THE FINANCING LANDSCAPE ANALYSIS

UNITED NATIONS
LIBYA

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ACKNOWLEDGMENT

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INTRODUCTION

The Financing Landscape Analysis (FLA) 2025 provides a diagnostic of Libya's evolving financial flow, offering a data-driven foundation to support strategic resource mobilization, fiscal reform, and sustainable development financing. This analysis aims to facilitate strategic dialogues between the Government, development partners, and the UN system, in view of aligning financial flows with national needs, priorities and the Sustainable Development Goals (SDGs). The UN Resident Coordinator's Office (RCO) conducts the Financing Landscape Analysis on a biannual basis.

Anchored in a multi-pronged methodological approach, this report draws from a detailed strategic desk review of financial and economic data, complemented by in-depth interviews with key government institutions and international development partners. It integrates financial statistics from national sources, such as the Central Bank of Libya and relevant ministries, with international databases, including the OECD, World Bank, IMF, and UN agencies.

The analysis is organized around four strategic pillars that reflect the main dimensions of Libya's financing ecosystem:

1. Domestic Financing (Government): examining public revenue mobilization and expenditure.
2. Donor Funding: assessing trends in official development assistance (ODA), development aid flows, including Libya's UNSDCF priorities.
3. Foreign Direct Investment (FDI): evaluating the volume, structure, and origin of FDI, sectoral concentration, regulatory barriers, and the competitiveness of Libya's investment climate compared to regional peers.
4. Vertical Funding Mechanisms: analyzing Libya's access to thematic global funds (e.g., Green Climate Fund, Global Fund to Fight HIV, TB and Malaria, Global Partnership for Education), institutional readiness, and opportunities to leverage vertical finance for SDG-aligned investments.

Key findings of the report point to a fragile and oil-dependent fiscal structure in 2024, with over 72% of export earnings and nearly all government revenue sourced from hydrocarbons. Public expenditures remain heavily skewed toward wages and subsidies, absorbing almost 70% of the national budget, leaving limited fiscal space for infrastructure and human development. Despite positive signals such as a doubling of development spending in 2024, mainly due to the establishment of the Libyan Development and Reconstruction Fund and increased government allocations to health and youth sectors, non-oil revenues remain small, and tax compliance is undermined by a vast informal economy. Meanwhile, ODA flows to Libya are declining at less than 1% of GNI, and Libya remains under-engaged in vertical funding mechanisms, forfeiting an estimated $80 million annually due to capacity and coordination gaps.

Foreign investment is slowly recovering, with the Netherlands and Germany emerging as key OECD investors. The Netherlands appears as the top OECD investor primarily due to its role as an international corporate and investment hub, while Germany's ranking reflects its direct industrial and energy investments in Libya. However, Libya still lags behind regional comparators like Egypt and Morocco in terms of attracting diversified and sustainable FDI. The regulatory and administrative environment, including the protracted approval processes and currency risks, continues to dissuade smaller and medium-sized foreign enterprises. Moreover, fragmented reconstruction funds and underdeveloped public financial management systems limit the effectiveness of both domestic and international investments.

This analysis underscores the urgency for Libya to transition from short-term, consumption-based spending to long-term, investment-driven development. It calls for a holistic national financing strategy that mobilizes domestic and international resources, enhances transparency and coordination, and strengthens institutional capacity to achieve inclusive, climate-resilient, and economically diversified growth.

