of broader economic and demographic information, typically from other government departments, hinders CBL policy-making. The CBL is currently focusing on improving its own data collection and information management. CBL’s information management current structure includes three functions: (i) data collection; (ii) research; and (iii) quarterly central bank reports.

73. **CBL’s information management is hampered by poor IT infrastructure and low technical capacity overall.** CBL lacks a robust data gathering infrastructure and no comprehensive system for data recording and data management along the lines of a data warehouse. This stymies the ability to perform robust analyses of trends or to develop detailed segmentation and profiling studies. The IMF strengthening program (see *Capacity building, below*) includes a component on information management, including analyzing balance of payment data. CBL also currently has a project with the World Bank to strengthen its data management which highlights:

- Labor force surveys
- Household surveys
- Censuses
- Information on financial flows
- Surveys on use of financial services
- Data collection on fintech and mobile banking

#### *4.2.6. Capacity building*

74. **The Governor of the CBL and senior management have for some time been aware of the need to rationalize their activities and to strengthen their capacity.** Libya was in fact the first country to perform a volunteer IMF audit in 2012. The IMF developed a roadmap for capacity-building with modules for both fiscal and monetary development with the goal to:<sup>39</sup>

- Modernize key functions in accordance with the international standards
- Establish best practice corporate governance
- Build a modern and competent human capital
- Actively support the government’s economic development strategy

75. CBL has begun to implement several of the proposed modules but detailed execution was thwarted by the difficult security situation.

76. **Concerns remain over CBL’s staff capacity and technical tools.** When interviewed, staff state a broad range of need with particular focus on the following weak areas:

- Human capital, understaffing
- Lack of electronic capacity
- High operational risk from poor information architecture
- Risk management of all types
- Compliance
- Audit

77. **Globally, there is also increasing attention being paid to the impact of climate change and environmental risks and opportunities on financial sectors.** Regulators and central banks – amongst others through the Network for Greening the Financial System - are warning for the impact of climate change and environment risks on the stability and soundness of financial sectors. Given the potential negative impacts on climate change on Libya’s economy, CBL could start information collection and monitoring of relevant risks metrics in this area.

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<sup>39</sup> Central Bank of Libya.

### 4.3. Commercial Banks

#### 4.3.1. Banking sector overview

78. **Libya already had a low-functioning banking system, even before the recent crisis.** During the Gaddafi period Libya was characterized by extreme centralization of economic activity as is typical of oil-producing Arab economies. The state banks were used primarily to finance state economic activity or as wealth transfer mechanisms. Libya’s financial sector further suffered from volatile policy changes which discouraged private sector evolution, including erratic political decrees such as the overnight redistribution of land.

79. **In the past decades, the number of banks has increased.** Libya currently has nineteen banks (see Figure 14, below). Towards the end of the Gaddafi regime, the government somewhat liberalized banking laws and new, private banks began to enter the system. Several banks were opened to foreign ownership, but this trend was halted and largely reversed by the political crisis.<sup>40</sup> Most of the new entrants are very small and have so far not had significant impact on financial intermediation. Several of the private banks have already demonstrated poor lending capacity and consequent high rates of loan losses. For most of the rest, the greatest part of income has been derived from transactional businesses, such as foreign exchange trading and transfers.

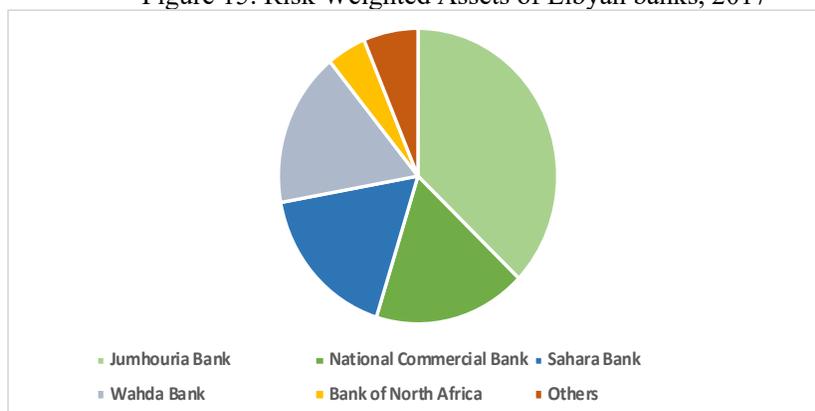
Figure 14: List of Libyan banks

	<i>Bank</i>	<i>Main Ownership</i>	<i>Location</i>
1	Jumhouria Bank	State	Tripoli
2	National Commercial Bank	State	Bayda
3	Sahara Bank	State-mixed	Tripoli
4	Wahda Bank	State-mixed	Benghazi
5	North Africa Bank	State-mixed	Tripoli
6	Bank of Commerce & Development	Private	Benghazi
7	Aman Bank for Commerce and Investment	Private	Tripoli
8	Wafa Bank	Private	Tripoli
9	Al Waha Bank	Private	Tripoli
10	Alejma’a Alarabi Bank	Private	Benghazi
11	Assaray Bank Trade & Investment Bank	Private	Tripoli
12	Mediterranean Bank	Private	Benghazi
13	United Bank for Commerce & Investment	Private	Tripoli
14	Arab Commercial Bank	Private	Tripoli
15	First Gulf Libyan Bank	Private	Tripoli
16	Libyan Foreign Bank	State	Tripoli
17	Nuran Bank	Private	Tripoli
18	Libyan Islamic Bank	Private	Tripoli
19	Al Yaqin Bank	Private	Tripoli

<sup>40</sup> BNP Paribas invested in Sahara bank in 2007, Arab Bank in al-Wahda bank in 2008 (Big foreign interest in Libya bank Licenses.” – Reuters, March 2010), Banco Espírito Santo in Aman Bank in 2010 (Aman Bank web-site), and QNB in Bank of Commerce & Development in 2012 (“Qatar’s QNB acquires 49% stake in Libyan bank” – Arabian Business, March 2012). The BNP Paribas investment was plagued with challenges from the start and management was withdrawn after the revolution (“Libya’s Banks Struggle to Escape Gaddafi’s Shadow” – Euromoney, March 2013). QNB sold its share in BC&D to Libyan shareholders in 2019 (“Libya: Qatar’s QNB sells shares in Bank of Commerce & Development;” - The North Africa Post, February 2019) and Espírito Santo withdrew in 2019 (Aman Bank web-site).

80. **The growth of the number of players did not translate into greater financial intermediation.** The sector remains overwhelmingly dominated by the inefficient state banks. The four large state-owned banks, Jumhouria, National Commercial, Sahara, and Wahda, held 90 percent of deposits as of 2017 and nearly as many of the loans. The two largest, Jumhouria and National Commercial, together controlled 72 percent of risk weighted assets (mainly loans) as of 2017, down from 75 percent in 2010 but still representing overwhelming dominance, mainly thanks to financing large state firms (see Figure 15, below).

Figure 15: Risk Weighted Assets of Libyan banks, 2017



Source: CBL

81. **Financial intermediation continues to decline.** The pace of banking intermediation, already low by global standards, has recently dropped even further, almost to a standstill, due to a confluence of negative forces:

- The ongoing military conflict, which depressed economic activity and directly destroyed assets in the real sector
- The split between Tripoli and Benghazi, which has multiple negative impacts
- The imposition of an Islamic banking law which overnight forbade interest on loans and deposits, on a system largely unprepared
- The lack of foreign currency and the wild swings in LYD values
- The increase in corruption linked to the overall decline in the rule of law.

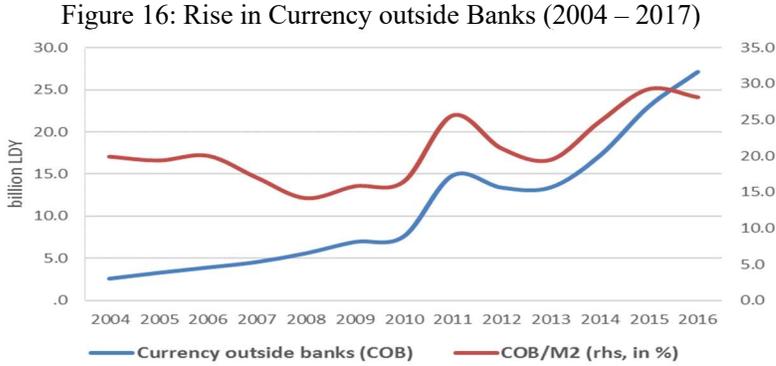
82. **The banking sector has suffered from the decline in the rule of law.** The financial sector itself is widely viewed as suffering from corruption, with the market distortions such as the gaps between checks and cash and between exchange rates leading to opportunities for extralegal arbitrage. The Tripoli-based Libyan Audit Bureau, appointed by parliament, has warned that corruption in the banking system is damaging the economy, highlighting five specific types of corruption:<sup>41</sup>

- Growth of money cross-border smuggling through manipulation of LCs.
- Import of fake and phantom goods to access subsidized foreign currency.
- Widespread money laundering resulting from fraudulent LCs.
- Fraudulent manipulation of debit cards.
- Fake deposits through manipulation of the clearing system.
- Misuse of guaranteed checks.

<sup>41</sup> "Corruption in Libyan banking sector threatens whole economy:" Libya Herald, May 2017.

83. **The political and financial crises have led to a low lack of trust in the banking system.** The trust crisis has led to a flight out of the banking system, with most Libyans holding financial assets in cash. From 2004 to 2017, cash outside banks rose from less than LYD 3 billion to over LYD 27 billion, reaching about a third of the money supply. See Figure 16, below.

84. **The lack of trust in the Libyan banking system extends to outsiders.** Since the civil war, and before, Libya suffered from a low level of trust by global banks with relationships ebbing and flowing with the political tides. The recent conflict as well as various fraudulent and other incidents has raised the premium put on Libyan risk, exacerbated by the broad trend of de-risking set in motion by Basel 3. Currently, in order to confirm a letter of credit, 100 percent cash collateral is required. Libyan banks could benefit from a centralized approach, led by the CBL to raise the quality and standardization of processes and databases to support anti-money laundering (AML) and counter-terrorist financing (CFT) activities.

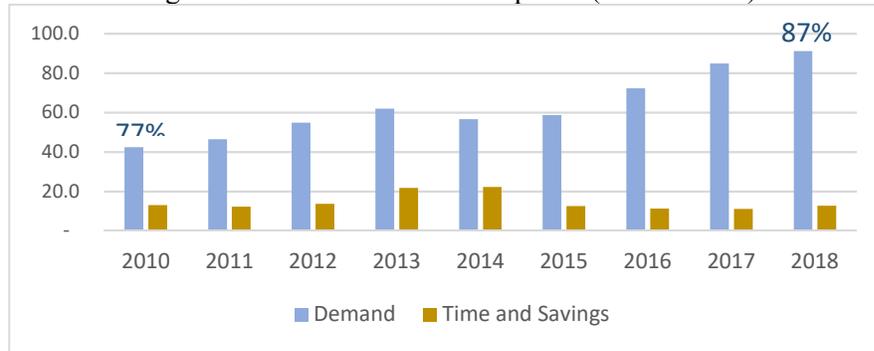


Source: “Libya Economic Recovery: Politics and Economics are Intertwined;” - El Abassi, July 2017

4.3.2. *Deposit Composition*

85. **The trend towards preference for demand deposits has only heightened.** Time and savings deposits are useful for banks to help fund longer term credits and manage their liquidity gap. Banks that are burdened with excessive demand or current deposits are at higher risk of runs and of being forced to pay high funding costs if depositors shift quickly to other banks or other forms of savings. The Libyan banking system already had a fairly high ratio of demand deposits, over 75 percent in 2010, but this has been exacerbated since the crisis. The lack of trust in the financial system, the desperate need for cash, and the inability of the banks to preferentially price longer-term deposits have all hastened the shift towards shorter-term deposits, reaching over 87 percent by 2018, raising bank liquidity risks (see Figure 17, below).

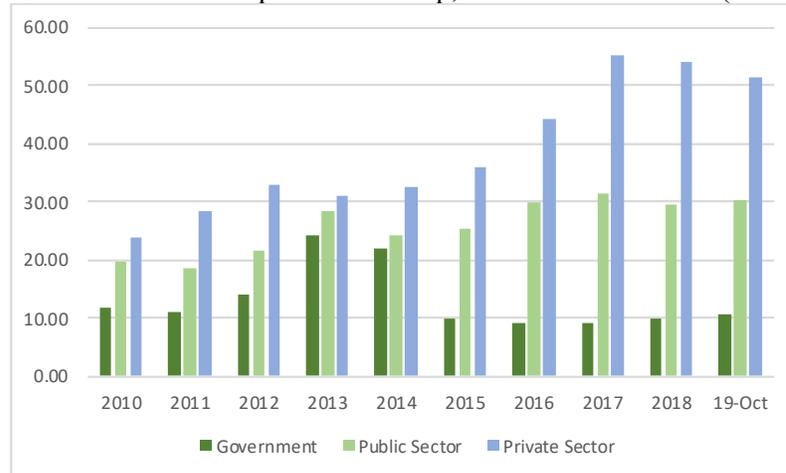
Figure 17: Share of Demand Deposits (LYD billions)



Source: CBL Data; WB Analysis

86. **Libyan bank deposits have traditionally been dominated by public sources.** In 2010 the majority, over 57 percent, of system deposits, was held by the government or state-owned companies, demonstrating the extreme dominance of the state on the financial sector (see Figure 18, below). However, the proportion of private sector funds in the banking system has actually increased since 2010, reaching over 60 percent of total by 2018. This is mainly a result of the declining coffers of the government, as the cash situation of the state, both the central government and its owned institutions, declines dramatically with the drop-in oil revenues leading to deficit spending against ongoing costs.

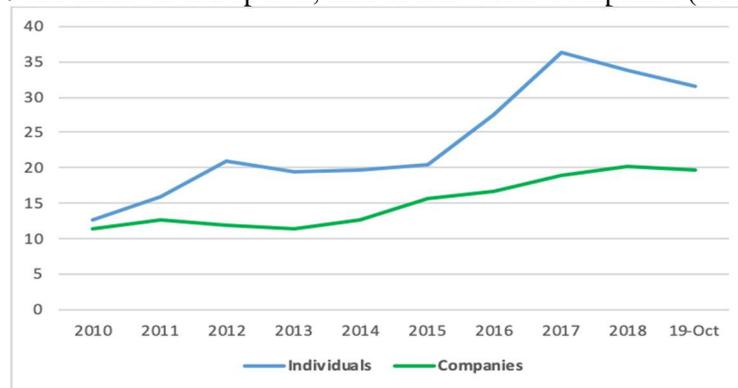
Figure 18: Breakdown of Deposit Ownership; Public versus Private (LYD billions)



Source: CBL Data; WB Analysis

87. **Individuals are growing as a share of total deposits.** In 2010, companies owned about as much of the deposit base as individuals, but the share of individuals rose dramatically after 2015, reaching over two thirds of total by 2017 before drifting back down to about 60% in late 2019 (see Figure 19, below). The shift is at least partly a result of the collapse of the business economy while state salaries continue to be paid.

Figure 19: Breakdown of Deposits; Individuals versus Companies (LYD billions)



Source: CBL Data; WB Analysis

#### 4.3.3. Deposit Guarantee Fund

88. **Well before the Revolution, the Libyan government had set up a fund to partially guarantee deposits.** Libya's national Deposit Guarantee Fund was established under Article 91 of Law No. 1 of 2005, as amended by Law No. 46 of 2012, as an independent financial institution under the oversight of the CBL. The LDGF is headquartered in Tripoli with a branch in Benghazi and representative offices elsewhere. The Fund's state purpose is to guarantee Libyan bank deposits with the objectives of encouraging savings, strengthening confidence in the banking system, and maintaining national financial stability. The Fund covers up to LYD250,000 of the value of current accounts. Savings and other accounts are not included. The coverage is paid for by a 0.1 percent fee on deposits. Law #46 of 2016 decreed that the LDGF would also cover deposits at Islamic banks. All banks, public and private, are expected to pay an amount of LYD 100,000 as a non-refundable initial subscription fee. Annual subscription fee is calculated by the percentage of 0.001 of the total private sector deposits at a minimum of LYD 250,000. According to the information provided, the fund's size is currently around LYD 200 million, which according to their estimates, would allow to cover the financial compensation of depositors of about 10 banks. No payout has been made since inception.

