



AFRICAN DEVELOPMENT BANK GROUP  
GROUPE DE LA BANQUE AFRICAINE  
DE DEVELOPPEMENT

# Country Focus Report 2025

## Libya



Making Libya's Capital Work Better  
for its Development

# COUNTRY FOCUS REPORT 2025

**Libya**

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for its Development



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# LIST OF ABBREVIATIONS

<b>AEO</b>	African Economic Outlook
<b>AfCFTA</b>	African Continental Free Trade Area
<b>AfDB</b>	African Development Bank
<b>AML</b>	Anti-Money Laundering
<b>bpd</b>	barrels per day
<b>CBL</b>	Central Bank of Libya
<b>CFR</b>	Country Focus Report
<b>CFT</b>	Countering the Financing of Terrorism
<b>DRM</b>	Domestic Resource Mobilization
<b>FATF</b>	Financial Action Task Force
<b>FD</b>	Financial Development
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GW</b>	GigaWatt
<b>HDI</b>	Human Development Index
<b>IFFs</b>	Illicit Financial Flows
<b>LIA</b>	Libyan Investment Authority
<b>LPPPC</b>	Libyan Private Partnership Projects Company
<b>LYD</b>	Libyan Dinar
<b>MoH</b>	Ministry of Health
<b>MSMEs</b>	Micro, Small, and Medium Enterprises
<b>NOC</b>	National Oil Company
<b>ODA</b>	Official Development Assistance
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>PFM</b>	Public Financial Management
<b>PPPs</b>	Public-Private Partnerships
<b>REO</b>	Regional Economic Outlook
<b>SMEs</b>	Small and Medium Enterprises
<b>SDGs</b>	Sustainable Development Goals

# EXECUTIVE SUMMARY

Libya's macroeconomic situation is heavily influenced by oil market dynamics and political conditions. It is estimated that the economy contracted by 0.4% in 2024, primarily due to reduced oil production following the closure of the country's main oil fields. However, the outlook is positive, with projected growth rates of 12.4% in 2025 and 4.0% in 2026. Still, the country faces critical annual development finance needs of USD 39.3 billion by 2030, which necessitates urgent investment in sectors such as infrastructure, renewable energy, and agriculture. To reduce reliance on oil revenues, Libya must focus on broadening its tax base and improving tax collection mechanisms.

Although Libya holds significant potential for domestic resource mobilization, challenges remain in optimizing revenue generation. These include widespread tax exemptions and a limited tax base. The presence of a large informal sector, gaps in data availability, and political uncertainties also affect the efficiency of resource mobilization. Institutional capacity constraints continue to pose challenges to effective economic governance, impacting the government's ability to adequately finance essential public services and development initiatives.

Addressing these challenges will require continued efforts to strengthen governance and institutional capacity, while fostering an environment conducive to reconstruction and economic diversification. Such progress can support sustainable growth and contribute to improved living standards for the population.

# GENERAL INTRODUCTION

The African Economic Outlook (AEO) has become a reference document for all stakeholders interested in Africa's development, including national, regional, continental and global policymakers, researchers, investors and development partners. The theme of the AEO 2025 Report is Making Africa's Capital Work Better for Africa's Development. In addition to the main report on AEO, the African Development Bank (AfDB) also produces the Regional Economic Outlook (REO) and Country Focus Reports (CFR) reports. The REO reports and the CFR aim to replicate the analyses carried out at the continental level in the AEO report in the five regions of the African continent (Central Africa, East Africa, North Africa, Southern Africa and West Africa) and its 54 countries. The analysis is detailed in the REOs at the regional and CFRs at the national levels. Policy implications and strategic solutions enable the AfDB to better inform the design of development policies and future projects and programmes at the operational, regional and country levels in Africa.

The Libya CFR 2025 is divided into three chapters. Chapter I highlights Libya's recent macroeconomic performance and outlook. Chapter II assesses Libya's domestic capital mobilization to meet its financing needs. It analyzes the country's financial landscape, highlighting domestic resources. This chapter also explores innovative strategies for mobilizing domestic capital markets, natural capital, human capital, and business capital. For each, it examines historical trends, challenges, inefficiencies, and interlinkages. It concludes by outlining required policies and reforms. Chapter III focuses on how Libya can boost its wealth by improving various types of capital. It emphasizes the necessary institutional and governance reforms to improve public spending, foster public-private partnerships, and combat corruption and other financial leakages that hinder resource mobilization and inclusive development.

This Country Focus Report employs a multi-source data collection and analysis approach, drawing on macroeconomic, sectoral, social, and thematic data from national statistical agencies, the Central Bank of Libya, and the AfDB and other international organizations. It also incorporates government engagement through consultations with key officials to understand development priorities, policies, and challenges.



# MACROECONOMIC PERFORMANCE AND OUTLOOK IN LIBYA

1

## KEY MESSAGES

- Libya's economy, which is heavily dependent on oil, contracted by 0.4% in 2024, but is projected to grow by 12.4% in 2025 and 4% in 2026, driven by improved oil production.
- While challenges such as political instability and fluctuations in global oil market persist, Libya possesses strong growth potential, driven by reconstruction efforts, abundant natural resources, and a focus on economic diversification and private sector development.
- The Central Bank should strengthen oversight of the parallel exchange rate market and manage inflation through targeted monetary policies.

## 1.1 Introduction

This chapter reviews Libya's economic performance up to 2024 and presents growth forecasts for 2025-2026, identifying key risks and positive drivers shaping the outlook. It covers macroeconomic trends, fiscal policy, inflation, public debt, and foreign direct investment. It examines the link between domestic resource mobilization and the development of finance needs, and assesses social development through indicators such as poverty, income inequality, and unemployment. The chapter also provides policy recommendation to support sustainable growth and stability.

## 1.2 Growth performance

The Libyan economy is dominated by the oil sector, which accounts for 97% of total exports, more than 90% of budget revenues and more than 60% of the GDP. The economy's contraction by 0.4% in 2024, following a strong 12.3% rebound in 2023, was primarily due to a decline

in oil production, following the closure of major oil fields. However, increased domestic consumption, supported by higher civil servant salaries, helped cushion the downturn. Oil production averaged 1.09 million barrels per day (bpd) in 2024, down from 1.15 million bpd in 2023. This remains well below the pre-revolution average of 1.6 million bpd and far from the country's potential capacity of 3 million bpd. The cyclical nature of Libya's economic performance underscores the urgent need for diversification to reduce reliance on hydrocarbons and lay the foundation for sustainable, inclusive growth.