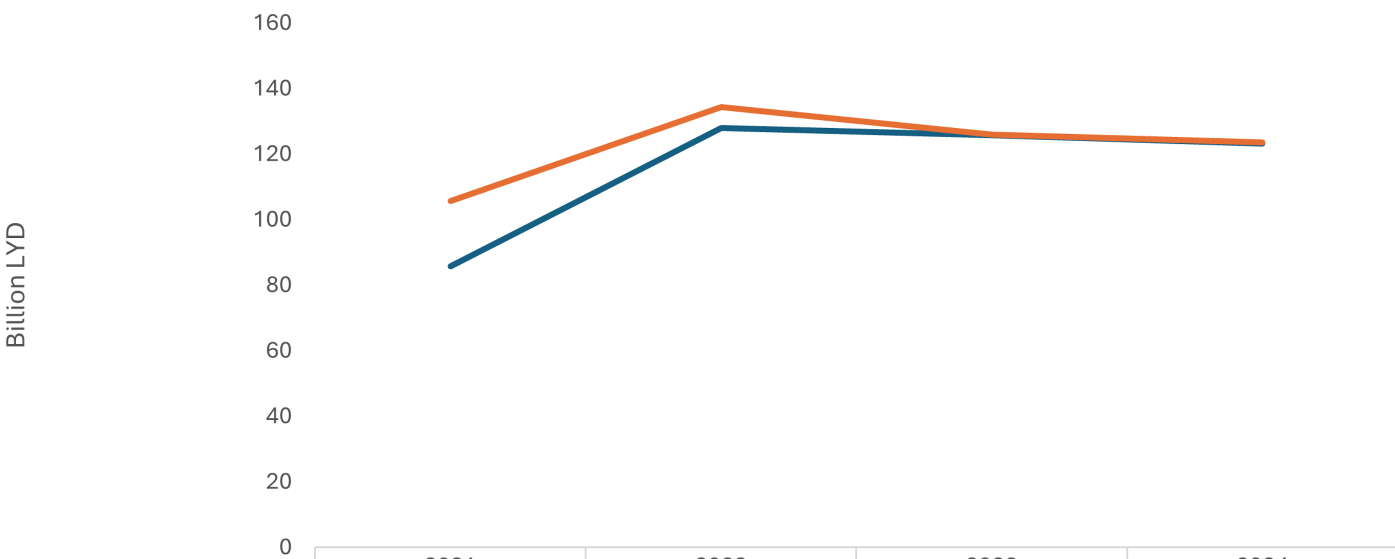
GOVERNMENT FINANCING IN LIBYA, FISCAL REALITIES AND REFORM IMPERATIVES

Libya's government financing system remains trapped in a cycle of hydrocarbon dependence, which accounts for approximately 72% of export earnings and government income[1] the oil and gas sector represented almost 60% of GDP, and inefficient public spending severely constrains its ability to fund sustainable development. The country's fiscal framework is overwhelmingly pro-cyclical, with expenditures ballooning during oil booms only to face drastic cuts during price shocks, a pattern that undermines long-term planning. In 2024, wages and subsidies consumed almost 70% of the national budget (increasing by 64%, from LYD 53.9 billion in 2021 to LYD 83.7 billion in 2024), leaving minimal fiscal space for development investments.

This distortion is particularly alarming given that public sector employment accounts for 85% of Libya's workforce, creating what the World Bank (2023) has termed "the costliest and least cost-efficient public sector in the world." The wage bill essentially functions as an untargeted social protection mechanism, distributing cash without corresponding productivity expectations. The private sector remains underdeveloped but has significant growth potential and currently employs nearly 14% of the workforce in the country.[2]

Compounding this vulnerability, non-oil revenue streams remain underdeveloped, contributing to almost 30% of GDP in 2024. Tax inefficiencies, including widespread evasion and a large informal economy estimated at 40% of total economic activity by the IMF in 2023, further constrain fiscal resilience. Without systemic reforms, Libya’s ability to fund sustainable development and public services will remain precarious.

FIGURE 1: TOTAL GOVERNMENT EXPENDITURE AND REVENUES FROM 2021 TO 2024



	2021	2022	2023	2024
TOTAL Expenditures	85.8	127.9	125.7	123.2
TOTAL Revenues	105.652	134.405	125.911	123.51