#### 4.3.4. Credit extension

89. **The credit risk environment remains weak.** As noted [above](#), the broader business environment stymies credit extension given weak or absent collateral laws, lack of protection of secured creditors' rights through bankruptcy laws, and weak or embryonic of financial and credit information. MENA economies have made various levels of investment in improving the environment, especially in terms of credit information, but Libya remains on par with Iraq, similarly a conflict oil-producer. Libya ranks 186 (one of the lowest in the world, out of 190 countries) on getting credit indicator in Doing Business 2018 report and scores 0 on both legal rights and depth of credit information indices (see Figure 20, below).

90. **The information flows required to support financial decisions remain weak.** Credit information suffers from a lack of reliable client financial information along with a poor audit and accounting infrastructure. Avoidance of taxes discourages transparency and independent auditors or rating agencies, which would encourage financial transparency, have yet to make headway in

Libya. The CBL has set up a credit bureau, the Libyan Credit Information Center (LCIC), but its data set is limited and hampered by systemic information weaknesses (see [Credit Information](#), below).

Figure 20: Doing Business Index; Legal Rights and Credit Information

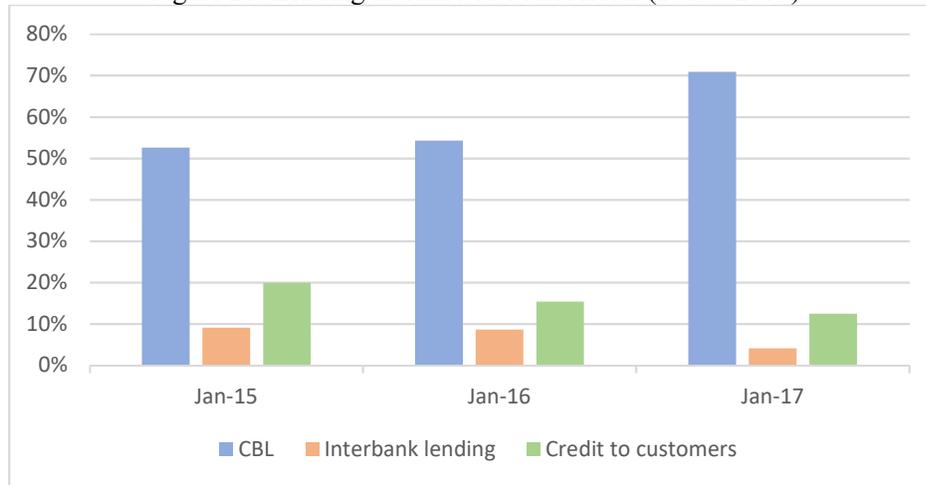


Source: WB Doing Business; 2018

91. **The poor quality of financial intermediation has led to high rates of non-performing loans (NPLs).** The state banks, which historically served primarily as distributors of state-directed financing, never evolved modern methods of credit risk management. Dominating the banking sector, their weak capacity distorted credit allocation, with poor-performing firms benefiting from underpriced risk funds. The consequent ripple effect echoed distortions throughout the system, precluding the evolution of modern tools to correctly measure and price risk. The most recent evaluation of bank portfolio quality dates from 2010, and even at that time over 20 percent of loans were non-performing, which would normally threaten system solvency. At that time, two private banks were particularly at risk, with more than three quarters of their loans in default. The situation was almost certainly much worse since supervision was weak, with non-capture of restructured credits and overdue interest for example. Moreover, Libyan banks may not write off overdue loans without court agreement, leading to long-dead loans sitting on the balance sheet and exaggerating asset size. Since the time of the last supervisory review, the proportion of NPLs has risen dramatically at all banks, and especially the state banks, threatening systemic capital and liquidity.

92. **Credit extension has dropped dramatically as a share of assets.** The combination of high credit risk, liquidity volatility, and uncertainty regarding the rules and processes of shari'ah compliant financing has slashed the extension of bank credit. Banks assets have increasingly fled from lending, to both other banks and final customers, to the relative safety of placement with the CBL. Loans were already a low proportion of total assets by global and MENA standards, but have continued to shrink (see Figure 21, below). Banks have become less intermediaries and more safe deposit boxes, and not fully reliable ones at that.

Figure 21: Lending as Share of Total Assets (2015 - 2017)



Source: CBL

93. **Systemwide, most customer deposits are placed in liquid assets, mainly CBL deposits, with little lending.** As credit extension has collapsed, the vast majority of customer deposits are recycled into very liquid assets, overwhelmingly bank deposits with the CBL (Figure 22).

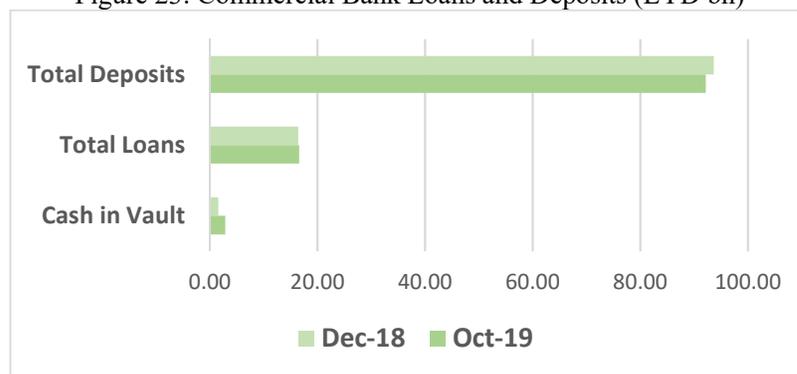
Figure 22. Systemic Balance Sheet

LYR Billions – 2018

Assets			Liabilities		
Liquid Assets	92	74%	Deposits	101	82%
<i>Of which Deposits at CBL</i>	<i>84</i>	<i>68%</i>			
Deposits and Investments	9	7%			
Loans and Credits	16	13%	Capital and Reserves	4	3%
Other Assets	7	6%	Other Liabilities	19	15%
<b>TOTAL</b>	<b>124</b>	<b>100%</b>		<b>124</b>	<b>100%</b>

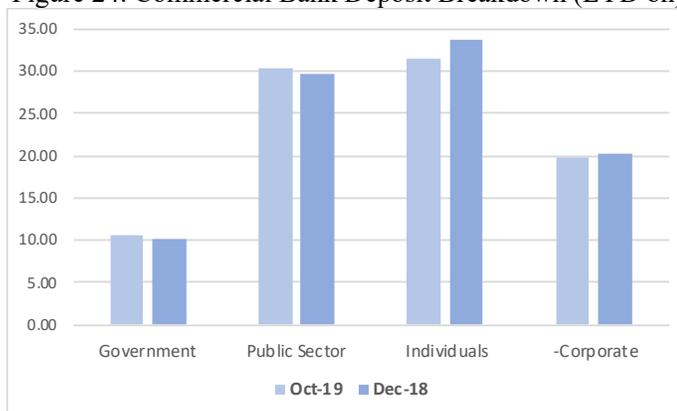
94. **The loan to deposit ratio (LDR) remains below 20 percent.** Loans have rebounded very slightly in 2019, but not enough to change the LDR of 18 percent (see Figure 23). The state remains the largest holder of deposits, with 44 percent of total, while individuals hold about 34 percent and corporations- 20 percent (see Figure 24, below).

Figure 23: Commercial Bank Loans and Deposits (LYD bn)



Source: CBL

Figure 24: Commercial Bank Deposit Breakdown (LYD bn)



Source: CBL

95. **Most firms, whether public or private, have little access to formal lending.** The decline in credit allocation has squeezed financing for businesses and corporations. Lending comprised only 13 percent of bank assets in 2018. Most of the credit which is being extended goes to large companies. 2018 survey carried out by EU stated that 91% of firms have no loan or line of credit and thus used alternative means of financing (own capital, savings, family and friends) <sup>42</sup>.

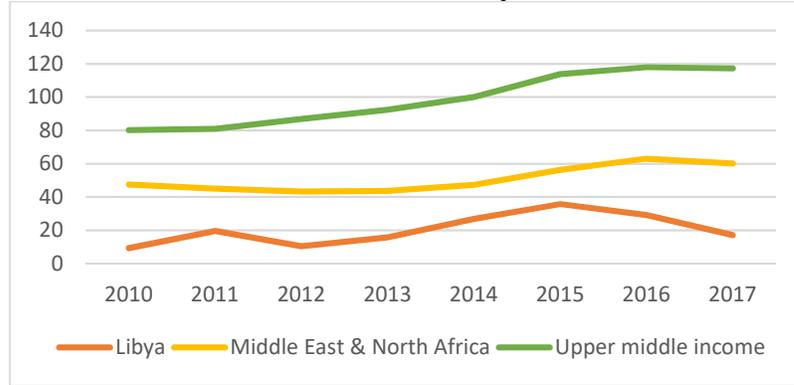
96. **Purchase of foreign inputs have also become more difficult and expensive.** A large share of companies view access to foreign inputs and the price of intermediate imported inputs as major or very severe constraints to their business' growth. There is a common agreement that import was made significantly more difficult by the restrictions imposed on obtaining LCs, and at the same time more expensive. This has been exacerbated by the growing de-risking by global banks which has narrowed correspondent banking relationships and added to the cost of LCs.

97. **The financing of private firms is far below high-income economies.** Domestic credit to the private sector as a share of GDP remained at an average of 21 percent from 2010 to 2017, compared to 51 percent among countries in the MENA region, and 99 percent among upper

<sup>42</sup> Identifying Action to Improve Access to Finance for SMEs and Private Sector Development in Libya, EU, 28 May 2018.

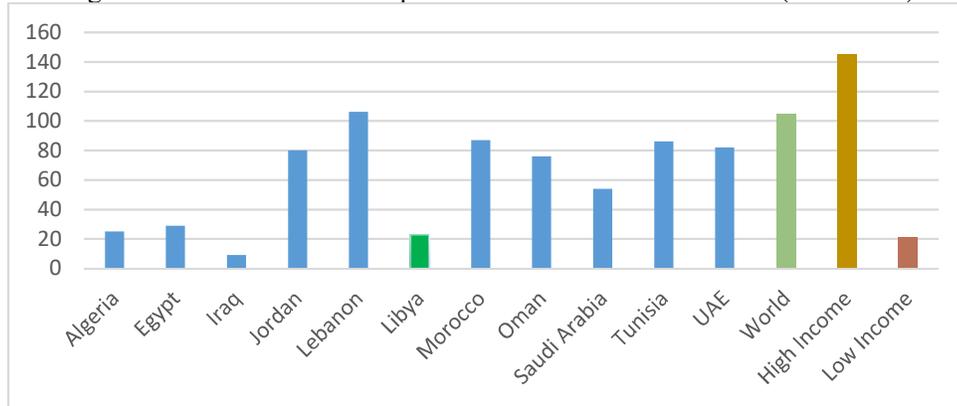
middle-income countries. These proportions are well below comparable regional and global economies (see Figures 25 and 26, below).

Figure 25: Domestic Credit to Private Sector as a percent of GDP, 2010-2017



Source: World Development Indicators

Figure 26: Domestic credit to private sector: MENA economies (% of GDP)



Source: IMF, International Financial Statistics and data files, and WB and OECD GDP estimates; 2017

98. **The credit that does flow goes overwhelmingly to the largest firms.** About 13 percent of larger firms report receiving bank financing but for smaller firms the number drops below 1 percent. SMEs are largely frozen out of the formal financial system and tend to self-finance or to seek informal financing sources.

99. **The low level of credit allocation to the private sector can be traced to multiple causes.** It is true that the poor enabling environment discourages lending but even more critically the banks themselves have low internal competence for risk discrimination. Libya suffers from very low levels of credit risk management capacity, including credit analysis. This is especially true at the state banks but is a systemwide problem. It is widely believed that the banks, and especially state banks, grant loans based more on personal connections rather than rational risk versus reward analysis.<sup>43</sup> The state banks moreover did not typically have the incentives to preserve capital and were given a mixed, and typically poorly measured, social impact goals.

<sup>43</sup> “Efficiency and Determinants in Libyan Banking;” International Journal of Business and Social Science, April 2014.

100. **Poor credit risk management leads to disproportionately higher demand for collateral.** Even poorly run banks eventually run into pressure to limit loan losses. Without proper credit risk management tools, the usual mitigation approach is to raise collateral coverage requirements in an often-false belief that collateral will offset default risk: in fact, this is often itself a chimera in economies with weak collateral realization regimes such as Libya. The MENA region generally demands high collateralization as a condition of lending given the poor understanding of cash flow analysis, the generally poor credit enabling environment, and the weak information regimes. But Libya stands out in its reliance on collateral, even by high MENA standards, with essentially no credit extension solely relying on the cash flow strength. This is not surprising, given a difficult economic environment in Libya and lack of knowledge of cash flow lending techniques by the banking sector. Up until the recent crisis, surveys revealed that Libyan banks required that 100 percent of borrowers’ secure credit with collateral and demanded a collateral coverage against loan value averaging 125 percent, reflecting the lack of confidence in realizable values of collateral.

101. **As a result, firms that want to borrow must already have substantial collateralizable assets.** In the best of times, this would limit lending to an elite subset. However, given Libya’s weak property regime, including a dysfunctional land registry (see [below](#)) and a poor legal and judicial environment, credit extensions are limited to all but the largest and/or best connected borrowers. This reliance on connections and name lending also raises the risk of corruption.

102. **Credit extension to private firms has been particularly hard hit by the crisis.** By 2015, only 2 percent of private firms reported having a loan or credit from a bank, compared with 52 percent in Lebanon and 32 percent in Morocco.<sup>44</sup> The proportion of credit to private vs public sector is presented in Figure 27.

Figure 27: Proportion of Credit to Private vs. Public Sector (2015 – 2017)



Source: CBL

103. **A new initiative aims to reactivate Libya’s partial credit guarantee program.** A donor-funded project is providing the relaunching of Libya’s partial credit guarantee scheme, renamed the Credit Guarantee Fund. The GNA has approved the fund’s restructuring, with a new board, and an MOU has been signed with six Libyan banks to offer LYD 150 million worth of credit to be guaranteed. The consulting team is currently working on risk and operating policies and building IT systems. The new Credit Guarantee Fund is expected to be fully launched during 2020.

<sup>44</sup> World Bank; Country Engagement Note for the State of Libya, 2018.

It is expected that the fund will help to alleviate the constraints faced by banks due to challenges with relying on collateral by effectively substituting for collateral to mitigate risk of loss given default.

104. **A draft SME law has been drafted but not yet promulgated.** The intent of the law is to streamline SME formation and to encourage financing and support. The law defines MSMEs as follows:<sup>45</sup>

- Micro: Investment or net assets of no more than 100,000 LYD and with no more than five employees.
- Small: Investment or net assets from LYD 100,000 to LYD 1 million with no more than twenty-five employees.
- Medium: Investment or net assets from LYD 1 million to five million and with more than twenty-five employees.

105. **A new donor-funded project is supporting the launch of a private fund dedicated to MSMEs.** The fund is in its very early stages, with commitments sought by the LSM and the CBL and initial discussions with target SMEs and investors.

106. **The legal and payment infrastructure is not conducive to crowdfunding, especially cross border.** Nonetheless, a self-funded start-up, building on contacts from the second Libya Startups Expo in Tripoli, has launched first crowdfunding website. The site earns a 5% fundraising fee and remains small, with only a few dozen backers.<sup>46</sup>

#### *4.3.5. Capitalization*

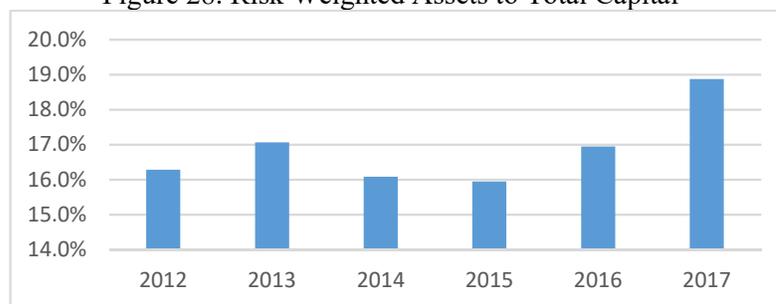
107. **The banks are, on paper at least, sufficiently capitalized.** Despite the high level of non-performing credits, the banking system has appeared to have booked sufficient capital, with capital to risk weighted assets hovering comfortably above 15 percent over the last 6 years (see Figure 28, below). This is at least partly due to the high proportion of funds invested in relatively low-risk CBL assets (up to 70 percent by 2017). At the same time most observers believe that even with the relatively small portion of funds in loans, the banking system is under-capitalized and likely largely insolvent, especially the state banks, given the very high rates of loan losses. Even the available data shows that some state banks have capitalization levels significantly below the industry average, but only a full audit will reveal the extent of any systemic shortfall.