## 1.3 Other recent macroeconomic and social developments

### 1.3.1 Monetary Policy, Inflation, Exchange Rate

Libya's monetary policy aims to stabilize the exchange rate. The official exchange rate of the Libyan dinar is supported by substantial foreign exchange reserves while the parallel

exchange rate operates outside of government control and reflects market-driven forces. The presence of dual exchange rates has hindered fiscal policy effectiveness, introduced uncertainty and resource allocation inefficiencies, and discouraged foreign investment. To combat parallel currency exchange, the Central Bank of Libya (CBL) initially imposed a 27% fee on foreign transactions in April 2024, reducing it to 15% in November 2024 to support importers. The CBL reactivated the Monetary Policy Committee in February 2025 and devalued the national currency by 13.3% in early April 2025 after maintaining an official rate of around LYD 4.8 per USD in 2023-2024. Inflation slightly decreased to 2.1% in 2024, from 2.4% in 2023, primarily due to lower global food prices, since most of the country's food is imported.

### 1.3.2 Financial sector

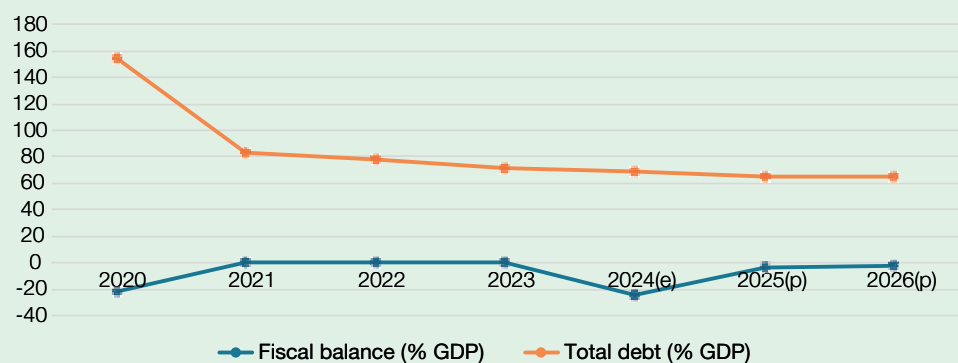
The Libyan financial sector remains characterized by low access to formal financing and limited financial products tailored to support small and medium-sized enterprises (SMEs). Savings and borrowing are largely outside formal institutions. In 2024, commercial banks held a liquidity surplus of about LYD 78 billion (USD 14 billion), up 24.8% from 2023, highlighting potential inefficiencies in resource allocation and lending. Domestic credit to the private sector reached LYD 25.3 million (USD 4.5 million) in 2024. The capital adequacy ratio rose to 24.3%, well above the CBL's threshold. However, the sector maintains a relatively high nonperforming loan

ratio of 19.2%, though with slight improvements from 22.2% in 2023.

### 1.3.3 Fiscal Policy and Public Debt

In 2024, oil revenues accounted for 72.7% of the government's total revenues, followed by foreign currency taxes at 18.2%. Expenditures focused on public salaries, operating costs, and subsidies, making up 74.2% of total spending. The Central Bank revised 2024 public expenditure from LYD 123.2 billion (USD 22.8 billion) to approximately LYD 224 billion (USD 41.4 billion), including around LYD 60 billion (USD 11.1 billion) allocated by the eastern government for post-Derna flood reconstruction and development projects. These adjustments were not reflected in the official year-end fiscal report, which recorded total expenditure of LYD 123.2 billion (USD 22.6 billion) and a modest surplus of LYD 0.3 billion. The surge in spending, alongside declining oil revenues, resulted in a fiscal deficit estimated at nearly 24.8% of GDP in 2024, compared to an 8.1% surplus in 2023. New revenues from foreign exchange sales taxes partially offset lower oil revenues. The absence of a unified state budget since 2014 has posed challenges for comprehensive budget planning and coordination. Future declines in oil revenue may lead to fiscal pressure, potentially increasing the money supply through the Central Bank. Libya has no external debt, with domestic debt projected to decrease from 91.5% of GDP in 2023 to 76% by 2028, and it carries no interest or repayment schedule. Public debt stood at nearly USD 56 billion in 2024.

**Figure 1: Trends in fiscal balance and public debt in Libya 2020-2026**



Source: Data from national authorities, AfDB Statistics Department, October 2025, Economic Intelligence Unit (for total debt); (e) estimates and (p) prediction.

### 1.3.4 External Position – External Financial Flows

In 2024, Libya's current account fell to a deficit of 2.3% of GDP from a surplus of 2.3% in 2023, primarily due to declining oil export revenues. Nevertheless, the country's foreign earnings from hydrocarbon exports, estimated at USD 79 billion, are sufficient to cover 34 months of imports. The dual exchange rate system and the rise of a parallel market drained reserves as the central bank tried to stabilize the currency. Except for oil export receipts, Libya receives low amounts of capital inflows as a minor aid recipient, with limited personal remittances and net foreign direct investment liabilities of USD 603 million in 2021. The impact of a reduction of Official Development Assistance (ODA) — which totaled approximately USD 264 million in 2022 and has been on a downward trend since 2018 — is unlikely to affect Libya's economy much. Libya's strong oil exports enable it to absorb cuts in ODA, though such reductions may could pose risks to social equity, poverty alleviation, peacebuilding efforts, and migration management. The United States has imposed a 31% tariff on Libyan imports. However, this measure is expected to have a minimal direct impact on Libya's economy. Libyan exports to the United States are predominantly crude oil, which is exempt from these tariffs. In 2024, exports to the U.S. accounted for 5.5% of Libya's total exports, primarily consisting of crude petroleum valued at approximately

USD 1.49 billion. In the short term, Libya's oil exports to the United States are expected to remain stable, supporting foreign exchange earnings. However, the global economic repercussions of rising trade tensions could indirectly affect Libya. For instance, a slowdown in global economic growth could reduce demand for oil, leading to lower oil prices — Libya's main source of revenue. Additionally, disruptions in global trade flows may affect Libya's import and export dynamics, although the extent of this impact remains uncertain.