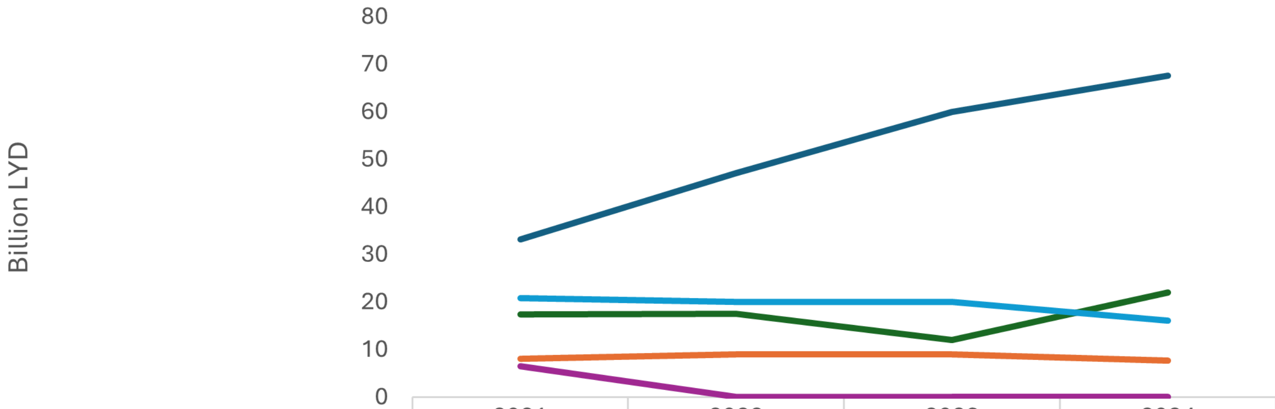
Year

TOTAL Expenditures TOTAL Revenues

SOURCE: CENTRAL BANK OF LIBYA

[1] Central Bank of Libya Annual Report 2024
[2] World Bank, 2024: https://www.worldbank.org/en/country/libya/overview

FIGURE 2: TOTAL GOVERNMENT EXPENDITURE PER CHAPTER FROM 2021 TO 2024[3]



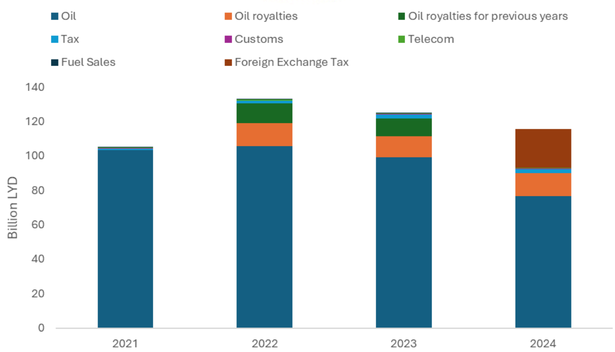
	2021	2022	2023	2024
Chapter One: Salaries	33.1	47.1	60	67.6
Chapter Two: Goods and Services	8	9	9	7.7
Chapter Three: Development	17.4	17.5	12	22
Chapter Four: Subsidies	20.8	20	20	16.1
Chapter Five: Emergencies	6.5	0	0	0

SOURCE: CENTRAL BANK OF LIBYA

The fiscal trajectory of Libya from 2021 to 2024, highlights both opportunities and emerging risks. Government revenues surged from LYD 105.7 billion in 2021 to LYD 134.4 billion in 2022, driven predominantly by oil revenues (rising from LYD 103.4 billion to LYD 105.5 billion) and the introduction of oil royalties (LYD 13.6 billion) and previous-year royalties (LYD 11.4 billion). However, this fiscal momentum was not sustained. Revenues declined to LYD 125.9 billion in 2023 and further to LYD 123.5 billion in 2024, with oil revenue dropping sharply to LYD 76.7 billion, a 27% decline compared to 2023, despite modest increases in non-oil streams such as taxes (from LYD 2.4 billion to LYD 2.5 billion), customs, and notably a significant one-time boost in "Revenue from fees imposed on foreign exchange sales"[4] in 2024 (LYD 22.5 billion). The unstable oil income underscores Libya's vulnerability to hydrocarbon price fluctuations and production constraints. The overreliance on volatile oil revenues and ad hoc income sources like Central Bank profit transfers and revenues from other sources, highlights the urgent need for a diversified revenue base. Strengthening domestic tax administration, reforming fuel subsidies, and enhancing customs and telecom contributions could provide more stable, predictable financing for development priorities. According to the Libya 2025 IMF Article IV Consultation report[5], the fiscal balance of Libya swung from a LYD 3.4 billion surplus to a LYD 58.7 billion deficit (-25.1 per cent of GDP) in 2024, largely due to unreported spending by eastern authorities. The LYD 58.7 billion was not recorded in the official CBL 2024 data and was only made public in the CBL Governor's statement on 6 April.

[3] Fuel subsidies were not covered by CBL data from 2023 to 2024 as it was directly covered by NOC's swaps.
[4] Central Bank of Libya
[5] Libya: 2025 Article IV Consultation-Press Release; and Staff Report