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<sup>45</sup> Law 2018 7-2.

<sup>46</sup> See <https://libyacrowdfunder.ly>.

Figure 28: Risk Weighted Assets to Total Capital<sup>47</sup>

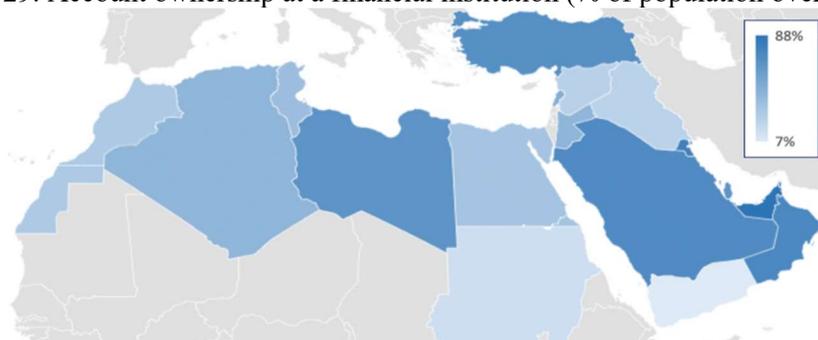


Source: CBL

#### 4.3.6. Households and individuals

108. **On the surface, Libyan households display a comparatively higher level of access to financial services.** Banks are (largely) functioning and rates of account ownership are relatively high. Approximately two thirds of Libyans hold an account at a financial institution, compared with about 37 percent for the Arab world and 48 percent for MENA (see Figure 29, below). A key reason for the relatively high account penetration is the preponderance of government jobs, typical of an oil exporter where salaries are often channeled via bank accounts. However, most of these accounts are limited to receiving wages with very little financial intermediation. Almost two thirds of Libyans save and borrow, but only about a fifth save and a tenth borrow through formal channels. Libya is a primarily cash-based economy when it comes to payments for goods and services as well as wages, especially in the private sector.

Figure 29: Account ownership at a financial institution (% of population over fifteen)



Source: Global Financial Inclusion Database, World Bank, 2018.

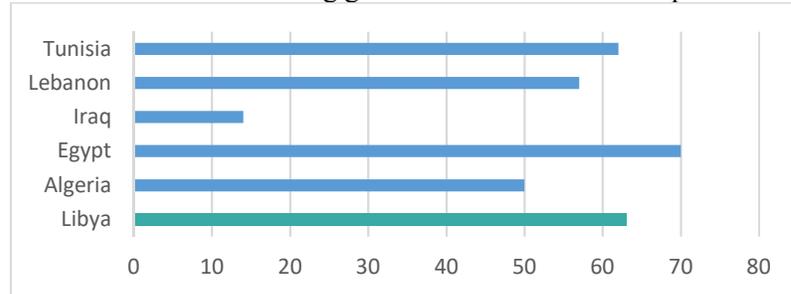
109. **Despite high account penetration, Libyan individuals are not enjoying high rates of formal financial intermediation.** As noted [above](#), Libyans have relatively high rates of account ownership which is mainly linked to the accounts as payment channels for civil servant salaries. almost 85 percent of Libyans work for the government.<sup>48</sup> This is indeed a common reason throughout the MENA region for initial account opening (see Figure 30, below). However, they

<sup>47</sup> Certain inconsistencies in the recorded capital data as well as the likely undercounting of distressed credits make these results unreliable but they are indicative of the CBL's formal view of systemic capital levels.

<sup>48</sup> World Bank 2015. Labor Market Dynamics in Libya.

also serve as a mechanism to take advantage of the government allowance to purchase US\$ 500 per person annually at the official exchange rate, further encouraging their opening. These purchased funds are disbursed in USD via a Visa or MasterCard issued by the bank where the Libyan recipient maintains an account.<sup>49</sup> Despite the high account usage in name, the banking relationship is overwhelmingly for the purpose of cash disbursement, with most citizens withdrawing the cash and then acting as if an otherwise cash-based economy.

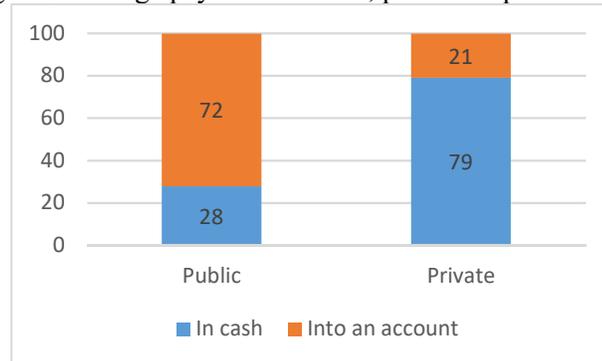
Figure 30: Share of individuals receiving government transfers who opened their first account



Source: Findex

110. **Private sector workers, in contrast, generally receive wages in cash.** Only 43 percent of adult Libyan workers receive wages through an account at a financial institution. The remaining workers are paid in cash. This reflects a marked disparity between how wages are paid in the public sector, where more than 70 percent of wages are transferred via bank accounts, and private sector, where the figure is only 21 percent. From interviews it appears that the great majority of public sector wages flow through bank accounts, considerably more than 70 percent. See Figure 31, below.

Figure 31: Wage payment channel, public vs. private sector

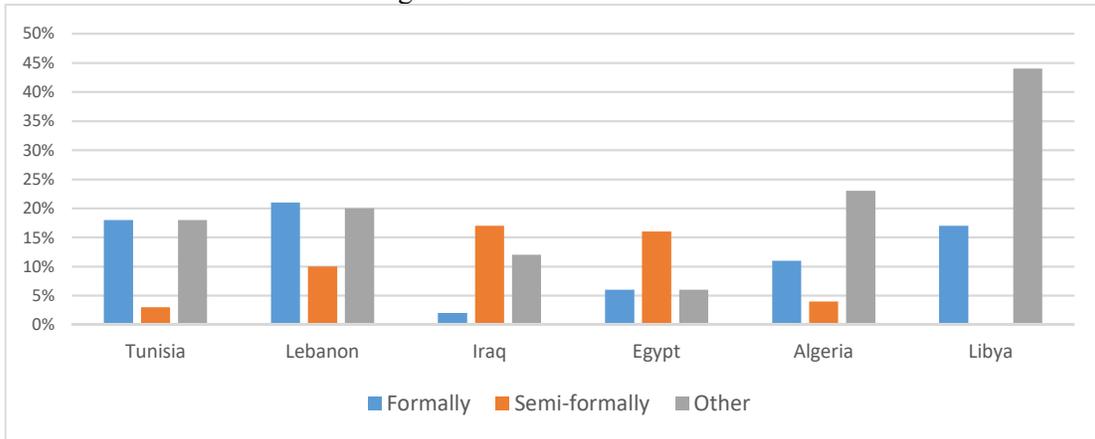


Source: Findex

111. **Savings rates are high, but informal.** Over 60 percent of the population reported having saved in the past year (see Figure 32, below). However, the distribution of saving in Libya is much less formal than in other MENA countries. As shown below, while 17 percent of saving in Libya is done formally, greater than the regional 12 percent average, 44 percent of Libyans resort to informal means of saving.

<sup>49</sup> “Libya: Delivery mechanism mapping for cash based interventions;” Danish Refugee Council, Libya, Shafagoj, 2018.

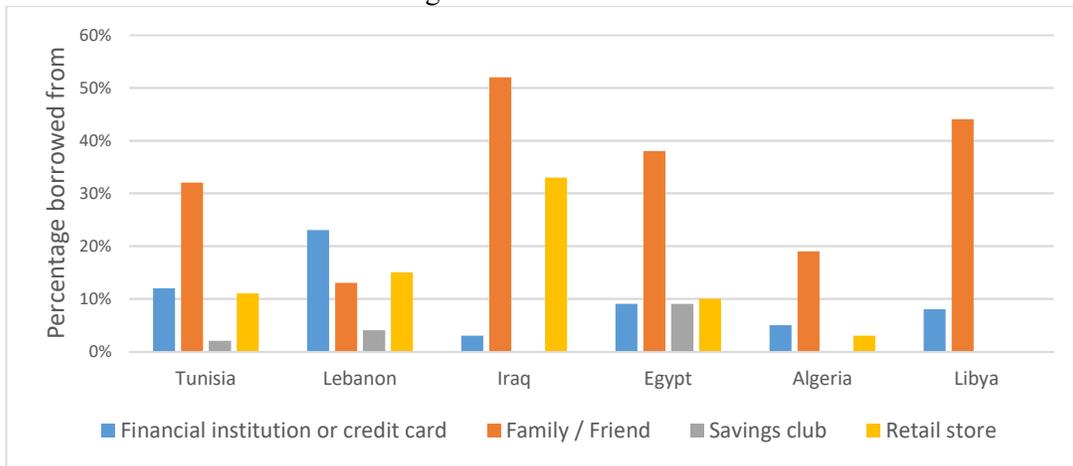
Figure 32. How Individuals Saved



Source: Findex

112. **Similarly with credit, most borrowing is informal.** While over 50 percent of Libyans report having borrowed money in the last year, only 8 percent have done so formally through a financial institution or using a credit card. The majority of Libyans who borrow do so from family or friends (Figure 33). This pattern is not uncharacteristic of other MENA countries, where different means of informal borrowing constitute the greatest share of loans. In other countries, borrowing from retail stores is also common, and in some cases informal savings clubs are also used, though these are much more prominent in Sub-Saharan Africa.

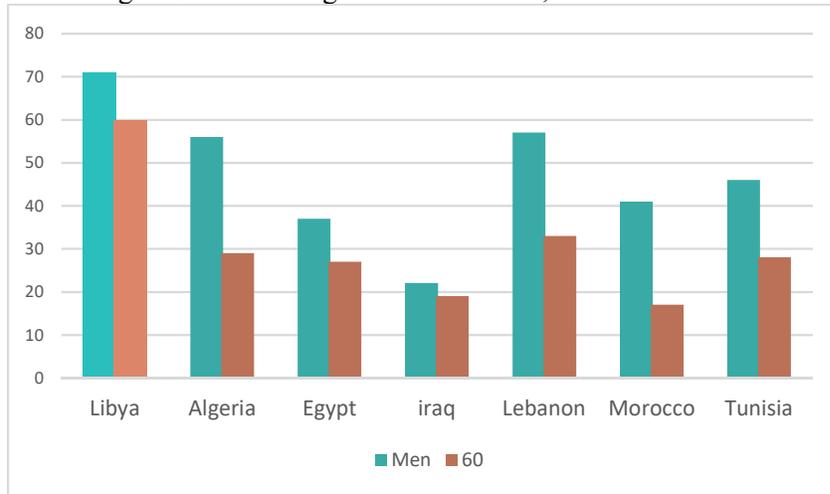
Figure 33: Source of Loans



Source: Findex

113. **Several inequities in access characterize the financial system.** But these are generally not as pronounced as in some of Libya's regional peers. For example, although the gender gap is significant, with an 11 percent difference in account access between men (71 percent) and women (60 percent), this is relatively low compared with the MENA region (see Figure 34, below). In MENA the gender gap tends to be higher than global averages, with, for example a gender gap of 24 percent for Morocco and 27 percent for Algeria.

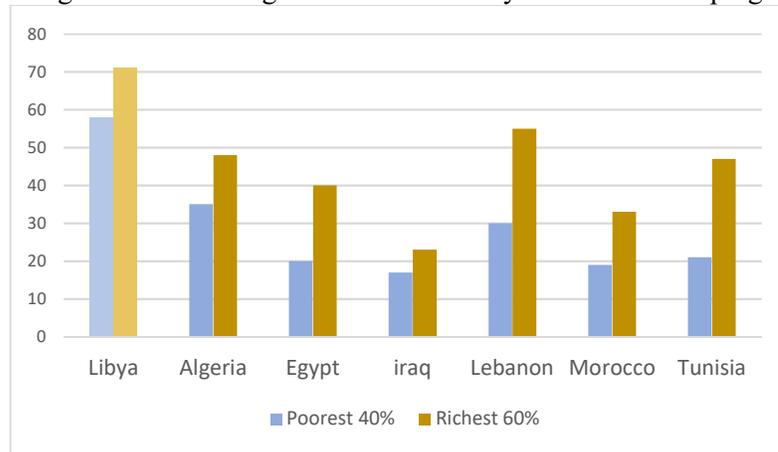
Figure 34: Percentage Accountholders, Men vs. Women.



Source: Findex

114. **Income disparity is also reflected in financial access.** Overall, Libyan individuals from low-income brackets are less likely to hold an account at a financial institution. While 71 percent of individuals from the top three income quintiles hold an account, 58 percent of those from the bottom two income quintiles hold an account. Despite this disparity, rates of account ownership by income remain far above many regional peers. Inequality in account ownership by income is much more pronounced in Lebanon and Tunisia than in Libya, as shown in Figure 35, below.

Figure 35: Percentage Accountholders by Economic Grouping.



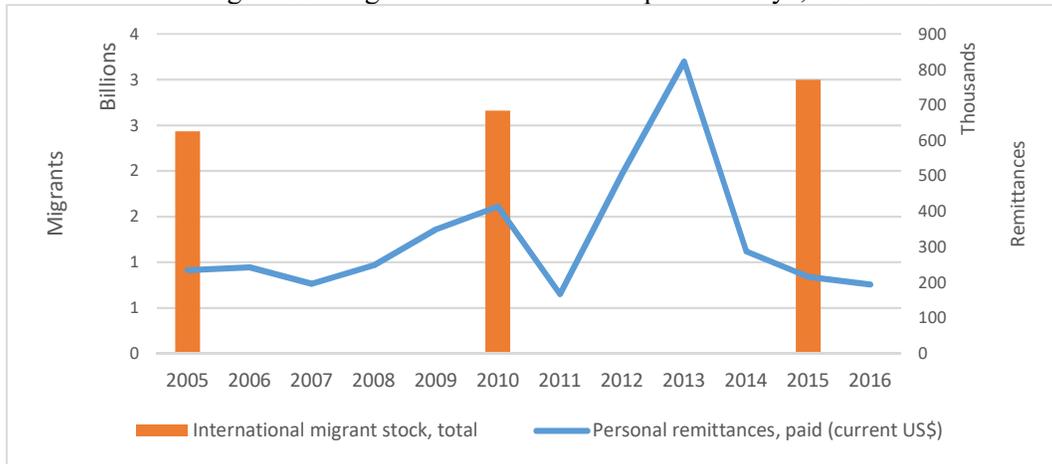
Source: Findex

115. **Foreigners living in Libya, including refugees and migrants, are a major group.** Migrants and refugees constitute a large and growing share of the population, up from 10 percent in 2010 to 12 percent in 2015. This phenomenon is not new. Since oil was discovered in the 1950s onwards, migrant workers have come to Libya from the Middle East, North Africa, and sub-Saharan Africa. Ghaddafi introduced visa-free travel from Sub-Saharan Africa to Libya in the 1990s, making Libya one of the main destinations for migrants in the continent. Migrants in Libya tend to be excluded from accessing financing services. Not only does this deprive them from

benefiting from these services, but also forces them to rely on cash transactions and exposes them to a variety of risks.

116. **The total stock of international migrants to Libya has remained high.** Between 2005 to 2015, the number of migrants went up from 625 thousand to 771 thousand, despite the spring uprising and the unrest. With the rise in the number of migrants, one might expect the total value of their remittances out of the country to also increase. However, the opposite has been happening since 2014 (Figure 36, below).