### 1.3.5 Social developments

Libya continues to serve as a key destination and transit country for migrants, driven by regional instability. In 2023, Libya received an average score of 0.309 on the African Gender Index (scale from 0 to 1). The country scored a high 1.028 in the Social dimension, but a low 0.060 in the Empowerment and Representation dimension. Water scarcity in Libya hampers access to basic sanitation and drinking water sources, directly affecting women, who are primarily responsible for domestic chores. The National Labour Force Survey reveals an unemployment rate of 15.3% overall, with higher rates among women (18.4%) and youth (23.1%). In response, the government is developing the National Strategy for Social Protection and implementing reforms in education, health, and governance, alongside instituting a quality-of-life survey.

#### Box 1: Domestic resource mobilization efforts and development finance needs

As Libya approaches the 2030 deadline for the Sustainable Development Goals (SDGs), it faces major challenges in securing the USD 39.3 billion required annually for structural transformation. Key obstacles include political instability, a weak private sector, poor governance, and skill gaps, all worsened by growing threats of climate change. The country's substantial future funding needs highlight the urgency of mobilizing additional resources. Therefore, Libya must diversify non-oil revenue, enhance domestic capital mobilization, and efficiently leverage its physical, natural, and human resources to achieve sustainable development.

Indicators	2020	2021	2022	2023	2024 (p)	2025 (p)	2026 (p)
Real GDP Growth	-29.5	28.3	-3.7	12.3	-0.4	12.4	4.0
Real GDP Growth per Capita	-30.9	27.0	-5.0	11.2	-1.4	11.4	2.9
Inflation (%)	1.4	2.8	4.6	2.4	2.1	2.5	2.7
Overall Fiscal Balance, Including Grants (% GDP)	-22.3	2.3	20.5	8.1	-24.8	-4.2	-2.3
Current Account (% GDP)	-17.1	11.4	22.2	2.3	-2.3	8.5	4.8
Total population (million)	7.04	7.13	7.22	7.30	7.38	-	-
Life expectancy at birth (years)	72.4	72.1	74.5	69.3	-	-	-

Source: Data from national authorities, AfDB Statistics Department, October 2025, estimates (e) and prediction (p) based on authors' calculations; World Bank (for Total population and Life expectancy indicators).

## **1.4 Macroeconomic outlook and risks**

### **1.4.1 Outlook (Economic growth – Inflation - Fiscal and External position)**

Libya's economic outlook is positive, with projected GDP growth of 12.4% in 2025 and 4% in 2026, assuming political stability and increased oil production following investments by the National Oil Company (NOC). The fiscal deficit is expected to narrow to 4.2% of GDP in 2025 and 2.3% in 2026, driven by higher oil revenues. Inflation is forecast to slightly increase to 2.5% in 2025 and 2.7% in 2026, following the devaluation of the dinar. The current account balance is projected to shift to a surplus of 8.5% of GDP in 2025 and 4.8% of GDP in 2026, supported by increased oil exports.

### **1.4.2 Risks**

Libya remains caught in political and institutional duality, which continues to delay national elections and hinder coordinated public investment. Political instability poses a significant risk to oil production and government revenues. Similarly, oil price volatility and declining global demand further threaten fiscal stability and economic growth. Ongoing geopolitical tensions

may prompt the U.S Federal Reserves to raise interest rates again, as seen in 2023, and this could lead to exchange rate volatility, higher import costs, and increased inflationary pressures. Excessive spending could drive up inflation, reducing purchasing power and creating economic instability. The lack of a national adaptation plan leaves Libya exposed to climate-related risks like floods, droughts and desertification, threatening agriculture and water resources. Despite these challenges, Libya's growth outlook is underpinned by its significant reconstruction potential, abundant hydrocarbon and mineral resources, vast renewable energy potential, and growing emphasis on economic diversification and private sector development to reduce public sector dependence and create sustainable jobs.

## **1.5 Policy Options to accelerate Libya economic development**

To accelerate Libya's economic development and deal with shocks, it is recommended to prioritize political stability and national reconciliation. A phased policy roadmap is essential — prioritizing urgent stabilization measures in the short term, institution-building and diversification in the medium term, and sustainable, inclusive development in the long term.

**Short-term** policies should focus on stabilizing oil production by reopening and securing key oil fields and implementing safety measures to prevent disruptions. Strengthening oversight of parallel currency exchanges to reduce arbitrage and pressure on reserves, along with maintaining low inflation through targeted monetary policies, are also essential. To ensure fiscal sustainability, Libya should improve budget transparency, establish a unified national budget, prioritize development spending, expand revenue from non-oil taxes and customs, and reduce reliance on reserve drawdowns to fund wage bills and subsidies. Encouraging remittances and issuing diaspora bonds can help bolster capital flows. Additionally, improving foreign currency auction mechanisms will ensure more efficient allocation of foreign exchange. Supporting social stability involves expanding safety nets to assist the most vulnerable,

creating employment programs for youth and women.

**Medium-to-long-term** strategies should center on diversifying the economy by developing local value chains in sectors such as agriculture, manufacturing, and renewable energy, along with establishing economic zones and supporting entrepreneurship. Institutional reforms are needed to improve governance, transparency, and political stability. Developing the financial sector by expanding access to banking, promoting financial literacy, and strengthening capital markets will boost economic activity. Investing in education and healthcare will bolster human capital, while infrastructure development will support diversification and recovery. Promoting renewable energy, incorporating climate resilience, and enforcing environmental conservation will ensure sustainable growth.



# BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION

## KEY MESSAGES

- Libya requires approximately USD 39.3 billion annually by 2030 and USD 6.9 billion by 2063 to achieve structural transformation and economic development. This need is driven by the country's heavy reliance on oil, inefficient tax systems, and limited public investment in infrastructure and growth-enhancing sectors.
- Key challenges to domestic capital mobilization include an underdeveloped financial sector, untapped natural resources, an outdated education system, limited access to healthcare, and a relatively small private sector hindered by informality and regulatory uncertainty.
- To address these issues, Libya must implement strategic policy reforms, increase investment in human capital and infrastructure, diversify revenue sources, promote public-private partnerships, and develop renewable energy to support long-term, inclusive growth.