FIGURE 3: TOTAL GOVERNMENT REVENUES FROM KEY SOURCES FROM 2021 TO 2024



SOURCE: CENTRAL BANK OF LIBYA

Between 2021 and 2024, Libya's government expenditure patterns reflect a persistent imbalance in budgetary priorities, with increasing allocations to recurrent costs, particularly salaries, at the expense of more growth-oriented spending. Salaries (Chapter One) rose steadily from LYD 33.1 billion in 2021 to LYD 67.6 billion in 2024, consuming the largest share of the budget and nearly doubling in three years.[6] There is a narrative from the government that this is mainly due to the doubling of the minimum wage in 2023,[7] which led to the surge of the overall wage bill. CBL data recorded an increase of 104% over four years, from LYD 33.1 billion in 2021 to LYD 67.6 billion in 2024. Conversely, development spending (Chapter Three), though showing an uptick in 2024 (LYD 22 billion), fluctuated over the period and remained comparatively low. Subsidies (Chapter Four) showed a slight downward trend,[8] and emergency allocations (Chapter Five) disappeared completely after 2021, suggesting either a normalization of crisis spending and/or a budgetary neglect of emergency preparedness. The static and modest allocations to goods and services (Chapter Two) further underscore a constrained operational capacity. From a development lens, this skewed expenditure structure raises concerns about long-term economic diversification, infrastructure expansion, and public service delivery. The dominance of public wages limits fiscal space for capital investments crucial to sustainable growth and resilience. A rebalancing towards productive expenditures, including development and infrastructure, is essential for translating oil-based revenues into inclusive socio-economic progress.

TABLE 1: KEY GOVERNMENT MINISTRIES DEALING WITH DEVELOPMENT IN LIBYA (MILLIONS LIBYAN DINARS)

Sector	Chapter 1	Chapter 2	Chapter 3	Chapter 4	Total spending
House of Representatives and its affiliates	10,060	281			10,341
The High Council of State	38	18	-	-	56
Presidential Council and its affiliates	503	104			607
Council of Ministers and its affiliates	1,616	1,248	1	30	2,895
Ministry of Finance and its affiliates	29,932	374	1,260	-	31,566
Ministry of Interior Affairs and its affiliates	4,956	902	-	-	5,858
Ministry of Justice and its affiliates	1,563	604	-	-	2,167
Ministry of Foreign Affairs & International Cooperation and its affiliates	2,070	779	520	-	3,369
Ministry of Health and its affiliates	3,266	1,480	-	3,871	8,617
Ministry of Education and its affiliates	319	139	217	-	675
Minister of Higher Education and Scientific Research and its affiliates	2,650	208	-	-	2,858
Ministry of Technical and Vocational Education and its affiliates	586	24	-	-	610
Ministry of Economy and Trade and its affiliates	90	37	-	-	127
Ministry of Social Affairs and its affiliates	9,503	1,213	4,730	4,730	20,176
Ministry of Planning and its affiliates	20	93	-	-	113
Ministry of Local Government and its affiliates	2,338	436	-	977	3,751
Ministry of Agriculture and Livestock and its affiliates	448	53	15	15	531
Ministry of Labor and Rehabilitation and its affiliates	35	15	-	-	50
Ministry of Youth and its affiliates	18	3	175	175	371
Ministry of Environment and its affiliates	81	7	-	-	88

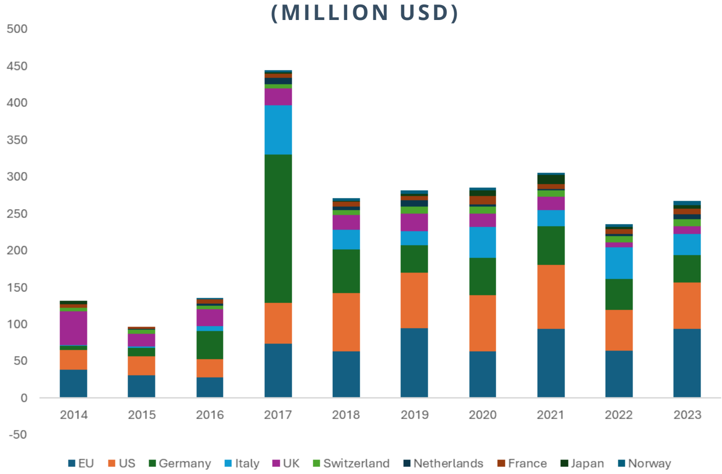
SOURCE: CENTRAL BANK OF LIBYA

[6] According to Wave VII of the Arab Barometer, based on survey data from the spring of 2022, 62% of Libyans want the government to create public sector jobs, and 69% express a preference for public sector employment.
[7] https://en.minbarlibya.org/2024/11/21/libyas-public-employment-crisis-3/?utm
[8] Fuel subsidies are not included in the CBL 2023-2024 data because of the swaps. According to the IMF, Libya's energy subsidy bill reached USD17 billion in 2024 (35 percent of GDP)