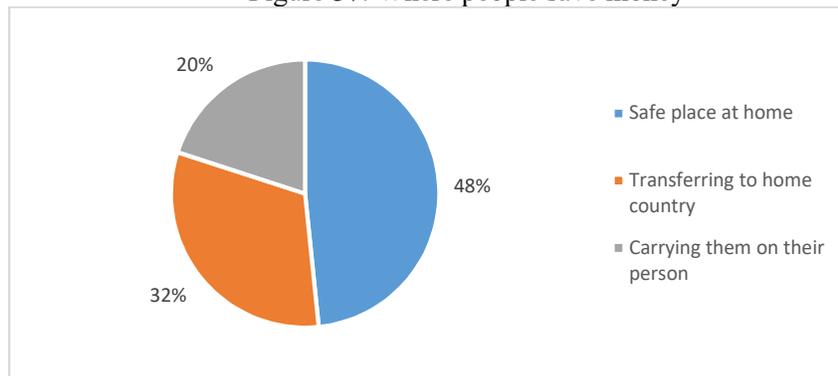
Figure 36: Migrants and Remittances paid in Libya, 2005-2016



Source: World Development Indicators

117. **Migrants and refugees are essentially excluded from the financial system,** despite their large numbers and potential to benefit from financial services. This is readily apparent from how they save money. As indicated in Figure 37, almost half of them save money in a safe place at home. A third transfer part of their savings directly to their home country, and a fifth always carry their savings with them

Figure 37: Where people save money



Source: Reach Survey, UNHCR, June 2018

118. **Fund transfers are challenging.** To transfer funds, refugees and migrants have previously used the parallel market where the exchange rate was much costlier than the official rate. Worse yet, not all migrants have access to the parallel market: most migrants in the western and eastern

regions have direct access but those in the south can only rely on their Libyan employer, Libyan friends, or contacts within the refugee community to facilitate transactions. Transactions can take roughly three days with an average transaction fee of 11 percent to 15 percent of the transfer amount.

119. **The lack of access to safe means for saving puts migrants and refugees at greater risk of robbery and kidnapping.** Criminal gangs and militias are aware of this and take advantage of the fact that migrants are paid in cash and have limited means to store money safely. Not surprisingly, saving for an emergency situation was identified as the primary reason for savings followed by returning home and transiting to Italy.<sup>50</sup>

120. **The greatest cause for the financial exclusion is the state of informality.** Most migrants and refugees work without contracts, their working hours are long, and their work environments are often precarious. Most work in the service sectors, followed by construction and agriculture. Wages are paid in cash due to their inability to open bank accounts, their irregular status, and the general practice of paying migrants in cash. Most migrants and refugees seek to work for employers with whom they have established relationships of trust, but not being paid remains a major concern among them. There is little legal recourse they can resort to in the event of non-payment. When asked who they would turn to if not paid, only 11 percent cited the police or NGO,<sup>51</sup> suggesting a low level of trust in the protection from formal institutions. Annex 1 presents an overview of some of the technologies which have been leveraged to improve financial inclusion of disadvantaged groups.

#### 4.4. Payment systems and distribution networks

##### 4.4.1. Payment Systems

121. **The payment system infrastructure has seen significant progress over the past several years.** Until fairly recently, Libya had no unified automatic national payment system. The various payment components, such as check clearing or transfers, were domiciled in separate departments with no integration. Then in 2007, CBL led a national payment system project. The project included upgrading the core banking systems at the five big state banks (Jumhouria, National Commercial, North Africa, Sahara, and Wahda) in order to facilitate bank-to-bank interface and transfers. As a result, now over 85 percent of banking branches throughout the country are connected to their headquarters' core banking system. The project resulted in payment and settlements operating through four systems: RTGS, automated clearing house (ACH), automated check clearing (ACC), and SWIFT.

122. **The payment system still faces hurdles to a fully automated operation.** CBL was able to link most of the banking system, with over 528 branches throughout the country fully connected as of June 2019. But some branches could not be linked, primarily because of connectivity and system obstacles, mainly with Jumhouria. As a result, the systems have improved but are still not wholly smooth, with manual interfaces and weak links, especially with the state banks. For example, information in the RTGS system is input manually between the bank and RTGS then

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<sup>50</sup> Reach Survey data.

<sup>51</sup> Findex data.

again to the recipient, taking more time and increasing error rates. The CBL is in the process of upgrading the interface among RTGS users, working with an Austrian company, but this has not yet been completed.

123. **Check-clearing between banks is still not fully automated.** The ACC continues to contain manual bottlenecks. ACC lacks automatic check-reading technology, so a manual interface must move checks through the system, raising errors and adding time. Checks of more than LYD 250,000 must in any case be cleared manually for security and fraud reasons. The inclusion of manual links in the check-clearing chain and non-automated branches, especially at the state banks, slows the whole process down. Bottlenecks caused by lack of sufficient staff to process checks manually can cause the whole system to delay, often into the next day and therefore leading to reconciliation challenges.

124. **CBL has launched several initiatives to fully automate ACC and may be closing in on a solution.** They had purchased ECC, an NCR system, that was plagued with operational problems. CBL has since worked with ProgressSoft, a Jordanian company with deep experience in payments in the region, and seems to be nearing completion, mainly in connecting the remaining 70 branches.

125. **One goal of the payment and settlement department was to establish a direct Libyan gateway to SWIFT.** Previously all SWIFT payments went through Jordan or the UAE. A Libyan gateway was designed and has been operational since 2016. Eleven banks, including all state banks, are connected through this SWIFT gateway and CBL is working on connecting them all. Disaster recovery is in Tunis, the first time it is outside the country.

126. **AML/CFT deficiencies remain a concern.** Given the historic isolation of Libya's financial sector and the current high risks associated with the conflict, global banks have almost no contact with the Libyan financial sector. The banks interviewed dealt primarily with one GCC bank with no financial interaction with any major North American or European banks. De-risking has effectively redlined the Libyan banking system in terms of correspondent banking, raising the costs of transfers, letters of credit, and other cross-border transactions. The Presidential Council of the Government of National Accord issued the AML/CFT law in 2017 (see Box 1 below). The CBL has launched a committee, the National Committee for Combating Money Laundering and Financing of Terrorism, to help guide the banks in their implementation. The Committee held its first meeting in March of 2019.

127. **CBL has expressed the desire to strengthen AML/CFT capacity within CBL itself and within the banks.** CBL has expressed that the immediate need is for a strategy and timeline to prioritize and organize these efforts, and that these should include:

- Task force including other stakeholders, such as Ministry of Justice, to coordinate responses to sanctions and effective capacity-building
- Expanded training within CBL and the banks, especially in payment areas, and development of local assessors.
- Increased flow of information with global counterparts and support for technical assistance on MIS systems.

- Align any further developments of the payment system and digital finance with appropriate risk structures.

### **Box 2. Libya’s 2017 AML/CFT Law**

The Presidential Council issued the AML/CFT law in October 2017. The law stipulates the establishment of the “National Committee for Combating Money Laundering and Terrorism Financing “under the chairmanship of the CBL Governor and made up of CBL staff and representatives from concerned ministries. The law follows UN guidelines on definitions and proscriptions including stipulating coordination with relevant global entities.

The law calls for the creation of a “Financial Information Unit” empowered to collect relevant information and share with the authorities as deemed necessary. The law also empowers the supervisory authorities to take appropriate actions to independently review financial information and to impose sanctions on institutions and individuals who disobey the law, including license suspension and fines up to LYD 1 million. Separate penalties are also set for those who enable AML/CFT through negligence.

The law also lays out broad preventative measure that financial institutions must take as well as some specific provisions, such as forbidding relations with shell banks or maintaining accounts with fictitious names. The law also lays out know-your-customer requirements, restrictions on politically exposed persons, and guidelines on correspondent banking relationships.

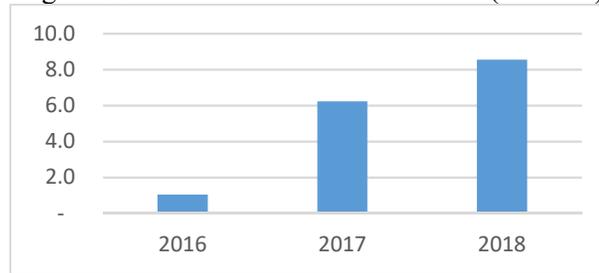
According to CBL, although the law is viewed as robust and complete, its implementation lags significantly given the political situation in Libya as well as the lack of capacity and tools at CBL and in the banks themselves.

#### *4.4.2. National switch*

128. **Libya has instituted a National Switch but not all banks are connected.** The National Switch is owned by Muamalat, a quasi-public company set up by the CBL and owned by banks. Of the eighteen licensed banks, nine are connected to the switch, including all the state banks. Jumhouria is by far the largest user of the switch given that the volume of cards and POSs issued by the bank disproportionately outweigh the competitors: Jumhouria’s cards represent close to 60 percent of active cards in circulation. Muamalat is not independent and some private banks have expressed concerns of governance issues. Some of the private banks have withdrawn from the CBL system, preferring more automated proprietary systems. For example, Sahara preferred to use its shareholders BNP Paribas’ T24 system and has found that it supports fully automated check-clearing, so it does so internally. **Annex 3** presents some payment systems statistics.

129. **The volume of transactions processed through the Switch has recently witnessed exponential growth.** See Figure 38 below. The cash shortage situation impacting the banking sector since 2015 has boosted card payment systems and at the same time the number of merchants brought onto the network grew significantly. This enabled cardholders to make use of their salary deposits that had otherwise remained inaccessible due to cash withdrawal caps that had been put in place by the banks. Some of this has also been driven by the use of debit cards to capture foreign currency under the CBL allowed exchange allocation (see [above](#)).

Figure 38: Growth in POS Transactions (millions)



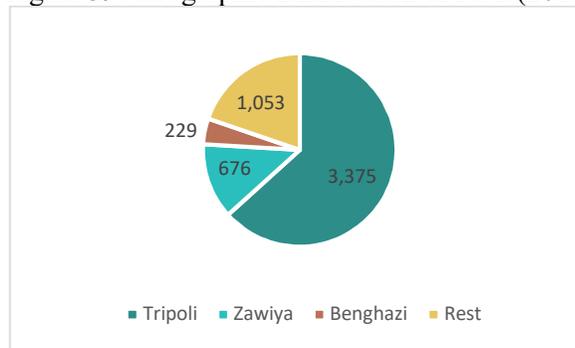
Source: Muamalat

#### 4.4.3. Architecture (POS, ATMs)

130. **Credit cards are rare but debit cards common.** Less than a quarter of the population holds cards, but their use is growing rapidly. Given the near absence of retail credit, the vast majority of cards are debit cards, linked to cash bank accounts.

131. **Libya has a fairly extensive but sub-optimal point of sales (POS) system.** The number of POS units in Libya is estimated at over 11,000, greater than neighboring Tunisia with a far more sophisticated card usage. Over 7,000 of the Libyan POS units are connected to the National Switch, enabling more than 500,000 active debit cardholders to transact through the switch. The POS units are also heavily geographically concentrated: more than 63 percent of POS machines are in the Tripoli metropolitan area and, together with nearby Zawiya, the northwest strip holds almost 80 percent of all POS devices. See Figure 39, below.

Figure 39: Geographic Distribution of POS (2018)



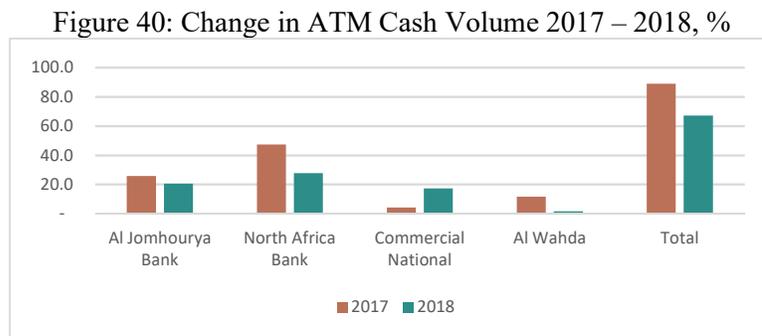
Source: Muamalat

132. **POS systems outside the National Switch also allow for closed loop transacting.** These are connected to the operating company's servers, allowing for transactions with cards or e-wallets issued by the company. Settlement of money in and out of these systems is administrated by the operating company through the use of a settlement account that is held with a partner bank. The most advanced of these players is Tadawal, which has created a hybrid system with multiple settlement accounts each held with a different partner bank. This has enabled them to build a multibank network outside of the National Switch.

133. **Several observers encouraged development of a private, national payment program.** Such a system, along the lines of Saddad in Saudi Arabia, would encourage all banks to participate

which would help to integrate those banks that were less sophisticated and would raise levels of standardization and efficiency across all banks. It would also help to expand geographical coverage as banks align with their client base.

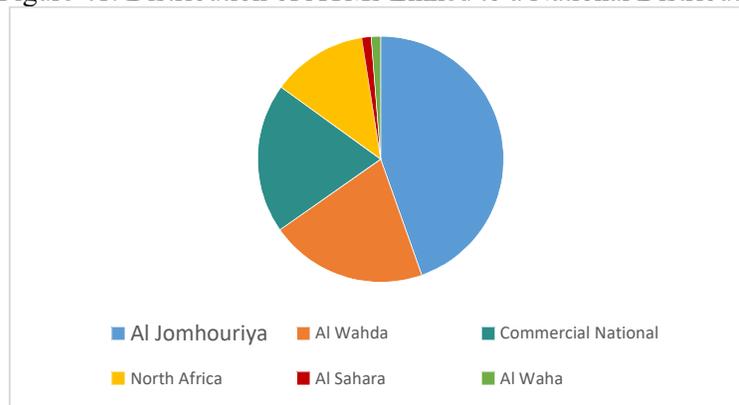
134. **ATMs have made inroads into Libyan cities, but their popularity has been declining.** ATMs are hampered by low connectivity and further strained by the overall lack of cash, which in turn reinforces their disuse and low maintenance. In many ways debit cards have begun to replace cash. The volumes of cash at ATMs actually declined between 2017 and 2018 (see Figure 40, below).



Source: Muamalat

135. **The large banks dominate the ATM network.** Jumhouria alone controls almost half, 45 percent, of all ATMs (see Figure 41, below). The concentration of ATMs is also disproportionality skewed towards Tripoli with over three thousand ATMs, the majority in the system. Tellers are the main outlet for cash throughout the rest of the country.

Figure 41: Distribution of ATMs Linked to a National Distributor

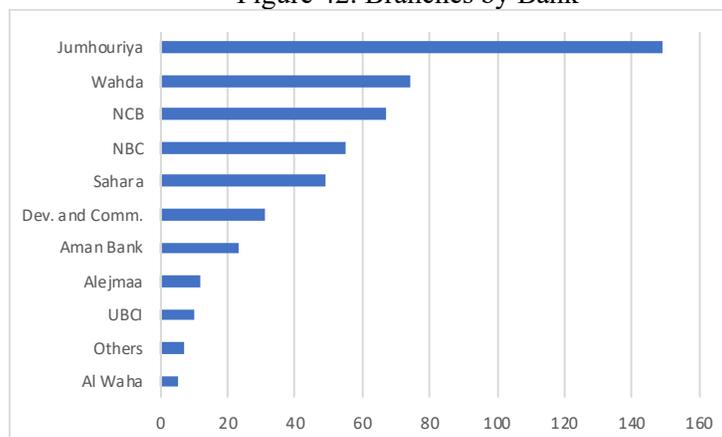


Source: Muamalat

136. **The national branch network is similarly dominated by the large state banks.** 57 percent of all bank branches are located in the West, 28 percent in the East and the rest in the Center and South. Not surprisingly, almost half of all branches are located in major cities (27 percent in Tripoli and 14 percent in Benghazi). Jumhouria has historically had by far the largest branch network, the only bank reaching into the smallest and remote towns. Before the current crisis, Jumhouria held almost 150 branches, over 30% of the system network (see Figure 42,

below). Since the crisis, many of the physical branches have been damaged or closed and a recent inventory is not yet available.