## 2.1 Introduction

Chapter two evaluates the effectiveness of domestic capital mobilization in Libya, focusing on the country's financial landscape and the role of domestic resources in securing needed development financing. It explores innovative strategies to leverage four key capital sources: domestic capital markets, natural capital, human capital, and business capital. The analysis covers historical trends, key challenges and inefficiencies associated with each capital source and highlights their interconnected roles in economic development. The chapter concludes with policy recommendations and reform priorities aimed at enhancing resource mobilization and advancing sustainable development in Libya.

## 2.2 Fiscal resource mobilization

### 2.2.1 Libya's financing needs

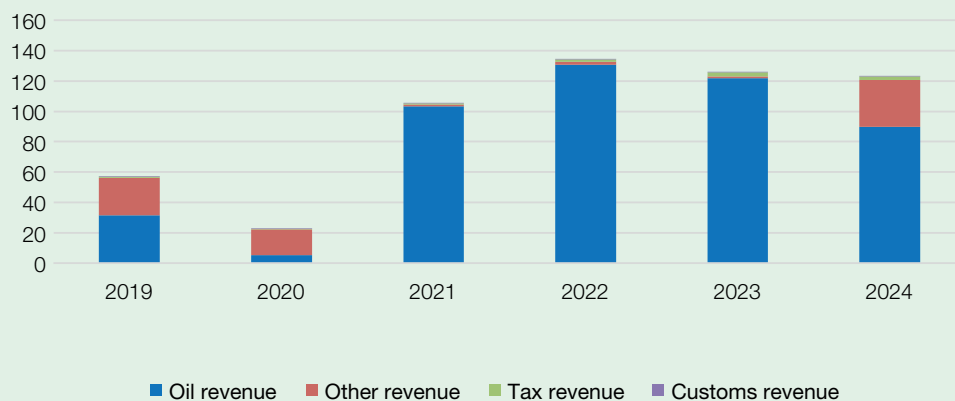
Libya faces a daunting task in finding the billions of dollars needed in the coming decades for structural transformation and economic development. Since 2014, Libya has operated without a unified state budget, with fiscal outcomes heavily dependent on oil revenue fluctuations. In response to budget shortfalls, the government has at times increased the money supply through the Central Bank — raising concerns about monetary stability and long-term fiscal sustainability.

## 2.2.2 Tax revenue

In 2024, tax revenue accounted for only 2% of Libya's total revenue — much lower than in neighboring countries such as Algeria (45.2%) and Tunisia (56.7%). This underscores Libya's

persistent challenges in mobilizing domestic tax revenues. This shortcoming hinders the government's ability to establish a more stable and diversified fiscal base, ultimately reducing investments in reconstruction, public services and economic diversification initiatives.

**Figure 2: Trends in domestic resource mobilization 2019-2023 (billion LYD)**



Source: Central Bank of Libya.

## 2.2.3 Non-tax revenues

That oil revenue is Libya's primary income source exposes the country to fluctuations in global oil prices and production disruptions. This instability and unpredictability complicates fiscal planning and imperils economic stability. In comparable oil-exporting countries, the revenue base is much more diversified, with established non-tax revenue frameworks. Libya's lack of diversification hinders revenues and economic growth.

finances. In total, LYD 68.7 billion (USD 12.3 billion) was allocated to the NOC and the General Electricity Company in 2024. The absence of a unified state budget between the two rival governments since 2014 has created substantial challenges for effective fiscal oversight and resource allocation instead of highlighting budget management issue. The country currently lacks a comprehensive national development plan, relying instead on yearly government budgets to guide economic and social priorities.

## 2.2.4 Mobilizing domestic fiscal resources and expenditure efficiency

In 2024, 74.2% of public spending in Libya was allocated to public salaries, operational expenses, and subsidies. The public wage bill alone amounted to LYD 67.6 billion (54.9% of total expenditure), a notably high share compared to other oil-exporting countries. Energy subsidies contribute to inefficiencies and place a significant strain on public

## 2.3 Libya's Natural Capital

### 2.3.1 Overview of Libya's natural capital

Libya possesses significant natural wealth, primarily from hydrocarbon reserves, with total natural capital estimated at USD 386.7 billion. Oil accounts for 92% of this value and natural gas 4%, with proven reserves of 48.3 billion barrels of oil and 1.5 trillion cubic feet of natural gas. In addition to hydrocarbons,

Libya has substantial untapped mineral resources, including an estimated 5 billion metric tons of iron ore. The country also holds vast renewable energy potential, with over

1,600 GW in solar capacity and 10 GW in wind energy. Libya's fish resources are also noteworthy, with an estimated value of USD 230 million.

**Table 2: Decomposition of Natural Capital in USD Millions, 2010-2018**

	2010	2015	2018
<b>Renewable natural resources</b>	<b>11,863.8</b>	<b>12,757.2</b>	<b>14,462.5</b>
Forests, timber	187.2	317.1	388.9
Forests, ecosystem services	425.7	397.1	391.2
Fisheries	145.1	74.8	80.5
Protected areas	220.6	222.9	226.2
Cropland	3,977.5	4,419.2	5,265.0
Pastureland	6,907.6	7,325.9	8,110.7
<b>Nonrenewables</b>	<b>976,753.2</b>	<b>525,777.8</b>	<b>372,309.0</b>
Oil	954,522.8	504,574.1	356,405.2
Natural gas	22,230.4	21,203.7	15,903.7
<b>Total Natural capital</b>	<b>988,617.0</b>	<b>538,535.0</b>	<b>386,771.5</b>

Source: AfDB.

### 2.3.2 Economic contribution of Libya's Natural capital

In 2021, natural resource rents accounted for 61% of Libya's GDP. Oil exports are crucial for GDP and fiscal revenues, but reliance on oil creates risks as price fluctuations impact government revenues and economic stability, leading to boom-and-bust cycles. Despite the abundance of renewable resources like solar and wind energy, their exploitation is minimal. An outdated legal framework and lack of transparency make managing natural capital revenues difficult, prompting the government to establish an oil corruption committee in mid-2024 to improve financial accountability.