The sectoral expenditure data from 2022 to 2024 reveals notable shifts in Libya's public spending priorities, with several ministries experiencing significant budget fluctuations. The Ministry of Health witnessed a remarkable increase in spending, rising from LYD 4.68 billion in 2022 to LYD 8.62 billion in 2024, a 84% surge, signaling a shift toward prioritization of the healthcare sector. However, the increase is primarily due to higher salaries and subsidies. In an economic context characterized by low inflation (2.4% in 2023),[9] the real increase in health expenditures is significantly high at 77.6%[10]. In 2023, Libya's public spending on health accounted for 6.1% of GDP,[11] aligning with WHO recommendations.[12] However, roughly 20% of primary healthcare (PHC) centers and 8% of hospitals are out of service due to conflict, deterioration, and lack of upkeep. In addition, between 21% and 38% of medical equipment is unusable, further straining healthcare provision. The sector also faces shortages of general practitioners and specialists, while health technicians are oversupplied, with a nurse-to-doctor ratio of 1.5:1 that contributes to systemic inefficiencies.[13] Similarly, the Ministry of Education and its affiliates saw an increase of 41%, from LYD 5.29 billion to LYD 7.46 billion, signaling growing investments in the education sector. Libya's education system, overseen by three ministries,[14] receives the largest share of the national budget, averaging 16% of public expenditures and 10% of GDP over the past three years.[15] The education system in Libya is free at all levels, yet quality remains a concern due to, inadequate infrastructure especially in the areas affected by conflict and 2023 Derna floods and a lack of modern teaching methods. Conversely, the Ministry of Social Affairs experienced a steep decline of nearly 15% (down by LYD 2.17 billion), potentially jeopardizing social protection programmes. The Presidential Council's budget shrank by 17%, while the Council of Ministers and Ministry of Finance saw more modest cuts of 2.7% and 17%, respectively. Ministries with traditionally lower budgets, such as the Environment and Youth Ministries, received substantial boosts, up 103% and 118%, respectively, though from smaller bases. These shifts suggest a partial reorientation toward health, education, and youth, although mostly limited to wages of government employees, but the sharp declines in social affairs and key governance entities may compromise administrative and social cohesion goals.

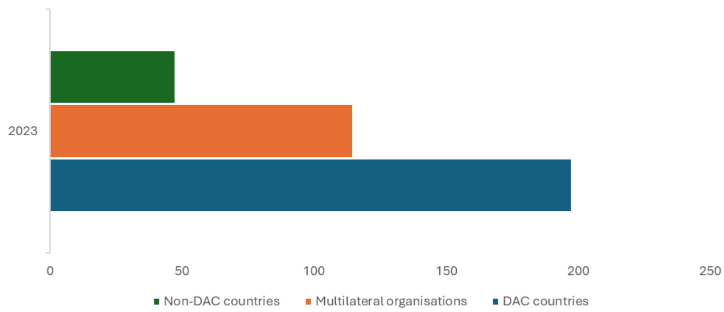
OFFICIAL DEVELOPMENT ASSISTANCE TO LIBYA, NAVIGATING DECLINE AND FRAGMENTATION

FIGURE 4: TOP 10 ODA DISBURSEMENTS TO LIBYA (MILLION USD)



SOURCE: OECD DATA

FIGURE 5: TOP 10 ODA DISBURSEMENTS TO LIBYA (MILLION USD)



SOURCES: OECD (2025)

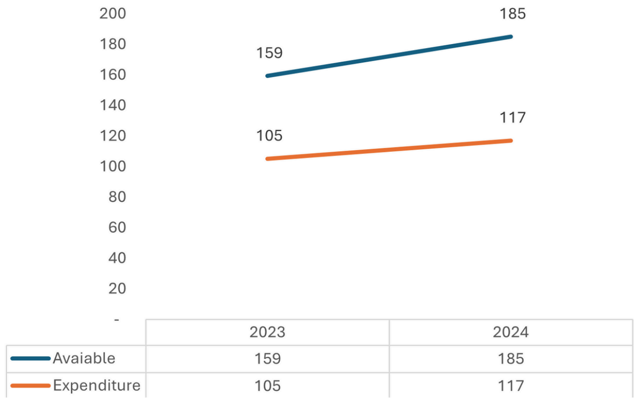
[9] World Bank, 2023
[10] UNICEF Health Budget Brief, 2024
[11] Central Bank of Libya, 2024
[12] Although no strict target, the WHO suggests countries should work toward at least 5% of GDP public health spending to achieve Universal Health Coverage (UHC). Achieving this percentage is necessary but not sufficient condition for a robust health system.
[13] UNICEF Health Budget Brief, 2024
[14] The Ministry of Education, Ministries of Higher Education and Ministry of Technical and Vocational Education
[15] UNICEF Education Budget Brief, 2024