Figure 42: Branches by Bank



Source: Arab Credit Reporting Initiative; Green Book, 2011

#### 4.4.4. Mobile banking

137. **The share of Libyans using their mobile phones to access their accounts is comparatively low.** As of 2017, only 8 percent of Libyans had used their phones to access banking services, lagging behind the MENA regional average of 12 percent. The transition is slowed by regulatory and licensing hurdles. Banks, telecom companies, and other fintech providers must acquire a license from the CBL to operate in electronic payments in a context where the regulations have not kept up with the pace of expansion of these services. Some regulations relating to cards, mobile banking, and electronic payments have been promulgated by the CBL as circulars through the CBL's settlements and payments division. However, there is no electronic transaction law, despite some efforts that were initiated as early as 2008-10. There is also no regulation detailing how or whether telecom companies would or should share information with the CBL. Currently CBL does not oversee telephone transfers that are within a bank, leading to possible AML concerns.

141. **Despite the hurdles, the use of mobile banking and electronic payments is rising quickly.** This has also been spurred by the liquidity crisis as virtual money replaces cash. The most notable player in this space has been Watba, a closed loop service that allows customers of the Bank of Commerce and Development to send money to each other through the use of an app. The volume of transaction of this service is over 10bn LYD, that is five times larger than the volume of transactions that are processed through the national switch. Another similar service is Sadad, which provides instant transfer capabilities based on an e-wallet system tied to the client's phone number. The functionality is straightforward, but the lack of a fully integrated banking sector has prevented Sadad from becoming a leading player. Electronic bill payments are beginning to be used for those companies and utilities that are efficient enough to interface. More sophisticated banks are developing mobile wallet services and developing products to pay bills and other financial solutions.

142. **The potential for mobile banking in Libya is significant.** Mobile and smart phone penetration is high, especially among the younger population. The penetration of connections is quite high, given the high geographic concentration of the population in a few main cities along the coast (see Figure 43, below). In addition to a high share of the population owning bank accounts, Libyans are active social media users, with a far higher proportion than other non-GCC MENA countries (almost 70 percent versus less than 50 percent).

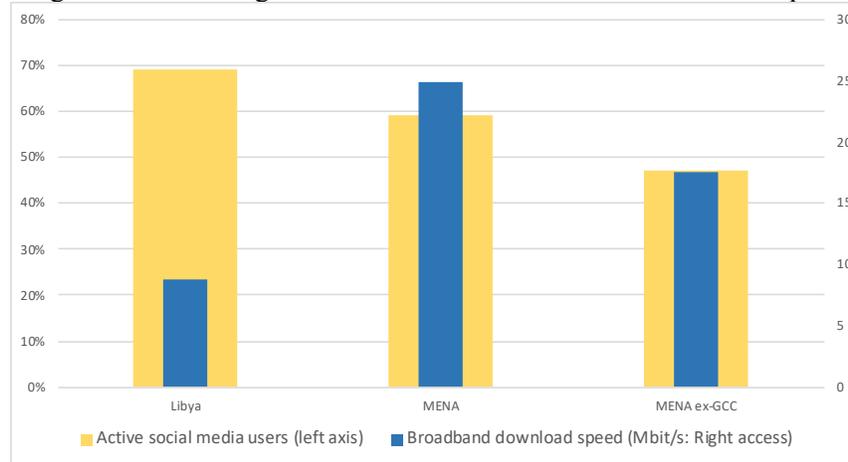
Figure 43: Degree of mobile phone subscriber penetration and connectivity; MENA



Source: GSMA Intelligence; 2018

143. **The potential for expanding digital finance is hampered by poor infrastructure and a lack of private suppliers.** 4G coverage is significantly lagging behind other MENA countries. While the coverage of Libyan population by 3G networks is higher than MENA average (98 percent vs. 93 percent MENA average), only 67 percent of population in Libya is covered by 4G networks compared to 82 percent MENA average. Connectivity is poor, with connection speeds averaging half non-GCC MENA (see Figure 44, below) due to the weak telecommunications infrastructure as well as intermittent electrical outages. Poor service and low coverage are largely the result of the dominance of inefficient state companies, in both telecom and electricity, exacerbated by the conflict. Libya has full state ownership in the mobile market vs. 46 percent MENA average. Compared to the rest of MENA, Libya has a high fixed broadband concentration index (8,264 vs. 6,804 MENA average). A lack of legal infrastructure also hinders incentives for the creation of private digital service providers, whether banks or otherwise. Libya is missing a legal framework for key drivers of digital growth, lacking regulations on data protection and online privacy, cybercrime prevention, online consumer protection, and electronic transactions or e-signatures.

Figure 44: Percentage of Social Media Users versus Bandwidth Speed



Source: MENA Digital Economy Benchmarking; Libya (9/19)

## 5. Capital Markets

### 5.1. The Libyan Stock Market

144. **The Libyan Stock Market is underdeveloped and not well-capitalized.** The Libyan stock market (LSM) was created by Decision No. 134 in June of 2006 and was launched the following year. The LSM worked with the Amman and Cairo exchanges to establish rules and operations. In 2008, the LSM launched its Automated Trading System (ATS) using the Egyptian model, complementing the Central Clearing Depository System (CCDS) which was introduced in 2008.<sup>52</sup> The market has been closed during the current crisis.

145. **Most of the initial listings were privatized state firms.** The initial main impetus for the LSM's launch at that time was to support the privatization of state-owned enterprises, including state banks such as Wahda, Sahara, and Jumhouria, as part of the move away from a pure state-owned economy at that time. As with most early-stage stock exchanges, most listings are banks (5) and insurance companies (3) as indirect plays on the broader real sector. The remaining firms are mainly formerly state-owned firms that had been streamlined and repackaged for privatization under the oversight of the Economic and Social Development Fund. The expectation had been that the next phase of privatizations would include telecom firms such as Libyana and Almadar, as is a common next phase in privatization efforts, as well as and up to 375 state-owned companies. However, this was derailed by the conflict. The entity responsible for the privatization, under the General Board for Investment Promotion and Privatization Affairs, is now focusing primarily on outsourcing government services to private companies and on setting up one-stop shops.

*Listed Firms (2012)*<sup>53</sup>

1. Assaray Bank
2. Sahara Bank
3. Wahda Bank

<sup>52</sup> The Performance of the Libyan Stock Market; A. Aljbiri; April, 2012

<sup>53</sup> Libyan Stock Market Web Site.

4. Commerce and Development Bank
5. Jumhouria Bank
6. Libya Insurance Company
7. United Insurance Company
8. Sahara Insurance
9. Alahlyia for Cement
10. Libyan Tobacco Company Contribution
11. Development Company for Medicine Manufacturing and Medical Products

145. **The LSM is extremely small and illiquid, even by MENA standards.** The exchange only lists eleven firms and during its life has exhibited low trading volume. The LSM is less than 0.01 percent of the broader Arab markets, a tiny fraction of the GCC oil exporters and even small in comparison with Tunisia, Jordan, or Palestine. The market has been highly illiquid, even before the crisis, with turnover of about 0.1 percent compared to 18 percent on average for the Arab markets.

146. **Oversight of the LSM has been strengthened but remains weak.** The stock exchange was set up under the supervision of the People’s Committee for Economics, Trade and Investment within the Ministry of Economy but also remained under CBL oversight in terms of AML, liquidity and other concerns to the financial system. Law No. 11 of 2010 established a separate agency, also under the Ministry of the Economy, specifically for supervising the LSM and overseeing functions such as listing, settling, and trading. Law no. 11 also foresaw the setting up of investment funds and trading securities abroad. In addition, it clarified the tax regime regarding securities and investments.

147. **The stock market has remained inactive since 2014 due to political instability.** It was intentionally closed to ward off political chaos. Some private offerings have been active, with two banks raising capital through private placements. The venture capital industry is also too small to adequately provide financing for SMEs and start-ups. The market is not likely to reopen in the near future and will remain paralyzed given multiple factors:

- Conflict
- Lack of financial information
- Lack of banking services
- Division of central banks
- Division of companies between east and west.

148. **Before re-opening, LSM could be strengthened.** Aside from technical enhancements, observers raised concerns about Exchange governance with opportunity for reinforcing and clarifying independent roles and responsibilities to avoid conflicts of interest and raise transparency, for example ensuring that the head of the Exchange is not on the board of listed companies. More rigorous disclosure and governance requirements for listed companies could also help to raise confidence in the LSM and its listings. The LSM also needs clarity on custodianship of foreign funds and legislative clarity regarding the repatriation of funds.

## 5.2. Private Equity

149. **Formalized private equity investments in Libya are extremely limited.** Private placements of equity have occurred at a very high level, primarily by banks for banks, apparently to avoid the complications of public listings. However, other forms of private equity investing, such as venture capital, angel investors, or funds, have so far not gained traction in Libya given the newness of the market and the supporting regulations. Informal equity investments among friends and family, including partnerships, are fairly common but not registered centrally.

### 5.3. Bonds and Sukuk

150. **Other than government paper, there is no bond market in Libya.** Government bonds are currently extremely complicated by the split in the central banks, noted above, and will need to be stabilized and centralized before consideration of any enhancements such as developing a yield curve. Private bonds, including by banks, had not gained traction in Libya even before the crisis. Given the shift to a shari'ah compliant system, all future issues would have to be structured as sukuk (see Islamic Banking and Finance discussion, [below](#)). Generally speaking, economies that have faced challenges developing conventional bond markets are even more challenged developing sukuk markets given the greater difficulty in standardizing sukuk and their typical association with underlying assets. On its path towards generating more liquidity for banks and private companies, these issues will have to be taken into account if the Islamic Banking rules remain in place.

## 6. Insurance

### 6.1. Market characteristics

151. **The Libyan insurance market is embryonic.** Purchasing insurance is uncommon among the population and with businesses, other than for automobiles, and non-life represents almost half of investment. Total asset size is less than 1 percent of GDP, compared with over 5 percent of GDP for MENA. The MENA average is already very low by global standards and much lower than what is typical for high-income economies (45 percent of GDP).<sup>54</sup>

152. **The market has opened up considerably but remains weak and disorganized.** The industry evolved from a single state-owned player, the Libyan Insurance Company (LIC), founded in 1971. LIC issued insurance policies to corporates to manage investment and trade risks along with a minimal range of essential products for the retail market. In the early 2000's, as was the case throughout the economy, the industry was opened up to private sector participation. Licenses were issued to new domestic players which mostly operated as sales operations for international reinsurers. By 2018 there were twenty-two licensed insurances providers worth an aggregated net asset value of over 1.2 billion dinars.

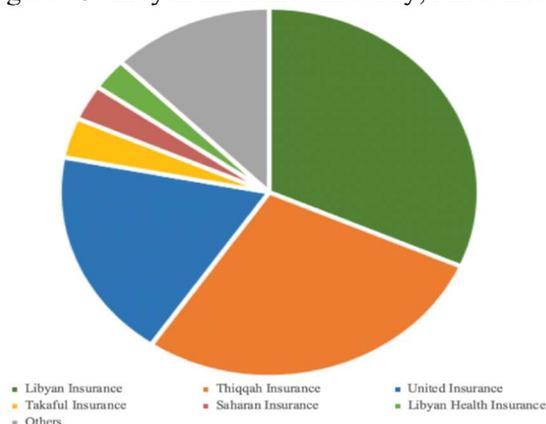
153. **The insurance industry remains both highly concentrated and structurally weak.** By 2018, the two top insurers controlled more than 60 percent of assets (see Figure 45, below). Regulatory oversight was already weak before the crisis and then the political unrest led to a

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<sup>54</sup> The Insurance Sector in the Middle East and North Africa, Rodney Lester; November 2010; WB Financial Flagship.

dramatic decline in industry asset value, shrinking to less than half pre-crisis size, given both the number and the volume of claims.<sup>55</sup> More than half the value of assets is deemed at risk of default due both to the exogenous impact of the crisis complicated by high levels of fraud and inadequate coverage by low quality reinsurers.

Figure 45: Libyan Insurance Industry; Asset Breakdown



## 6.2. Regulatory oversight

154. **Oversight of the insurance industry in Libya has been limited.** The Libya Insurance Supervision Board (LISB<sup>56</sup>) was set up in 2008 reporting to the Ministry of the Economy under governing Law #3 (2005).<sup>57</sup> LISB oversees 22 insurance companies, 18 of which are licensed in Tripoli with 4 licensed separately in the East. LISB's role is limited to supervision and they have no authority to regulate. Any regulatory or active management of the industry, including issuing new rules or imposing penalties, must be through the Ministry of the Economy. Since the crisis, the LISB has frozen issuance of new licenses with the intent of tightening regulations to help create a more robust and stable industry.

155. **The Agency is seeking to strengthen the market.** LISB has highlighted the lack of rules or regulations governing the risk management and risk policies of Libyan insurance companies and the lack of a clear rating policy for the selection of reinsurance partners. LISB also currently has no oversight over the quality of the insurance company's investment portfolios and the process for rating their quality and solvency.

## 6.3. Takaful

156. **The demand for shari'ah compliant insurance products is not being met.** Although the regulations imposing shari'ah compliance on the banking system did not mention insurance, it is likely that demand for takaful among the population is strong and, equally important, that the need for takaful products to ensure the shari'ah compliance of any linked insurance products in banking contracts. See also the section in Islamic Banking and Finance, [below](#).

<sup>55</sup> The Insurance Industry in Libya, Key Trends and Opportunities; Timetric, September 2014.

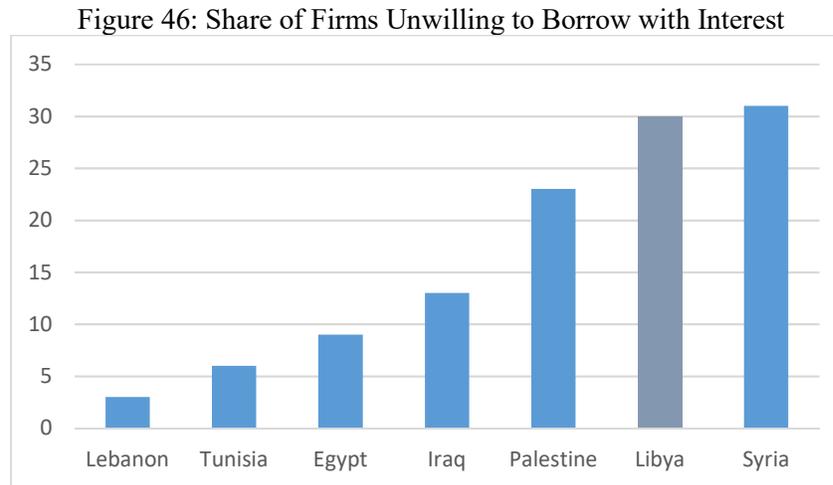
<sup>56</sup> هيئة الإشراف على التأمين

<sup>57</sup> The Insurance Sector in the Middle East and North Africa, Rodney Lester; November 2010; WB Financial Flagship.

## 7. Islamic Banking and Finance

### 7.1. Political background

157. **Libya has demonstrated a relatively high demand for shari’ah compliant financing.** The demand appears greater than in other Arab states. Surveys have typically put the Libyan population at the higher end of the scale, significantly higher, for example, than its far more secular neighbor Tunisia (see Figure 46, below).



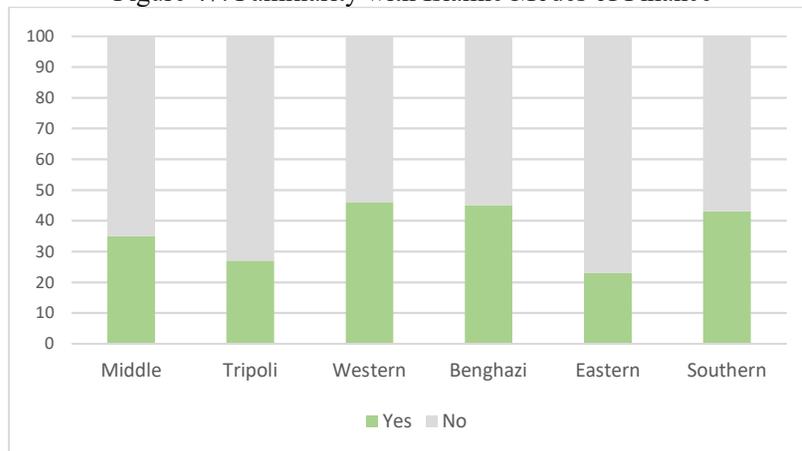
Source: World Bank and Other (various surveys)

158. **The 2011 Civil War included a strong Islamist faction that demanded a transition to greater shari’ah compliance as part of the nation’s reconstruction.** Soon after the success of the overthrow of the prior government, Mustafa Abdul Jalil, chairman of the National Transitional Committee and interim leader, declared in an October speech that any prior law or regulation that conflicted shari’ah would be overridden, citing those laws curtailing polygamy and permitting interest (riba). As a consequence, in January 2013 the Libyan General National Congress adopted Law #1 of 2013 which prohibited interest on all civil and commercial transactions.<sup>58</sup> The move reflects political will but did not mirror high awareness of the implications of shari’ah-compliant finance: most firms have little knowledge of the workings of Islamic modes of finance (see Figure 47, below).