### 2.3.3 Estimates and Dynamics of natural capital

In 2018, Libya's total natural capital value reached USD 386.8 billion, a 45.8% increase

since 1995, driven by rising global demand for oil and gas and the discovery of new reserves. Non-renewable resources accounted for 96.3% of this value, primarily due to a 41.4% rise in oil value. Renewable resources increased from USD 10.9 billion to USD 14.5 billion, highlighting underinvestment but high potential. In 2018, per capita natural wealth was USD 55,747 for non-renewable and USD 2,166 for renewable resources.

### 2.3.4 Challenges of leveraging Libya's Natural Capital

Libya still relies on the 1993 version of the UN System of National Accounts, which limits its ability to accurately measure environmental costs and fully capture the modern structure of its economy. GDP rebasing — which updates the base year, to reflect changes in productivity, economic activities, prices, and consumption patterns — is essential for accurate national

accounting. Libya's most recent GDP rebasing was in 2013, suggesting that the metrics may not reflect significant changes that have occurred over the past decade. Additionally, the country faces persistent challenges such as the inaccurate declaration of natural resources and their illegal extraction, which further complicates their estimation and economic planning.

## **2.4 Business capital**

### **2.4.1 Setting the stage**

Business capital refers to the financial, physical, and intellectual assets that enterprises leverage to drive economic activity, investment, and production. In the future, Libya will encounter significant financing requirements to facilitate economic diversification, deal with climate change, and promote green growth initiatives. Given the challenges of an economy reliant on oil, it is essential to mobilize more capital that can ensure long-term resilience and stability. Enhancing business capital through increased private sector involvement is pivotal in meeting these challenges. Specifically, investment in key sectors such as manufacturing, renewable energy, agribusiness, and infrastructure development can drive transformative changes across the economy.

### **2.4.2 Indicators of business capital**

The private sector in Libya, emerging post-2011 revolution, constitutes 4% to 15% of the economy and employs 14% of the workforce, primarily in self-employment and sole proprietorships. It is mainly focused on trade and commerce, with some growth in light manufacturing, particularly in food processing, petrochemicals, and construction materials. Libya's private sector is characterized by a limited number of formal enterprises. The wholesale and retail trade sectors are the backbone of this ecosystem, accounting for 90% of the private sector's total value. Meanwhile, sectors such as hospitality, private education, and healthcare have seen remarkable growth in recent years. However, private sector capacity

to create jobs has been low and unable to compete with the public sector's generous benefits and job security.

### **2.4.3 Challenges and opportunities for enhancing business capital in Libya**

Ongoing political instability diminishes investor confidence. Inadequate infrastructure —such as roads, water supply, sanitation, and electrical systems — hinders businesses from operating efficiently and effectively, thereby limiting productivity. A significant skills gap persists due to conflict-related disruptions to education. Additionally, the entrepreneurship intention remains low. Micro enterprises often face difficulties in accessing microfinance, stemming from the requirement for guarantees. Despite these issues, Libya has vast potential for economic recovery through diversification. Opportunities for the private sector exist in renewable energy (solar and wind) especially in desert regions, natural resource extraction, reconstruction projects, agribusiness, public-private partnerships in infrastructure and urban development, digital economy for youth employment, and manufacturing, supported by functioning free zones in Sirte, Misrata, and Benghazi. Additionally, the stock markets in Benghazi and Tripoli include about 12 companies, primarily commercial banks, and are regulated by the Libyan Capital Market Authority.

## **2.5 Libya's human capital**

### **2.5.1 Current State of Human Capital in Libya**

In 2023, Libya had a Human Development Index (HDI) score of 0.721, ranking 115<sup>th</sup> globally, indicating "high" human development per the UNDP. Life expectancy was 72.2 years. The maternal mortality rate fell to 12 per 100,000 live births, with 99.8% of births attended by skilled health personnel, while infant mortality dropped to 9.8 per 1,000. The under-five mortality rate decreased to 13.3% in 2022 from 14% in 2017. However, primary healthcare and nutrition services faced declining accessibility

and quality. Reliance on oil revenues has led to fluctuating funding for education and training programs. The education system suffers from outdated curricula and inadequate facilities that do not meet labor market needs, with vocational training occurring in isolation from job opportunities.

Skilled workforce shortages hinder economic growth and innovation, with only 15%-30% of the workforce being relatively skilled. Regional disparities persist, and remote areas have limited access to primary health care and fewer job opportunities.

**Table 3: Key indicators of Education, Health, and Workforce in Libya**

Category	Indicator	Values/Details
Education	Spending as % of GDP and total expenditure (2023)	6.3% of GDP; 19.4% of public expenditure
	School enrollment rates (2022/2023)	Primary: 99.6%; Secondary: 72.9%; Higher: 56.9%
	Female participation in education (2022/2023)	Primary: 48.8%; Secondary: 52.1%; Higher: 54.7%
Health	Staffing levels per 10,000 people	Physicians: 26; Nurses: 62; Midwives: 23.1%
	Maternal mortality rate (per 100,000 live births, 2022)	12
	Under-five mortality rate (per 1,000 live births)	13.3
Labour market	Unemployment rate (2023)	Overall: 15.3%; Males: 13.3%; Females: 18.4%, Youth : 23.1%
	Active labour force participation (share by gender)	Males: 61.7%; Females: 38.2%
	Share of employment by sector (share by sector)	Administrative: 81.6%; Public: 7.4%; Private: 11%

Source: Voluntary National Report 2024, Ministry of Health, National Labour Force Survey 2022.

### 2.5.2 Major Barriers to Human Capital Development in Libya

Quality issues in education arise from ineffective teaching methods, and an emphasis on theory-based assessments, while fragmented governance hinders policy implementation. The scientific research system is limited by a lack of a unified vision for science, technology, and innovation. Economic challenges, including insufficient investment in non-oil sectors, restrict job opportunities and skill enhancement. Vocational and technical training programs are lacking. Gender inequality restricts women's access to employment, and inadequate health-care access undermines workforce well-being and productivity, obstructing human capital development.

### 2.5.3 Investing in Education and Skills Development

Overcoming barriers to education development is crucial for fostering a more skilled workforce in Libya. Enhancing education requires upgrading schools, constructing new facilities, and hiring qualified teachers. Curricula must align with societal needs to prepare youth for a competitive workforce, supported by training programs and employment offices. Regular market studies should inform curriculum updates. Integrating new technologies and strengthening university quality assurance are vital for improving outcomes. Additionally, boosting science and technology necessitates establishing a central research support system, rehabilitating infrastructure, and attracting private sector investment.