The Official Development Assistance (ODA)[16] disbursement trends to Libya from 2014 to 2023 reflect the evolving priorities and geopolitical considerations of key donors amid Libya's protracted transition. The EU has consistently been the leading donor, although with fluctuating contributions, with disbursements peaking in 2019 at nearly USD 95 million and again in 2023 at USD 94.2 million. This underscores the EU's strategic interest in stabilizing its southern neighborhood, particularly in managing migration flows and supporting governance and recovery in Libya. The United States follows, showing relatively strong and consistent support, though with notable fluctuations, from a high of USD 86.8 million in 2021 to a dip at USD 55.1 million in 2022 before slightly rebounding in 2023. Germany, Italy, and the United Kingdom also maintained significant contributions, reflecting broader Western efforts to stabilize Libya and support its development trajectory. ODA from Japan and Norway, though smaller in volume, shows a steady and meaningful presence, while countries like Switzerland, France, and the Netherlands display varying degrees of engagement, possibly tied to project-based funding or diplomatic priorities. According to the OECD, ODA flows to Libya are declining at less than 1% of GNI in 2023.

The volatility in disbursement patterns across most donors suggests that assistance is sensitive to Libya's internal dynamics and donor confidence. It also highlights member states' interest in supporting Libya's humanitarian emergencies, such as the 2019–2021 peak period, in response to the armed conflict and renewed engagement in 2023 in response to the Derna flood crisis.

Libya as a High Middle-Income Country (HMIC) has historically been less dependent on ODA compared to other nations, primarily due to its substantial oil revenues. While the nominal amount of ODA reduction, mainly driven by the phasing out of the humanitarian assistance mentioned above, is not significant, the quality of ODA has had significant adverse effects on marginalized groups in Libya, particularly for migrants and refugees, who do not benefit from the Libyan government's social protection programmes, as well as the South and other remote areas, which has been traditionally marginalized in the prolonged governance crisis of Libya, have been particularly hard hit. The recent pause in funding by the US has affected 11 different projects implemented by five UN agencies (WHO, UNICEF, IOM, UNHCR, and UNDP), with a total suspended amount of approximately $14.8 million.[17] Overall, projects targeting refugees and migrants have been the most impacted in light of the global aid cut. Specific to Libya, USAID's support to the South through UNDP, as part of the US' Global Fragility Act, to strengthen local governance and address long-standing grievances for national reconciliation, has faced abrupt halts.

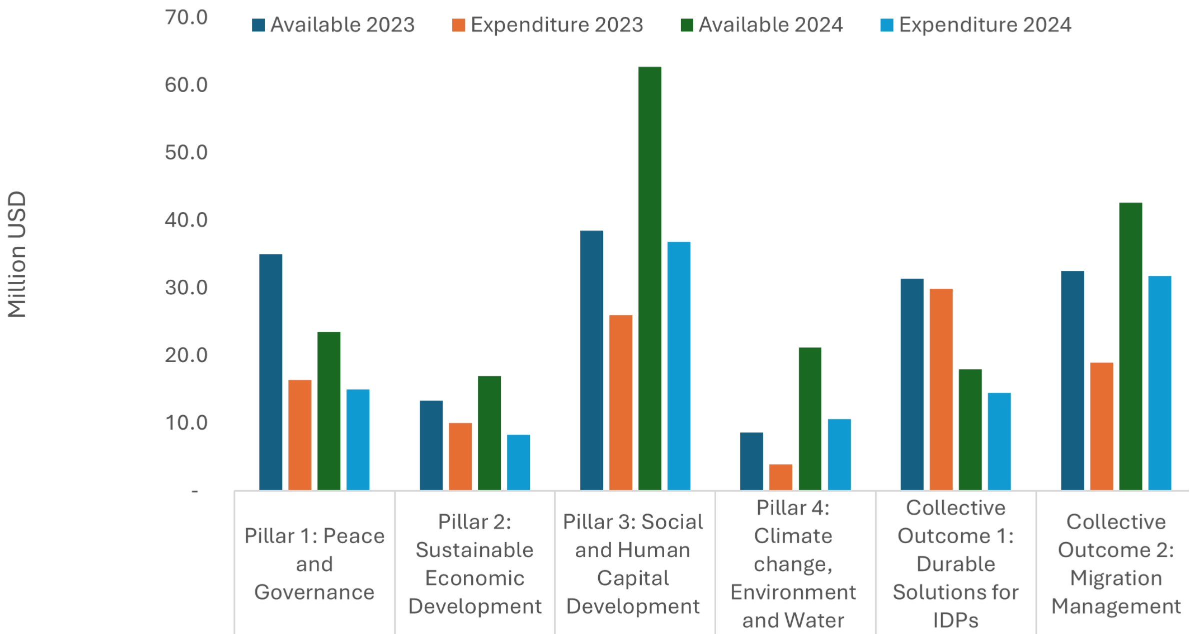
FIGURE 6: TOTAL RESOURCES AVAILABLE AND TOTAL EXPENDITURE OF THE UNSDCF (2023 – 2026)