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<sup>58</sup> “Libya: Law #1 of 2013 on the prohibition of interest-based financing transactions,” Dr. Kilian Bälz, International Bar Association; 2/14.

Figure 47: Familiarity with Islamic Modes of Finance



Source: *Simplified Enterprise Survey and Private Sector Mapping; Libya 2015 (WB)*

159. **The full transition to Islamic banking was also contrary to what was advised the CBL.** In fact, the CBL sent two official recommendation letters (in October and November 2012) to the General National Congress before the law was passed in January 2013. Through these letters, the CBL warned the General National Congress of the consequences that can cause such a swift and surprising change and the losses that would be incurred by the Libyan banks. CBL encouraged the introduction of Islamic services at banks but advocated for an approach allowing co-existence of conventional and Islamic banks adopted by other Muslim-majority countries, as described in the chapter about Islamic banks of the law (46) of 2012, which is a comprehensive strategy for Islamic banking envisioned by the CBL. In early 2012 the CBL formed an Islamic finance supreme advisory committee that included experts in different area such as economy, finance, legal and Shari’ah. The Islamic finance supreme advisory committee then created 7 technical committee that prepared all the basic requirements for introduction of Islamic banking. The main problematic has been the slow pace of banks in operational procedures, especially with the beginning of the political division that impeded many development plans for the banking sector.

## 7.2. The law proscribing interest and its implications

160. **The law proscribing interest (#1 of 2013) is short, less than two pages with eight clauses.** It covers interest-bearing transactions on loans and deposits. Details on non-bank financing, such as insurance and leasing, is not covered by the law. Penalties for intentionally continuing to charge interest included financial fines and up to two years in prison.

161. **Libya’s law proscribing interest is unusually broad and proscriptive.** Libya’s prohibition against conventional interest goes far beyond most Muslim-majority economies, including most Arab countries with shari’ah compliant financial practices. The GCC states, for example, typically make de facto exceptions for financial transactions, permitting conventional and Islamic finance to live side by side. Most Muslim-majority economies let the market decide, with various levels of encouragement of Islamic finance, as in Malaysia, but with broad room for exceptions for those who are indifferent or for non-Muslims and cross-border transactions.

162. **Credits that were on the books and structured as conventional were not grandfathered.** Retail loans were immediately expected to transform to shari'ah compliant while commercial credits were given until 2015. Article 2 stipulates that interest cannot be enforced, even when a Libyan court has rendered a final judgment supporting interest payment. This effectively prohibits any collection of interest from the date of the law's promulgation. Consequently, all interest payments were invalidated, including accrued and suspended interest on overdue loans that was on the books of the banks as an asset. There is no law organizing this suspended interest. This wiping out of suspended interest represents a massive transfer of wealth from the capital of banks to borrowers since accrued loan interest was significantly more than deposit interest. It has also not likely been reflected in the capital value of the banks which is therefore exaggerated.

**Law #1 of 2013; Article 1**

Interest on deposits and loans in all civil and commercial transactions between natural and legal entities shall be prohibited. All usurious interest (فوائد ربوية), whether evident or concealed, earned from such transactions shall be invalidated on an absolute basis.

163. **Penalty interest to discourage late payments has been nullified.** The Agricultural Bank has had a policy to add 1 percent to overdue principal as a means to partially recoup potential losses on overdue loans as well as to encourage timely payment. This has been annulled since the issuance of the law. This will mean that banks will have to recalculate potential losses and find other means to cover the cost of future late payments, as well as to discourage overdues.

164. **To date, the product sets are limited, largely due to the difficult security and political situation which has greatly affected the financial sector.** Credit offerings are overwhelmingly murabaha, used primarily to finance purchased inventory. The adoption of ijarah and musharakah products has been rather limited to date. While the CBL has supplied banks with the products guide which includes 21 different products, the adoption of various products has been slow, given the challenging situation in the country.

165. **The Eastern region has taken a somewhat less restrictive tack.** The law proscribing interest was suspended in the East back in 2017 for five years.

### 7.3. Supervision and oversight

166. **The CBL needs to continue strengthening its capacity in supervising Islamic banks, taking into consideration their distinct risks.** CBL supervisors have received limited training on Islamic banking and finance. To this end, the World Bank has organized several trainings for CBL and CBL has independently developed a relationship with IFSB in Malaysia. Nonetheless, more effort is needed to strengthen the capacity of the personnel. The legal and regulatory environment has not yet caught up with the shift towards Islamic finance and contradictory tax and commercial laws remain on the books. Issues such as double taxation, e.g. on the sale and resale of murabaha goods, need to be clarified. Additionally, regulations and procedures are not clear on several key topics, including how to measure the underlying market risks of murabaha goods held over a period of time, how to evaluate the changing liquidity risks when banks cannot borrow or lend interbank, how to consider insured account holder's investments as compared with traditional deposits, how to evaluate the lack of penalty interest on defaulted credits, how to measure shari'ah compliance risk and others.

167. **Provisioning procedures are currently different for Islamic portfolios.** Islamic credits are ranked with a six-level classification as opposed to five.

#### 7.4. Sukuk Issuance

168. **The legal basis for issuing sukuk<sup>59</sup> has been laid down.** Law #4 of 2016 established the legality of sukuk issuance and outlined the legal framework. The law broadly lays down the rules defining special purpose vehicles, securitization, and trading. The law also establishes that the Libyan Capital Market Authority (CMA) will be responsible “for monitoring, inspecting, and supervising the SPV.”<sup>60</sup> The law also defines the role of the CMA’s own Shari’ah Supervisory Board in affirming shari’ah compliance of issued sukuk.

##### Law No. 4 of 2016 on Sukuk

In 2016, the Libyan General National Congress enacted a law outlining the regulations surrounding sukuk issuance. The law establishes those entities which are able to issue and invest in sukuk, both private and public, as well as the process whereby sukuk are issued via specially-created SPVs. The law outlines five broad shari’ah-compliant modes of sukuk structuring: (1) financing, (2) ijara (leasing), (3) investment, (4) partnership, and (5) investment portfolio. Sukuk must be issued with the approval of the CMA and, for purposes of shari’ah compliance, the CMA Shari’ah Supervisory Board. The law also outlines the process of guaranteeing, governance, underwriting, disclosure, and trading of sukuk, the

169. **To date, no sukuk have been issued.**

Several have been under consideration, including private financing of two malls and a clinic as well as public financing of an electrical power plant. Aside from the overall high risk of financing at this time in Libya, the issuance of sukuk is also hampered by the risks of first movers, the lack of transparency of issuers, and the total lack of a mechanisms and buyer volume to support a secondary market; most sukuk are likely to be held to maturity. Moreover, sukuk to support public financing has been stymied by a lack of clarity regarding the respective roles of the various ministries.

##### *Failed GECOL Sukuk Issuance*

In 2018 the LIIDF planned to issue a non-tradable murabaha sukuk as a private placement on behalf of GECOL, the state electrical company, to support the purchase of power stations. The total issuance was planned to be LYD 1.6bn at a 3% rate. Before the issuance could move forward, the Libyan National Audit Bureau blocked it, considering it illegally circumventing the budgetary process. The question of which ministry should guarantee the sukuk issuance was an unresolved question, whether the Ministry of Planning, as defined under Section 3 on national development, or the Ministry of Finance as part of the budgetary process. All parties agree that greater clarity is needed, along the lines of GCC economies, to launch a viable government sukuk issuance process.

#### 7.5. Takaful

170. **Libya has not yet drafted legislation to support takaful insurance.** Nonetheless, some insurers are offering shari’ah compliant takaful products on a limited basis. Overall the Libyan insurance industry is extremely small and embryonic.

<sup>59</sup> Sukuk are certificates representing shares in the ownership of assets. They are typically tradable and structured in such a way as to parallel some of the functions of bonds, i.e. external financing of assets that does not include direct equity ownership and that relies mainly on the cash flow of the asset financed and/or the solvency of the firm.

<sup>60</sup> Law #4 of 2016; Article 6.

## 8. Other non-bank financial activities

### 8.1. Microfinance

171. **At present, the microfinance industry in Libya is embryonic but it has a significant potential.** Libya has a far less organized microfinance industry than such countries as Morocco, Egypt, or Tunisia, and even conflict areas such as Yemen and Iraq, both of which have several years of investment in a microfinance infrastructure. The potential for microfinance in Libya, however, remains significant. Given the size of average private companies, the lack of entrepreneurial opportunity, and the apparent desire of many Libyans to run small businesses, the opportunity to develop both micro- and small business finance is great.

172. **Libya's first microfinance firm recently opened.** Assaray Bank (ATIB), in partnership with Expertise France, launched Namaa Tamweel, with branches in Tripoli and Benghazi. In addition to financing, Namaa Tamweel will offer business support services to enhance customer prospects. The company is a fully-owned subsidiary of ATIB and therefore subject to CBL regulations and supervision. The project was supported by €2-million financing from the UK government and will offer financing from LYD 5,000 to 25,000 for up to 2 years.<sup>61</sup>

173. **A donor-funded program envisions to support CBL with the development of the legal and supervisory framework to support microfinance development.** Currently there is no provision for credit extension by non-bank financial institutions, nor can microfinance firms take deposits. Only banks regulated by CBL may engage in either. A donor-funded program will support Libyan authorities with the creation of the necessary informational and regulatory framework to build a microfinance market.

### 8.2. Leasing

174. **Leasing remains a vastly underutilized financial tool in Libya.** The government established leasing as a financial tool through Law #15 in 2010 and decree 427. Soon thereafter the government launched the Libyan Leasing Company as the sole leasing company in Libya, under the auspices of ESDF. The Libyan Leasing Company focuses mainly on automobile leases. Observers feel that as a government company, its operations are slow and unambitious.

175. **Leasing is an exceptionally appropriate financial tool for shari'ah compliant financing.** Law 46 of 2012 highlights leasing as a class of product modes available to Islamic banks. In view of the growing role ijarah products are playing in global Islamic finance, Libya would benefit from developing a platform for launching shari'ah compliant leasing companies (ijarah finance) and helping to jump start the market.

178. **The expansion of leasing is hampered by the weakness in registries.** The poor functioning of the land registry hampers the innovation of land-linked leasing products, such as home buying through ijarah mutanaqisah, while the lack of a mobile asset registry complicates the leasing of movable assets such as cranes and generators. Investment in registries will be a critical step to jump start the expansion of leasing as a financial tool in Libya.

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<sup>61</sup> Libya Business News; October 2019; and conversations with ATIB staff.

### 8.3. Specialized Credit Institutions

179. **In addition to the state-owned banks, Libya also has several state-run funds and Specialized Credit Institutions (SCIs).** Similar to many emerging economies, the Libyan government set up state-owned banks to facilitate credit to targeted economic sectors. The four SCIs are:

	<i>SCI Name</i>	<i>Main Target Area</i>
1	Savings and Real Estate Investment Bank	Residential housing
2	Agriculture Bank	Farmers and agriculture
3	Development Bank	Industry and manufacturing
4	Rifi (Rural) Bank	Rural development

180. **The SCIs were set up as an extension of the government to provide support to the targeted sectors.** Although called ‘banks’, they do not in fact take deposits and are therefore outside the supervisory purview of the central bank. The SCIs played an outsized role in the expansion of credit in Libya, reaching more than two-thirds of outstanding loans by end 2010.<sup>62</sup>

181. **As with most such banks in similar economies, the SCI credits were widely viewed as government grants rather than loans.** In most cases, loan losses were high and funds had to be replenished on a regular basis, effectively becoming wealth transfer mechanisms to targeted segments of the population. The social impact that each was allegedly sustaining was not well measured to the cost of the subsidy and wealth transfer hard to calculate and difficult to justify, other than for broad political purposes. The Agricultural Bank and Rifi Bank appeared particularly troubled and both are currently effectively suspended.

182. **The Agricultural Bank has essentially frozen operations.** The Agricultural Bank granted loans mainly to farmers both for agricultural support, including equipment and working capital, as well as for longer-term investments such as on-site housing and food processing. Interest rates were far below costs, in terms both of funding and risk costs. Due to high loan losses and low repayments, the Bank has suffered liquidity shortages and is likely to have severe negative capital. The government has declined to replenish funds again and operations have consequently been effectively suspended, other than seeking repayment. The Agricultural Bank had relied heavily on collateral coverage against high default rates but have learned that (a) collateral was highly overvalued (they asserted that they are compelled to use court appraisers who invariably overestimate value); and (b) realizing collateral has been extremely difficult and since the crisis almost impossible. Information management is very poor and the team was unable to gauge the quality of assets or the extent of the liquidity shortage. The Bank team asserted that they accepted customer deposits, but subsequently the Governor of CBL clarified that the deposits of the Agricultural Bank were not true deposits but rather funds placed with the Bank against future payments. Restrictions on these funds were not clear.

183. **The Savings and Real Estate Investment Bank was set up to provide retail property finance services to the public.** Owned by the Ministry of Finance, the Bank was established in 1983 with a capital of LYD 100 million. The book value of the portfolio is estimated at LYD 7

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<sup>62</sup> Searching for the Finance-Growth Nexus in Libya; International Monetary Fund, May, 2013.

billion of which 85 percent is secured by the property funded. Another 15 percent is for real estate development. The Bank has effectively ceased new lending except when granted specific funds to do so. The last injection from the MOF was in 2012 to replenish funds lost during an outlay of about LYD 500 million covering unsecured credits to 65,000 households, most of which is expected to be written off. Their default and loan loss data are not shared with the LCIC, a clear loss of valuable demographic data, both negative and positive.

184. **The Savings and Real Estate Investment Bank relies primarily on government salaries for repayment.** Given the low ability to seize and sell real estate, the Bank relied instead on assigned government salaries as a more secure form of coverage. This form of credit risk mitigation is very common in oil-exporting economies and further serves to subsidize state workers at the expense of the private sector. In Libya the repayments were capped at 25 percent of the worker's salary; this is not centralized so does not record obligations to other banks. If the worker could not afford the credit for a specific targeted house, terms could be extended to extreme tenors, even up 125 years. Management estimated tenor average around fifty years. Previously a 1 percent overdue penalty could be imposed but since the imposition of shari'ah rules, this has been suspended. The Bank only provides 0.25 percent against loan losses.

185. **Real estate development loans have suffered high losses.** These are not secured by individual salaries but rather the real estate itself. The choice of land for development was made by an independent unit, the General Authority for Housing and Utilities, and the Bank often perceived the land supplied as inappropriate, for example lacking needed infrastructure.

186. **Libya's Development Bank (LDB) focuses on industry and manufacturing.** The Bank was founded in 1980 with original capital of LYD 626 million. It lends to projects of various sizes, organizing them into portfolios of small (under LYD 1 million), medium (between LYD 1 and 10 million) and large (over LYD 10 million). Total outstanding portfolio has reached LYD 1.3 billion.

187. **The LDB is perceived as one of the stronger SCIs.** Bank management attests that default rates remain low, even in the current crisis, and information management appears to be higher level than the other SCIs. The Development Bank, for example, maintains a user-friendly website with basic information about LDB (<https://ldb.com.ly>).

#### 8.4. State-owned Funds

188. **Libya has several government-run investment funds.** As with other oil-exporters, the state has siphoned off excess oil revenues during oil boom cycles over the past five decades and invested them in various funds with diverse purposes. The purposes tend to reflect the strategic political agenda at the time of fund creation. During the 1970s and 1980s the invested funds tended to be strategically driven outward, targeting neighboring countries and regional allies. Much later, the strong oil market of the early 2000s allowed the government to target funds to support its policy shift from a more centrally-planned to a more market-driven economy. At that time the government created the Privatization and Investment Board (PIB), the Libyan Economic & Social Development Fund (ESDF), and Libyan Internal Investment and Development Fund (LIIDF).