## Box 2: Reforms and investments in education that have worked well

Libya has made good progress in expanding access to education, despite ongoing institutional challenges. In the 2022/2023 academic year, the number of kindergartens increased by 159% compared to 2019/2020, reaching 707. The primary school enrollment rate rose to 99.66%, while secondary enrollment reached 72.9%. The gender gap in education has narrowed, with female participation rates of 48.8% in primary education and 54.7% in higher education, where total enrollment stood at 460,134 students. In 2022, the government established the Industrial Technology Pole to foster technological innovation and enhance human capital development across key economic sectors.

### 2.5.4 Health as a Pillar of Human Capital Development

Libya's health sector has been severely impaired by conflict. Access to essential health services is alarmingly low, with only 20% of people able to access child health services, 25% able to access general clinical care, and just 15% able to access reproductive health services. Staffing levels are critically low, with only 26 physicians, 62 nurses, and 2 midwives per 10,000 people. Healthcare spending accounts for just 10.5% of the government budget. Proposed initiatives include repairing infrastructure, strengthening primary care, and training healthcare workers. As of October 2023, Libya has made some progress in health system reform, notably with the enactment of Law No. 1 of 2023, which regulates the General Health Insurance Fund. However, challenges such as limited infrastructure, financial constraints, and fragmented service delivery continue to hinder effective implementation.

## 2.6 Financial capital

### 2.6.1 Domestic capital and /financial markets

As of the end of 2024, Libya had 21 banks operating through 672 branches and agencies, resulting in a banking density of approximately 10.5 thousand individuals per branch or agency. The financial sector is largely state controlled, with six public banks managing 90% of assets and loans. Additionally, around 30% of cash remains outside the formal

banking system. Public banks lack a clear development strategy, with limited access to financial products, and 44% of the population rely on informal financing. Businesses also face hurdles in accessing financial services, often depending on self-financing. Overall, Libya's financial infrastructure is underdeveloped. However, the reunification of the Central Bank has initiated efforts to improve regulatory standards and stabilize the financial sector.

### 2.6.2 The State of Financial Development in Libya

The IMF's composite Financial Development (FD) Index provides a relative ranking of countries based on the depth, access, and efficiency of their financial institutions and financial markets. The index ranges from 0 (low financial development) to 1 (highest possible development). Comparing IMF average data from 2010-2016 to 2017-2021, Libya's financial institutions showed no improvement, while its financial markets remained closed. As of 2021, Libya's overall value FD Index score stood at 0.13, indicating limited market access and depth. Access to financing remains constrained, with private sector credit declining from 17.7% of GDP in 2018 to 10.6% in 2023, according to World Data Indicators. The Libyan stock exchange has been inactive since 2014 due to political instability, though it officially reopened in late 2023 after more than nine years of closure. A microfinance institution was established in 2019, and a regulatory framework for sukuk — certificates representing shares in the ownership of assets — was introduced in 2016, however, no *sukuk* has been issued to

date. Despite recent steps, Libya's financial markets remain underdeveloped and poorly capitalized.

### 2.6.3 Mobilizing Financial Resources for Libya's Development

Libya's financial landscape is marked by political instability and economic uncertainty. Private equity in Libya is underdeveloped and largely confined to banks, with limited traction for venture capital and angel investments due to market and regulatory obstacles. Additionally, reliance on government bonds and a struggling pension sector further hinder access to capital and long-term investments. Informal equity investments, often among friends and family, are common but not centrally registered. The early-stage insurance market has low uptake, primarily focusing on non-life insurance and automobiles. Demand for *shari'ah*-compliant financing is strong, and although no specific regulations govern *shari'ah* compliance in the insurance sector, there is likely a strong demand for *takaful* products.

The Libyan Investment Authority (LIA), established in 2006, can support infrastructure investments but requires improvements in governance and transparency. A recent UN Security Council resolution allows LIA's frozen cash reserves to be invested in low-risk time deposits with financial institutions selected by the LIA, subject to specified conditions. Alternative financing options, such as private equity, crowdfunding, diaspora bonds, and fintech innovations, present additional avenues for economic mobilization. However, barriers such as regulatory weaknesses and illicit financial flows hinder their integration and the overall stability of the financial system.

### 2.6.4 Off-Shore-Linked Financial Resources for Libya's Development

Despite having no external debt, Libya faces multiple interconnected challenges that undermine its economic stability and development, primarily due to ongoing political instability and

limited foreign investment. Foreign investment remains low as investor confidence is undermined by security concerns and complex regulations. Development assistance often misaligns with local needs, perpetuating multi-dimensional vulnerabilities. Financial limitations also hinder implementation of effective climate adaptation strategies. Overcoming these challenges requires comprehensive reforms and inclusive collaboration among stakeholders to foster a stable growth environment. Libya is also grappling with major offshore-linked financial resource leakages, primarily driven by illicit financial flows (IFFs), such as trade mis-invoicing, tax avoidance, and corruption. The country is vulnerable to capital flight during market shocks, which destabilizes domestic financial markets and affects portfolio flows. Furthermore, Libya struggles with low transparency and governance, lacking critical laws for beneficial ownership disclosure, which the Financial Action Task Force (FATF) identifies as key gaps contributing to IFFs. The limited transparency surrounding offshore holdings — due to inadequate beneficial ownership disclosure and weak information-sharing mechanisms — only exacerbates these issues.

### 2.6.5 Innovative finance

Weak governance and regulatory challenges in Libya hinder the adoption of innovative finance for climate initiatives. The country lacks a clear climate strategy and has not yet submitted its Nationally Determined Contributions under the Paris Agreement. The Go Green Initiative, aiming to diversify Libya's energy portfolio and promote environmental sustainability by combating desertification and increasing vegetation cover, is promising. In 2020, Libya's private sector contributed 62.5% of USD 78 billion in climate financing. Blended finance could help diversify the economy away from oil and support investments in infrastructure, agriculture, and renewable energy, leveraging Libya's solar and wind power potential. To promote green growth and finance climate actions, Libyan authorities must reform policies, implement financial instruments such

as green bonds, and enhance domestic financing through targeted incentives.