SOURCE: UN IN LIBYA

[16] Data is solely from the OECD CRS and nothing from OCHA FTS systems
[17] This is according to a mapping of US Aid cut done by the RCO in Libya

FIGURE 7: TOTAL RESOURCES AVAILABLE AND TOTAL EXPENDITURE OF THE UNSDCF PER PILLAR (2023 – 2026)



	Pillar 1: Peace and Governance	Pillar 2: Sustainable Economic Development	Pillar 3: Social and Human Capital Development	Pillar 4: Climate change, Environment and Water	Collective Outcome 1: Durable Solutions for IDPs	Collective Outcome 2: Migration Management
Available 2023	35.0	13.3	38.5	8.6	31.4	32.5
Expenditure 2023	16.4	10.0	26.0	3.9	29.9	19.0
Available 2024	23.5	17.0	62.7	21.2	18.0	42.6
Expenditure 2024	15.0	8.3	36.8	10.6	14.5	31.8

SOURCE: UN IN LIBYA

The financial data covering UN resource availability[18] and expenditures in Libya under the UNSDCF (2023 – 2026) for 2023 and 2024 reveal an overall increase in both available resources from USD 159 million to USD 185 million (a 16% increase), and expenditures from USD 105 million to USD 117 million (an 11% increase). This temporary uptick was mostly driven by the UN agencies' immediate crisis response and recovery efforts following the flood crisis in 2023, which demonstrates improved delivery capacity and sustained donor engagement.

Pillar 1: Peace and Governance saw available resources decline from USD 35 million in 2023 to USD 23.5 million in 2024 (a 33% drop), yet expenditures decreased more modestly from USD 16.4 million to USD 15 million (9% drop), suggesting a more efficient use of shrinking funds.

Pillar 2: Sustainable Economic Development experienced a notable increase in availability from USD 13.3 million to USD 17 million (28% rise) while expenditure remained nearly stable, dropping slightly from USD 10 million to USD 8.3 million.

Pillar 3: Social and Human Capital Development showed the most substantial growth, with available resources rising from USD 38.5 million to USD 62.7 million (a 63% surge), and expenditures climbing from USD 26 million to USD 36.8 million (41% increase), underscoring donor prioritization of outcomes under this pillar, such as health, education, and social services. Pillar 4: Climate Change, Environment and Water marked a significant expansion, with available resources increasing from USD 8.6 million to USD 21.2 million (146% growth), and expenditure tripling from USD 3.9 million to USD 10.6 million.

This signals growing attention to environmental resilience. Conversely, Collective Outcome 1: Durable Solutions for IDPs experienced a stark contraction in both availability (from USD 31.4 million to USD 18 million; 43% drop)

[18] Available resources might be for projects covering several years

and expenditure (from USD 29.9 million to USD 14.5 million; 52% drop), suggesting a deprioritization of displacement response because of the stabilization of the IDP situation in the country. Collective Outcome 2: Migration Management recorded a significant increase in both resources and spending, available funds rose from USD 32.5 million to USD 42.6 million (31% increase), and expenditure rose from USD 19 million to USD 31.8 million (67% increase), demonstrating expanded programming in migration governance.

The financial trends reflect strategic shifts favoring migration management, social sector programming, and environmental action, while other areas appear to be scaling down. Strengthened planning and absorptive capacity across all pillars will be essential to optimize the use of resources.