189. **The LIA is Libya's sovereign wealth fund.** The LIA was set up in August 2006 by the Libyan People's Committee after the removal of sanctions allowed Libya to manage its oil revenue

surplus by investing overseas. The majority of LIA's assets, about 70%, are currently frozen under UN sanctions in anticipation of a stable and transparent government. The World Bank and LIA have been in discussions regarding the possibility of management of LIA assets under the Reserve Advisory and Management Program (RAMP), which would also provide capacity building for investment management of sovereign assets. However, the RAMP program cannot launch until the United Nations Security Council (UNSC) amends the sanctions to unfreeze the managed portion. This will require an agreement among LIA, GNA, and the UNSC, which has not yet occurred. The key stakeholders agree that it is critical for LIA to undergo an audit by an international audit firm.

190. **PIB was tasked with selling off state-owned mid-sized industrial assets.** Many of these assets were in dire condition. They had already lost their market competitiveness due to outdated technologies and a lack of development in managerial capabilities. PIB was also tasked with attracting investment to the private sector. This included incentives programs such as five-year income tax exemptions to projects that meet the PIB's criteria.

191. **ESDF was charged with managing and investing in state assets that were better performing.** Its LYD 8 billion portfolio included larger industrial companies, including those linked to the oil sector, and financial institutions. ESDF would play a key role in the finance sector as it acquired significant shares of several banks as part of the restructuring initiatives endorsed by the CBL:

- Purchase of shares resulting from CBL divestiture of ownership positions in several banks
- Acquisition of ownership resulting from the merger of a group of community banks.
- Significant ownership of the Libyan Stock Exchange. The position of chairman of LSE's board is retained by the Managing Director of ESDF's Financial Investment's Holding Company

192. **LIIDF was the most recently formed of the state-owned funds, founded in 2009.** The ownership of LIIDF's capital commitment of LYD 12 billion was split between the CBL and the Libyan Investment Authority (LIA), Libya's Sovereign Wealth Fund. LIIDF was mandated to play a similar role to ESDF but without being weighed down by legacy investments. However, LIIDF was unable to complete significant investments before the 2011 onset of the civil war. Today LIIDF employees are fewer than thirty individuals and the entity has not deployed any funds in years. The fund's management has, however, recently attempted to finance a project with the National Electricity Company in order to procure turbines. LIIDF's management proposed purchasing sukuk issued by the National Electricity Company amounting to over LYD six hundred million. However, regulatory restrictions could not be overcome as the National Audit Bureau deemed that the transaction conflicted with existing public debt laws (see box in [sukuk](#) issuance, below).

## 8.5. Public and Municipal Finance

193. **The financial confusion caused by the current crisis, including the central bank split, has adversely impacted public finance.** The relationship between central and subnational governments, already strained, has worsened. Efforts to strengthen the budgetary allocation process have halted and already high levels of mistrust have risen. The lack of a reliable and transparent budget allocation has left many sub-government entities to fend for themselves. Law

59 of 2012 provides for greater municipal autonomy but the mechanisms are not in place to encourage subnational financing, whether by fee-raising mechanisms, taxation, or bond issuance. Local officials are lacking the institutional wherewithal to organize local financing with low capacity in financial management and procurement processes. This is further exacerbated by low levels of civic engagement.

## 8.6. Postal savings

194. **Libya’s postal service needs to be explored as a savings mechanism.** Several interviewees noted the postal service as an opportunity, given its wide reach. In many countries, postal services are used to collect savings from rural areas for placement in low-risk assets such as government bonds. Such a mechanism is currently not available in Libya, but regulations should be proffered to determine the role of the postal services in national finances, if any.

# 9. Financial infrastructure

## 9.1. Land registry

195. **Libya has a national land registry, the Real Estate Registration Authority, set up in by Law 478 in 1978.** The Authority has 46 administrative offices around Libya and over 3,000 employees. The Authority’s main offices, containing national land records, were burned down in 1985 leading to decades of confusion and competing claims.<sup>63</sup> No satisfactory solution has yet been found to the consequent confusion and competing land claims that bedevil Libya and thwart the development of land mortgages that are the underpinning of much modern banking. The loss of records was complicated by, and likely related to, the Qaddafi government’s land redistribution initiatives.

196. **Qaddafi era laws radically redistributed lands.** Two laws, Law No. 123 of 1970 and Law No. 4 of 1978, confiscated first agricultural and later residential and other properties for redistribution. The redistribution was allegedly from the rich to the poor but was widely viewed as tainted by cronyism and injustice. As a result, Libya is wracked by competing claims and many believe that the torching of the Authority’s offices and archives was intentional to thwart returning land to earlier owners. The Libyan conflict which overturned the government in 2011 was viewed as an opportunity by former owners to redress any injustices and a national owners’ group with more than 3,000 members has formed to press for return of land or compensation. Although the post-Gaddafi government is largely sympathetic, as of yet no clear mechanism has been defined to establish clear ownership rights or to determine fair compensation. The flood of weapons in civilian hands, the rise of militias, and the lack of a powerful centralized government have all exacerbated the situation with many claimants taking the law into their own hands.<sup>64</sup> Resolution of the land ownership conundrum is widely viewed as a prerequisite for Libya’s political health and evolution into a modern economy.

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<sup>63</sup> “Dutch-Libyan report on resolving property disputes in post-Qaddafi Libya published;” Libya Herald, September 2017. After the destruction of the records in 1985, the authority was rebooted in 1988 by Law # 11 (November).

<sup>64</sup> “Thousands of Libyans Struggle with Recovery of Property Confiscated by Qaddafi,” New York Times; May 13, 2012.

197. **The Real Estate Registration Authority faced extreme challenges in rebuilding its archives.** The Authority was closed by the provisional government by Law 29 in 2013. By 2017 the Authority had begun to untangle the many competing claims by trying to recreate ownership trails. Their procedures are overwhelmingly manual and paper-based. In 2008 they began to invest in automating their archives and systems with the help of KPMG UK. That program was halted but the Tripoli area is beginning the process of linking real estate maps to GPS. Their contacts have been through the municipalities rather than the central government, which has complicated their operations. The process has also been thwarted in many cases by lack of coordination and guidance from judicial authorities. Leadership at the Authority believes that the legal disputes over land ownership must be resolved through the court system, within the nine regional court centers throughout the country. A political framework must be established that is widely viewed as reasonable, but the courts will be the practical execution of the framework's operations. This will also require some investment in modernizing the internal workings of the courts, including their information systems.

198. **Rebuilding the land registration system involves multiple agencies.** In addition to the Real Estate Registration Authority which leads the registration effort and the judicial courts with the responsibility to resolve land disputes prior to registration, the Survey Department of Libya has the responsibility for measuring the boundaries, area and geographic positioning of land before it is registered. Furthermore, the Urban Planning Authority undertakes the necessary physical planning or confirms that the registration of land is not in violation of planning regulations. In case there are or will be land transaction charges, fees or taxes to be paid as part of the registration, the required valuation would be done or approved by the State Property Authority. All these government agencies need to be rebuilt to ensure that the land registration system is fully operational, effective and efficient.

## 9.2. Movable assets registry

199. **Libya currently has no means to register movable assets.** This has heavy impact on all levels of credit collateralization but has impact on the financing of equipment and machinery. It has also been cited as an obstacle to raising the quality of municipal finance since municipalities often have poor asset records.<sup>65</sup>

## 9.3. Credit information

200. **Before the current crisis, the Libyan credit bureau LCIC had made some progress towards establishing a system for sharing credit information among banks.** LCIC was set up at least partly as a result of the 2006 Libyan banking privatization effort. LCIC was formally established in March of 2009 with Central Bank Decision Number 48.<sup>66</sup> The LCIC launched with the four largest banks during 2007 and then went live in 2009. LCIC's database uses an Access tool and captures 41 fields, among the most important:

- Name of the company

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<sup>65</sup> "Rapid Diagnostic on the Situation of Local Governance and Local Development in Libya," UNDP, November 2015.

<sup>66</sup> "Assessment and Observations on the Credit Reporting System of The Socialist People's Libyan Arab Jamahiriya"; The Arab Credit Reporting Initiative, 2010.

- Registry of commerce
- High-level financial information
- Loan amounts
- Interest rate
- Overdue loans, amount and how many days overdue

201. **The LCIC is a good start but is limited.** The LCIC itself informed us that the banks are not fully utilizing the information, partly due to lack of habit and lack of confidence, as well as disorganization and disinterest, especially on the part of the state banks. Moreover, the data is so far limited to business customers and consumer data has not yet been collected. The MENA region overall has begun to invest in private credit bureaus which universally gather and organize more data, given competitive pressures. This has led to coverage across MENA averaging higher than 60 percent of all borrowers. Libya on the other hand given its poor coverage of business customers and current exclusion of retail borrowers has yet to reach 5 percent coverage, demonstrating a great opportunity for enhancing external credit information flows.<sup>67</sup> The system does not capture positive information and is not linked to non-bank information, such as bill payments, typically a rich source of credit quality, especially for households and small businesses.

202. **Banks note that the LCIC system is too limited and therefore ineffective.** The larger banks, and generally the state banks, have not complied so the information is incomplete and not even useful as a blacklist. The only information available comes via the CBL and the blacklisting is often not for credit reasons but for other, non-credit reasons such as AML or anti-terrorism prohibitions.

203. **A critical challenge has been the lack of unique national identifiers for businesses.** While all businesses are required to register with the tax authorities, there is no unique identifier assigned to establishments across multiple tax offices. This is also true of such business entities as chambers of commerce, who tend to operate independently from one another with no central coordination. The only unique identifier is the CBL client code, which has not been formally required and which is not integrated into the project for establishing a National Identification Number (NID). Business may have multiple identifiers, preventing a global view of any one business' credits with not only a loss of full-view information but also opportunity for duplicate borrowing. Many banks use the current account as an identifier, which of course varies from bank to bank. Of course, all of this has been exacerbated during the current crisis, with the enduring East-West split. LCIC has submitted a proposal to require borrowers to record a unique CBL client identifier to issue LCs.

204. **The quality of information is also a concern.** Ten Libyan banks have been connected to LCIC information system<sup>68</sup>, while for others information must be input manually, which is time-consuming and compromises the quality of the data. For banks not connected to the LCIC system, there is often a one- to two-month lag between data collection and reports. Jumhouria, the largest bank, has suffered many internal data challenges which, given its size, weighs on the system. Jumhouria can currently provide data from their main branches using their internal Flexcube

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<sup>67</sup> “Assessment and Observations on the Credit Reporting System of The Socialist People's Libyan Arab Jamahiriya”; The Arab Credit Reporting Initiative, 2010.

<sup>68</sup> The link takes the form of an interface that extract the data from the banks data base to the LCIC information system

system, which they are in the process of upgrading, but not all branches are connected. Generally speaking, LCIC insists that they are ready to organize and provide robust information, but are hampered by a lack of interest, cooperation, and capacity at the banks. A donor-funded program under Expertise France has been working with LCIC to identify needed strengthening.

## 10. Key Recommendations

204. Any initiatives to strengthen the Libyan financial sector are invariably tied to the evolving political situation in Libya, including but not limited to the division between Tripoli and the Eastern region. In particular, reforming/stabilizing the monetary regime is a precondition to any progress in financial intermediation but can only be accomplished following the unification of CBL with its Eastern branch. Resolution of the political crisis is beyond the scope of this report, however, many initiatives could be launched, to varying degrees, even under the current circumstances in anticipation of an eventual peaceful outcome. Some of these should be implemented urgently, in the next 6 months. Other initiatives, which will help to lay the groundwork for recovery of the financial system, will take longer. Given that there is no entity in Libya which is responsible for overall financial sector development, the establishment of the **National Steering Committee** composed of main financial sector stakeholders is recommended to spearhead implementation of reforms proposed in this report.

### *Measures to be implemented in the next 6 months*

Measures which are politically sensitive and highly conditional on achieving some progress in the resolution of political divide:

- 1) International audit of CBL and its Eastern branch to allow for possible reconciliation and re-merger
- 2) Discussions between technical teams of CBL and Eastern branch on clearing of payments to reconcile the dual payment clearance system, foreign exchange management, emission of currency and borrowing by the Eastern branch, liquidity challenges faced by Eastern banks and possible ways to address them, and other critical topics.

Other measures:

- 3) Identification of key gaps in capacity of CBL to combat anti-money laundering/terrorist financing (AML/CFT) risks and development of a capacity-building program
- 4) Preparations for AQR of the leading banks to determine capital shortfall (preparation of TORs for a consulting firm, analysis of legal and regulatory framework for mergers and acquisitions and banking resolution)
- 5) Development of the legal and regulatory framework for microfinance and leasing and commencement of a capacity-building program for banks in SME finance
- 6) Groundwork for rebuilding the land registry, given land registry's importance for expansion of any type of financing in Libya. This could include initial work on recovering and protecting land records and training of staff of Real Estate Registration Authority (RERA) and judicial courts

*Longer-term measures to set the groundwork for recovery of the financial system*

a) **Revisit role of the state in the financial sector and strengthen financial sector governance.**

- **Carry out an independent AQR of the leading banks to determine capital shortfall and appropriate actions.** The CBL will not realistically be able to develop a roadmap for the banking system until it understands the depth and quality of the financial problems. For example, a good deal of the capital shortfall in the state banks will likely be a result of the unpaid credits to state-owned companies. Designing the correct response to the linked resolution of the public companies and the banks (e.g. bad bank, bond issue, transfer to MOF, etc.) will require transparent definition of the problems, both in terms of amounts but also causes and likely paths to resolution. More broadly, a systemic evaluation of capital will help the government assess budgetary requirements and define funding needs (and approaches) to revive the financial system. The likely needed recapitalization of the banking sector will present challenging decisions on cost and accountability, likely benefiting from global experience, but will also reveal opportunities for sector rationalization, not only in commercializing or privatizing the state banks but also for optimizing the ownerships structures, governance, and capacity of the private banks, and of their supervision.
- **Develop a long-term strategic plan for the financial sector, with primary focus on the banks:**
- Strengthen, rationalize, and privatize or commercialize the state banks (this process was begun but was halted) along with a linked program to privatize and rationalize the state companies associated with state bank financing. Central Bank needs to be removed from ownership of the banks which it supervises, a conflict of interest, via privatization. In the case the state decides to retain ownership in some financial institutions, the ownership needs to be transferred from CBL to a public entity with strong corporate governance.
- Rethink the role of the Specialized Credit Institutions (SCIs) such as the Agricultural Credit Bank. Since they are currently largely inactive, this is an ideal time to reevaluate their role in the financial sector while considering alternative approaches, e.g., indirect credit guarantee schemes (to encourage more private sector intermediation) and wholesale funding rather than direct lending. This must all be considered as part of a broader strategy to rethink the financial sector to encourage more private participation.
- Rethink the role and structures of the various state-owned funds, such as the ESDF and the LIIDF, to better align their governance, objectives, and operations with globally recognized internal and external sovereign wealth funds (Norway, Chile, Abu Dhabi, etc.).

b) **Continue strengthening CBL capacity.** The CBL has invested in raising the capacity of its staff and of its systems, in particular with an IMF program, yet still needs significant strengthening particularly in the areas of bank governance, risk management (Basel II and III compliance), and IT risk oversight. A diagnostic now needs to be conducted through an assisted BCP assessment to identify key areas of focus. The ongoing strengthening of Libya's central banking capacity, including the management of monetary policy and

exchange rates, very much depends on the reintegration of the two banks which must be seen of critical importance.