## 2.7 Policy Recommendations

Dependence on oil revenues for 97% of its income puts into perspective the USD 39.3 billion Libya requires annually by 2030. Moreover, a weak tax system, poor enforcement, and outdated policies limit financial resources, stifling infrastructure and development investments. Governance challenges and restricted access to finance further impede growth. The education and healthcare sectors are underfunded, and private sector involvement remains minimal. To facilitate domestic capital mobilization and structural transformation, policymakers must adopt a phased approach.

**Short-term measures:** A comprehensive national development plan is essential to allocate resources effectively, prioritize key sectors, and align goals with Libya's long-term vision. Key actions should include reducing the public sector wage bill, expanding the tax base through targeted reforms like property taxes, modernizing tax administration and digital tools, and ensuring fiscal transparency. Additionally, modernizing banking infrastructure, promoting savings and boosting financial inclusion — especially microfinance — are critical. Rebasement of GDP, improving natural capital accounting, and strengthening anti-corruption measures will also help develop resource management. Improving

governance in the oil sector, reforming the LIA and recovering frozen assets should be prioritized.

**Medium term measures:** The focus should shift to diversifying revenue sources by developing non-oil sectors such as mining and renewable energy. Modernizing capital markets, reopening the stock exchange, and introducing instruments like green bonds are vital. Mobilizing diaspora and blended finance for infrastructure and energy projects is also crucial. Investments in healthcare and education will improve labour market outcomes and reduce unemployment. Public-private partnerships and business incubators should be encouraged to leverage private sector capital for key infrastructure sectors.

**Long-term strategies** must focus on diversifying the economy beyond hydrocarbons. Strengthening capital markets and improving economic governance are essential. Supporting entrepreneurship will channel domestic savings into productive ventures, fostering sustainable and inclusive economic growth. Political stability and social cohesion are key to creating an environment conducive to long-term development. Development Partners should offer technical assistance to improve governance and public finance management and develop tailored financial products to enhance domestic capital utilization and natural resource management.

# HARNESSING LIBYA'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT

## KEY MESSAGES

- Libya's resource mobilization is hindered by low tax revenues, an underdeveloped financial sector, and overreliance on oil. Governance issues and weak tax policies further limit fiscal capacity. Legislative barriers also restrict public-private partnerships.
- The government should prioritize reforms to diversify revenue sources, improve tax policy effectiveness, and strengthen collection system.
- Institutional reforms and stronger legal frameworks are essential to unlock capital, attract investment, and expand the private sector's role in economic development.

### 3.1 Introduction

Chapter 3 discusses the impact of institutional quality, governance, and the rule of law on Libya's capacity to mobilize domestic capital and support sustainable development. It highlights the challenges such as weak governance, and capital flight, and assesses their effects on resource mobilization. The chapter also outlines key reforms to address financial inefficiencies and proposes evidence-based strategies to better leverage Libya's capital for development.

### 3.2 Institutional arrangement for the management and utilization of the various forms of capital

Libya's revenue collection is managed by the Libyan Tax Authority and the General

Department of Customs. Since 2011, political instability has fragmented revenue governance. The High Financial Committee has yet to succeed in establishing a unified budget, though it has been working on one since 2023. Oil revenues remain the primary source of income, while tax contributions are minimal, with only a small portion of the population and businesses participating.

Public Financial Management systems lack defined frameworks for expenditure controls, including both ex-ante and ex-post mechanisms. Budget reporting and monitoring are also inadequate. The legal frameworks guiding the Ministry of Finance are outdated, relying on laws from the 1960s and 70s with only ad-hoc amendments. This hampers effective tracking of revenue and expenditure.

Libya currently operates with two separate budgets and clear accountability for financial reporting is lacking, delaying accurate and timely disclosures. Procurement practices rely on outdated, uncompetitive and undigitized methods, limiting transparency. The taxation system has seen no significant updates since the 2010 tax law, and ongoing political and economic instability continues to hinder efficient tax collection.

Investment in Libya is governed by Law No. 9, 2010, which promotes both domestic and foreign capital through tax exemptions, customs incentives, and simplified procedures. However, no major updates to investment legislation have been made since its enactment. Libya lacks a dedicated bankruptcy law, addressing insolvency within the broader Commercial Code, which also omits comprehensive intellectual property protections.

In 2013, the government introduced a framework for public-private partnerships (PPPs), leading to the establishment of the Libyan Private Partnership Projects Company (LPPPC) in June 2020 to support PPPs in key sectors. Despite this progress, the absence of a formal PPP law continues to deter private investment, particularly in infrastructure and development. In 2023 the Central Bank established an SME Unit to promote diversified small and medium-sized enterprises and explore financing mechanisms. A National Strategy for SMEs is currently under development.

Libya's resource extraction is regulated under Oil Law No. 25 of 1955, with the NOC playing a central role in generating state revenue from hydrocarbons. The NOC collaborates with the Central Bank to manage oil revenues, supporting government expenditures and social programs. In 2024, a committee was created to rectify oil sector misgovernance. Additionally, the Ministry of Economy and Trade introduced controls on mineral exports, requiring quarterly financial and production reports from the National Mining Corporation.

Renewable Energy Law No. 3 of 2015, along with a 2023 National Strategy for Renewable Energy, aims to increase the renewable energy share to 20% by 2035, supported by a planned investment of USD 4.99 billion for 4,000 megawatts. Nevertheless, Libya continues to suffer oil theft, illegal mineral extraction, environmental degradation from oil operations, and limited investment in water desalination infrastructure.

Libya's decentralization efforts aim to empower local authorities and promote regional spatial development. Since its establishment in 2012, the Ministry of Local Government has led these initiatives, including support for SMEs through business incubators. However, progress has been hampered by political instability, weak institutions, legislative gaps, limited resources, and coordination challenges. The lack of comprehensive data across most sectors further impedes the development of targeted strategies, timely responses to emerging challenges, and effective progress monitoring.