- c) **Continue rebuilding the Land Registry.** The destruction of the land registry and its current immobilized state is a critical barrier to the expansion of credit and indeed any type of financing in Libya. The rebuilding of the Registry is a complicated process since it not only implies technical challenges, such as the development of a GPS-linked database, but also legal and political challenges with claims and counter-claims dating back to the 1970s. The nature of these challenges demands a thoughtful process that honors legal and political realities while incorporating modern technical know-how. Any plan should consider processes tested successfully in regimes with similar challenges (Rwanda, the ex-Soviet states, etc.) where complex land claims required political skill to resolve. The groundwork for such a program can be initiated immediately, starting in regions with relative calm and clarity, while developing a national strategy.
- d) **Implement measures to strengthen the payment infrastructure and facilitate shift to electronic payments.** The lack of connectivity in the national switch, the inconsistencies among the various banks systems, and the gaps in automated check clearing all stymie an efficiently functioning national payment system. CBL should initiate a project, with donor support, to fully integrate the switch to connect automatically with all banks, including the largest state banks, and to encourage private solutions for the individual banks. The enhancement of the system should include a plan to rationalize POS and ATM systems and to distribute them more broadly. The program should also lay the technical groundwork for digital financial services and mobile banking. There is a significant potential to increase digital payments in the economy: currently, almost 80% of private sector workers receive their wages in cash. Libya has relatively low usage of e-infrastructure in its financial system but increasing utilization and penetration will require both a clearer regulatory environment, for example the financial role of the telecommunications companies and others, as well as decisions on the public versus private development of networks and mechanisms. Weaknesses in the telecommunications sector must also be addressed to support more effective payment systems and fintech expansion.
- e) **Further develop and implement the national strategy for Islamic finance.** The World Bank has worked with Libyan counterparts to develop the IBSAP. The IBSAP 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. The recommendations also include establishing a strategic committee at the Central Bank to launch development of stronger legal, regulatory, and supervisory frameworks as well as frameworks specific to Islamic banking for liquidity management, governance and risk management, consumer protection, and accounting and auditing. Given how isolated the Libyan leadership has been, it would be useful reviewing approaches to Islamic finance at other Muslim-majority economies and introducing Libyan counterparts, both in finance and politics, to some of the trends and challenges that other economies have faced. The CBL can also give greater clarity on the range of Islamic products, both credit and savings, and on such issues as treatment of profit-smoothing and risk-sharing of general versus specific investors. Any divergence in risk should be understood and incorporated into CBL

supervisory and capital considerations. The strategic plan would not be limited to banking but would also incorporate strategies encompassing insurance, leasing, and capital markets (e.g. development of a sukuk market).

- f) **Implement measures to enhance access to financial services for population and MSMEs by strengthening financial infrastructure, enhancing financial literacy, and developing capacity of banks.** A critical objective must be to attract a larger share of the national resources into the formal financial system. A higher proportion of formal financial resources not only grants the population greater access to reliable financial services while enhancing the robustness of the system, it also more broadly raises the Libyan citizenry's trust in formal institutions, which is sorely lacking. The CBL should define various financial penetration baselines, such as private sector wage payments, with the goal of raising their share over time through a combined program of more effective payment systems (in process), investments in financial literacy, and enhanced savings programs. The latter must be coordinated with clarification on shari'ah compliant investment accounts so that consumers may receive clear compensation for fund placements. Support also needs to be provided to enhance access to credit for MSMEs, by building capacity of banks to serve this segment, strengthening financial infrastructure, improving capacity of MSMEs to borrow (through incubators and SME training and support), providing credit guarantees and other measures.
- g) **Strengthen AML/CFT capacity.** The historical isolation of Libya's financial system has been exacerbated by the current crisis and the extremely high-risk perception. De-risking of Libyan banks and the consequent lack of correspondent banking raises costs for, or totally precludes, many if not most cross-border transactions, from wire transfers to letters of credit. To reconnect with the global financial system the sector will need to invest in lowering risk perceptions overall but urgently in the area of AML/CFT where poor controls have effectively redlined the Libyan banks. It is recommended to undertake national risk assessment to identify, assess and understand ML/TF risks and then take action to mitigate such risks.
- h) **Improve collection of financial sector information.** A key concern when analyzing the Libyan financial sector is the lack of reliable information, on both a macro-level (e.g. banking statistics) and a micro-level (e.g. reliable financial statements). This is particularly true for banking supervision where the CBL is hamstrung both by the over-reliance on paper and on-site visits to oversee the banks and the banks themselves suffer from low standards of internal data quality. The CBL, with donor support, should lead a program to develop better quality supervisory and risk information in two phases:
- *Internal CBL data.*
    - (First priority) Focus on the data on banking supervision and oversight, including: (1) mechanisms to deliver rapid, consistent, and accurate banking data to the CBL; and (2) an Early Warning System to promptly detect rising risks in individual banks and in the system;
  - *Financial sector data.*

- Build higher quality financial market information, including by strengthening the credit information bureau but also regulations and approaches to raise the quality of the audit and appraisal professions within Libya (inviting foreign participants, certification programs, etc.).
- i) **Strengthen the regulatory framework supporting financial intermediation.** Libya still lacks several key regulations to help support a broader range of financing. Among the most critical: regulations and practices surrounding bankruptcy and insolvency; laws and regulations supporting minority and creditor rights and disclosure.
  - j) **Strengthen the governance of capital markets oversight and the Libyan Stock Exchange.** Weaknesses in the governance, autonomy, capability, and transparency of the stock exchange's regulator compromise the perception of impartiality and information symmetry which in turn discourages both IPOs and investors. Global specialists with experience in laying the groundwork for capital market governance could help lay down the foundation for governance structures that better align with best practices. This could include enhancing the regulatory framework to provide for greater disclosure and a broader array of investment mechanisms, such as funds.
  - k) **Shift the insurance sector oversight to the LISB.** The LISB currently enjoys only observatory rights but has no powers to sanction or otherwise control the industry to ensure adequate protection of policyholders. These powers currently reside with the Ministry of the Economy which itself has neither the focus nor the special experience needed to evaluate and actively supervise the insurance industry. Some of the reforms should include a product approval process to assess policy terms offered and coverage by the insurer and improved disclosure to adequately consumer protection risks.
  - l) **Determine an approach to grant greater access to finance to Libya's refugee population.** This is initially a political decision but will also link to strategies on financial infrastructure and how it is used by visitors and non-citizens, including for transfers, savings, and credit. Libya needs to establish a baseline of data on refugee demographics as well as financial access needs and then a program to fairly address them.

## Annex 1. List of Meetings

Governor of Central Bank of Libya
Director of Banking Operations – CBL
General Manager of Savings and Real Estate Investment Bank (SCI)
General Manager of Agriculture Bank (SCI)
General Manager of Development Bank (SCI)
Leasing company
General Manager of Rifi Bank (SCI)
General Manager of National Commercial Bank
Director of Banking Supervision (CBL)
General Manager of North Africa Bank
General Manager of Al Jumhouria Bank
General Manager of ATIB
General Manager of Alejmaa Alarabi Bank
General Manager of Al-Waha Bank
Chairman of Libya Stock Market
Libya Credit Information Center
General Manager of Insurance Supervision Authority
Director of Payment Systems - CBL
Real Estate Registration Authority
General Manager of Libya Insurance Company
General Manager of Currency Exchange & Financial Service Company
Deposit Insurance Fund
Privatization and Investment Board (PIB)
Head of Studies and Statistics Department
The Economic and Social Development Fund (ESDF)
Team of the Government Statistical Agency
The Libyan Internal Investment and Development Fund (LIIDF)

## Annex 2. Fintech for Migrants

- 1. Mobile technology and fintech have tremendous potential when it comes to improving access to finance for the underserved and the unbanked.** New innovative technology can especially help migrant workers and refugees, who often lack proper documentation to open a bank account in their host country. Mobile and financial technology can be leveraged to help migrant workers and refugees get access to financial services, send money home and even start a small business.
- 2. The opportunities that fintech presents for expanding access to financial services for migrants is especially relevant in the remittances industry.** According to the World Bank estimates, the remittances to low- and middle-income countries are expected to reach \$528 billion in 2018<sup>69</sup>, generating \$616 billion<sup>70</sup>. However, the industry for international money transfers, largely dominated by companies like Western Union and MoneyGram, is often characterized by limited options and high fees. While the global average remittance cost is estimated at 6.9 percent, regional numbers vary between 5.4 percent in South Asia and over 10 percent in many African countries<sup>71</sup>. Lack of competition, exclusive partnership agreements, de-risking measures taken by commercial banks as well as low penetration of innovative technologies are some of the factors contributing to high remittance cost. Financial technology presents an opportunity to address some of the industry challenges by offering money transfer services that are faster, cheaper and more convenient for the users.
- 3. With the developments in the financial technology space, the remittances industry has seen the emergence of fintech companies who have recognized the business opportunity of serving unbanked or underbanked migrant workers and refugees,** often overlooked by traditional financial institutions and key market players. A closer look at a number of fintech companies, who target migrants, in both developed and developing countries can offer an opportunity to help identify ways that countries like Libya can use to address some of the challenges of improving access to financial services for some of the most vulnerable segments of society. The examples of companies are presented in Box 1.
- 4. There has been some initial progress in Libya with FinTech sector development.** Fintech Select Ltd. has recently entered into a joint venture (JV) with a Libyan company Raseed, a service provider specialized in software solutions to banks, telecom companies and utility service providers in Libya. The JV will allow Fintech Select to provide Raseed with a full suite of financial payment services in the Libyan marketplace. This includes prepaid card, e-wallet services along with bill, mobile, online and international payments. The JV will focus on providing the government, banks, telecom companies, and other strategic partners and clients with a wide spectrum of payment capabilities.

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<sup>69</sup> World Bank Group. December 2018. "Migration and Remittances. Recent Developments and Outlook"

<sup>70</sup> <https://diginomica.com/2018/05/04/international-migration-fuels-fintech-opps-remittance-systems/>

<sup>71</sup> World Bank Group. December 2018. "Migration and Remittances. Recent Developments and Outlook"

### Box 1. Examples of FinTech Companies

**Abra** is a bitcoin-powered investment and payments app. While the app has gained popularity as an investment platform for the users to buy and store bitcoin and other cryptocurrency, it was originally designed as a vehicle for permissionless, borderless money transfers. The company's vision is to make remittances cheaper and more efficient by using bitcoin and blockchain technology to facilitate low-cost international transfers.

**Azimo** is a European digital money transfer services company, whose mission is to use technology to democratize financial services, making them affordable and available to all, including the often-overlooked customer segments like migrants and refugees. The company does that by offering a faster and cheaper way to send money to more than 200 countries and territories worldwide. It is an online-only remittance platform, which allows transfer of funds to the recipient through a bank account, cash pick-up, mobile top-up, mobile wallet, SWIFT transfer and home delivery.

**Everex** is a Singapore-based financial technology firm that provides blockchain-powered remittance services, microlending, payroll and online payment solutions. Everex's mission is to accelerate financial inclusion and provide access to unbanked and underbanked individuals and SMEs worldwide. The company's partnership with Myanmar's Shwe Bank, for example, enables millions of Myanmar migrant workers living in Thailand send money home instantaneously and at a lower cost, and is one of the examples of the company's focus on financial inclusion.

**Juvo** is a San Francisco-based startup, which helps those without valid identification create financial identities and get access to financial services. Juvo partners with mobile operators to create an entry point to their relationships with customers. The company uses that connection to help mobile users get credit and build their financial identities by offering micro-loans to pre-paid mobile customers when they are short on data or minutes. The company is present in 25 countries on 4 continents processing 325 million transactions per year for 500 million subscribers.

**LALA World** is a Singapore-based blockchain financial technology company that aims to support the financial inclusion by targeting the unbanked, undocumented, micro-entrepreneurs, students and other segments of society, who are often excluded from traditional financial services. LALA World aims to create a connected financial ecosystem, with services that include peer-to-peer local and international money transfers, lending and bill payment solutions for the unbanked, migrant workers and refugees.

**MyCash** is a Singapore-based an online financial marketplace for the unbanked migrant population in Malaysia. The company's platform allows users to purchase products and services online without using any bank accounts or credit cards. The company's services include cross-border money transfers, mobile top-ups, utility bill payments, bus and airline ticket bookings and more. The service is free to the consumer, as the company's revenue comes from commission it charges its partners and vendors offering their services on MyCash Online.

**Now Money** is a Dubai-based branchless banking company offering Digital payroll and accounts solution for companies and their low-income employees, who become the account holders. Now Money works with employers who transfer salaries of their low-income migrant workers into a Now Money account. While migrant workers make up 70 percent<sup>72</sup> of the working population in the UAE, they are often not able to meet the minimum salary requirements to open a traditional bank account. Now Money, thus, has the potential to offer access to the financial services system to millions of people, who are otherwise excluded.

**Pocket** is a London-based fintech, which provides banking services to underserved and unbanked consumers in the UK. Pocket customers can open an online bank account in just 2 minutes with no credit checks. Users receive a pre-paid Master Card and can use their account to deposit cash, salary and government benefits as well as transfer money internationally. While Pocket serves low-income UK residents, excluded from traditional banking services, a significant portion of the company's customer base are immigrants, who typically find it difficult to open bank accounts in the UK.

**Rebtel** is a Swedish technology company that started as a communications company offering low-cost international calling services but has expanded into providing financial services to its predominantly migrant client base. In addition to its credit transfer service that lets their customer send credit to other users that can be used to top up prepaid phones, Rebtel is also planning to introduce digital banking services for migrant workers.

**RemitRadar** is a UK-based digital fintech and insurtech company operating in the money transfer space. The company is set up to serve the global community of economic migrants and acts as an online marketplace and aggregator providing consumers with a one-stop money transfer and bill payment solution. The company adds transparency to the international money transfers process by offering details of the best currency exchange rates along with an easy comparison of the available options. RemitRadar has also recently partnered with a global reinsurer, PartnerRe, and an insurance company, AXA, to offer a digital insurance and remittance package to its clients. The service is offered to economic migrants from India working in the Gulf States and is an insurance product that provides compensation for the loss of income in event a migrant worker becomes unable to work due to illness or injury.

**TransferWise** is a UK-based remittance platform that targets expats, retirees, overseas workers and small and micro enterprises. The company has a fully transparent fee structure and offers some of the lowest exchange rates in the industry. The company claims to be up to 8 times cheaper than using traditional banks. The company is able to eliminate the markup fee that is usually added to the exchange rate cutting out the intermediaries from the currency exchange process. The company has large stocks of money in local currency in different locations around the world, so when a customer transfers 100 USD from the US to Canada, for example, TransferWise deposits 100 USD in its bank account in the US and pays the recipient from the company account in Canada.

**WorldRemit** is a UK-based digital money transfer company, which provides a low-cost alternative to companies like Western Union and MoneyGram by offering lower fees and exchange rates. The service is available to customers in 50 countries, allowing senders to transfer money to more than 145 countries around the world. The company's delivery methods include a bank deposit, cash pickup, mobile money or airtime top-up.

<sup>72</sup> <https://gulfbusiness.com/the-app-connecting-the-gccs-low-paid-workers-with-bank-accounts/>

### Annex 3. Payment Statistics

**Table 1. E-Payment and Fintech Statistics**

6/2019	2018	2016	2013	Type of Service
4	4	2	1	Card Processors
13	13	5	5	Banks interfaced with card processors
16	16	9	0	International Card Issuers
1	1	0	0	Mobile Payment Platform
3	3	0	0	Swift National Gateway Servers
11,453	8,918	782	273	Number of POSs
581,229	490,286	279,000	91,500	Local cards
9,742,598	11,476,371	1,040,514	None	Number of Card POS transactions
1,263,028,094	1,840,048,610	821,033,148	None	Volume of Card POS transactions (LYD)
1,473,300	1,300,000	198,000	None	Number of International Cards
94,563	91,745	None	None	Number of Mobile Payment Subscriptions
261,201,507	434,946,304	None	None	Volume of Mobile Payment Transactions (LYD)
4,659,340	3,832,703	None	None	Number of Mobile Payment Transactions

**Table 2. Mobile and Card Services**

Type of Service	Service Provider	Number of Customers	POSs	No. of Txns	Volume of Txns (LYD)	Geographic Distribution
Electronic Cards	Moamalat	502,305	7,095	7,373,366	1,067,184,179	48
Pre-paid Cards	Tadawol	76,299	3,264	2,301,346	195,843,915	30
Pre-paid Cards	Ithmar	2,625	80	67,886	8,054,484	6
e-Wallet	Almadar	94,563	1014	4,659,340	261,201,507	29
Grand total		675,792	11,453	9,742,598	1,532,284,085	

Source: CBL Presentation to Ambassadors to Libya of EU States