### **3.3 Governance challenges in the management and utilization of the various forms of capital for resource mobilization**

In 2024, Libya scored 13 out of 100 on the Corruption Perception Index, ranking 173<sup>rd</sup> out of 180 nations. Libya has yet to conduct a Mutual Evaluation to assess its compliance with FATF standards on anti-money laundering and IFFs nor has it undertaken a risk assessment. As a result, its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework remains underdeveloped. According to UNICRI (2021), IFFs from criminal activities cost Libya an estimated USD 1.2 billion annually. Ongoing political instability has further undermined economic stability and social cohesion, exacerbated corruption and hindered economic diversification.

Libya's tax system, governed by Law No. 7 of 2010, has seen minimal reform since its enactment. The corporate income tax rate is 24%,

lower than Africa's average of 27.8%. Personal income tax is 10% — the lowest in Africa — with a progressive structure reaching up to 20%. Libya does not impose a Value Added Tax (VAT), and customs duties were abolished in 2005 (except for tobacco and tobacco products), replaced by a 5% service fee on most imports. There are no specific property or transfer taxes, though a 1% stamp duty applies to key contracts. Mandatory social security contributions are set at 14.35%-15.37% for employers and 5.125% for employees.

The current tax structure, characterized by low rates and high dependence on oil revenue, limits the government's ability to finance infrastructure and social development programs. Under general tax law, foreign tax credits are not deductible, but the Investment Law offers a five-year corporate income tax holiday (extendable by three years) and tax exemptions for strategic infrastructure projects. Subcontractors on these projects benefit from waivers on customs and stamp duties. Additionally, the Petroleum Law grants customs exemptions for oilfield equipment used by oil service companies. Libya lacks key international tax standards, including transfer pricing rules, thin capitalization regulations, and oversight of Controlled Foreign Companies, complicating the regulation of related-party transactions and foreign subsidiary income. These gaps, combined with political instability and institutional weaknesses, undermine tax compliance and the effectiveness of the overall fiscal framework.

One notable national initiative aimed at reforming Libya's civil service is the National Program for Civil Service Reform. The program seeks to modernize the public administration by introducing a unified civil service law, improving human resource management through digital systems, and strengthening the capacity of civil servants. However, its implementation faces political instability, absence of a clear legal framework, institutional fragmentation, limited technical expertise, and inadequate digital infrastructure — all of which may impede the program's effectiveness and long-term sustainability.

### **3.4 The rule of law, the management and utilization of the various forms of capital**

State capture hinders economic growth by disturbing resource allocation, favoring private interests over public welfare. This contributes to high investor uncertainty, driven by political instability, weak property rights, and poor contract enforcement — factors that make Libya an unattractive destination for investment. Furthermore, it discourages investment in human capital. Elevated risk premiums lead to reduced credit availability, stifling business expansion and innovation.

The rule of law is vital for sustainable development, offering a predictable legal framework that protects investors and secures property rights. Critical components include political stability, legal certainty, reliable contract enforcement, and protection against expropriation — particularly important in post-conflict contexts such as Libya. Weak institutions amplify these risks, undermining economic growth and deterring investment.

To strengthen the rule of law, Libya must reinforce institutional integrity through an independent judiciary and effective law enforcement. Promoting transparency and accountability in government operations can enhance public trust. Developing a clear and attractive investment framework is vital to safeguard both domestic and foreign investments. Additionally, investing in education and vocational training will enhance workforce capabilities and support entrepreneurship. Engagement with civil society organizations and the private sector is also crucial to ensure inclusive dialogue and build a resilient legal and regulatory environment.

Case studies from other African countries demonstrate how a strong rule of law can catalyze sustainable development. Rwanda's reforms have prioritized good governance and secure property rights, creating a stable climate for investment. Botswana's governance and

commitment to legal consistency have fostered steady economic growth. Mauritius, with its robust legal protections and political stability, has attracted significant investment and achieved sustained development. By drawing on these examples, Libya can chart a path toward economic recovery and political stabilization.

### **3.5 Pan-African Approach to Strengthening the Rule of Law, Institutions and Governance for Harnessing Libya's Capital**

Cross-border initiatives — such as the African Financial Markets Initiative of the African Development Bank, the African Union's High-Level Panel on Illicit Financial Flows, and the pan-African African Peer Review Mechanism — play a vital role in improving governance and harnessing capital in Libya. These initiatives offer support through grants, advocacy, coordination, and technical assistance. Additionally, the African Continental Free Trade Area (AfCFTA) promotes economic integration and trade across Africa, which could benefit Libya's financial sector and overall development.

### **3.6 Conclusion and policy recommendations**

Strong institutions, good governance, and the rule of law are essential foundations for unlocking Libya's potential for sustainable development. Political stability fosters an enabling environment for investment, economic activity, and social cohesion. To support long-term growth and resilience, Libya should adopt a phased approach tailored to each form of capital, addressing immediate priorities while building institutional capacity for durable reforms. Strengthening governance frameworks, along with regional and international partnerships, will ensure sustainable growth and stability in the long term. Policy recommendations should focus on the following measures:

#### **Short term:**

- Unify the national budget; increase tax compliance awareness; strengthen AML/CFT systems; establish a beneficial ownership registry.
- Update financial regulations; encourage a savings culture; provide investor education on markets, risks, and opportunities.
- Upgrade healthcare infrastructure and modernize education curricula.
- Implement regulatory reforms, support entrepreneurship and business startups.
- Map natural resources; promote sustainable practices in agriculture and mining.

#### **Medium term:**

- Update outdated fiscal laws; build government capacity; digitize tax and expenditure systems; reinforce governance.
- Promote digital financial platforms; improve MSME access to finance; strengthen regulatory institutions.
- Expand vocational training; improve the quality of education and healthcare to meet labor market needs.
- Draft and enforce a modern investment code; enact formal PPP legislation; establish intellectual property laws.
- Modernize industrial sectors; introduce renewable energy incentives; regulate illegal extraction and reduce environmental degradation.

#### **Long term:**

- Consolidate reforms to ensure stable and sustainable revenue; promote a culture of fiscal transparency and accountability.
- Build resilient education and health systems aligned with Libya's economic diversification goals.
- Establish a dynamic stock market; implement reforms to increase transparency,

- investor confidence, and financial innovation.
- Create a stable, transparent business environment that fosters private sector-led growth and innovation.
  - Maximize economic returns from natural capital through sustainable, environmentally responsible practices that support a green economy.

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