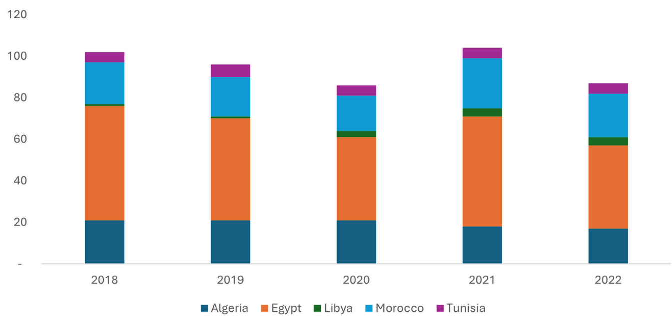
FOREIGN DIRECT INVESTMENT IN LIBYA, OVERCOMING BARRIERS TO SUSTAINABLE INVESTMENT

To assess recent trends in foreign direct investment (FDI) in Libya, data were drawn from both the Libyan General Authority for Investment Promotion and Privatization Affairs and the OECD's FDI Statistics Database. The services industry, particularly petroleum-related services, emerged as the leading recipient of FDI, followed by the manufacturing and tourism sectors. In terms of OECD member countries, the stock of inward FDI in Libya stood at USD 1.5 billion in 2018 and increased to USD 4.2 billion by 2022.[19]

Among these countries, the Netherlands was the top investor, with Germany ranking second. The Netherlands appears as the top OECD investor primarily due to its role as an international corporate and investment hub, while Germany's ranking reflects its direct industrial and energy investments in Libya.

When benchmarked against other North African countries, namely Algeria, Egypt, Morocco, and Tunisia, Libya attracted less FDI from OECD nations, with Egypt leading the region, followed by Morocco and Algeria.

FIGURE 8: INWARD FDI POSITIONS OF OECD MEMBER COUNTRIES IN NORTH AFRICA, 2018-2022 IN USD MILLION

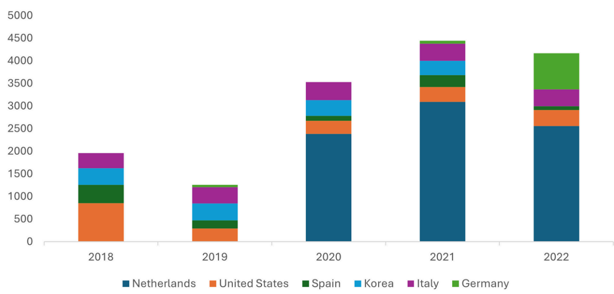


SOURCE: OECD FDI STATISTICS DATABASE

Between 2018 and 2022, Libya's inward FDI positions from OECD countries reveal a modest but notable recovery trajectory, rising from just USD 1.5 billion in 2018 to a peak of USD 4.6 billion in 2021 before slightly declining to USD 4.2 billion in 2022. While this marks nearly a threefold increase over five years, Libya's FDI performance remains significantly lower than that of its North African peers. For instance, Egypt attracted over USD 40 billion annually throughout the same period, despite a drop in 2022, positioning it as the region's top FDI destination from OECD countries due to its market size, diversified economy, and reform-driven investment environment. Morocco and Algeria consistently attracted over USD 17 billion annually, benefiting from more stable regulatory frameworks and targeted sectoral development. Even Tunisia, with a smaller economy, maintained FDI levels above Libya's for most years. Libya's relatively weak performance reflects ongoing political instability, regulatory uncertainty, and overdependence on the oil sector.

[19] OECD Review of Foreign Direct Investment Statistics of Libya, 2025

FIGURE 9: INWARD FDI POSITIONS OF OECD MEMBER COUNTRIES IN LIBYA, 2018-2022 IN USD MILLIONS



SOURCE: OECD FDI STATISTICS DATABASE

The inward FDI positions of OECD member countries in Libya between 2018 and 2022 illustrate shifting investor confidence amid Libya's fragile political and economic environment. The Netherlands emerged as the dominant OECD investor beginning in 2020, contributing a substantial USD 2.4 billion and peaking at USD 3.1 billion in 2021 before declining to USD 2.6 billion in 2022, still maintaining a commanding lead. This suggests major Dutch investments, likely in the energy or infrastructure sectors. The United States, once a leading source with USD 854 million in 2018, saw its investment decline significantly, bottoming out at USD 288 million in 2020 before a slight recovery to USD 355 million in 2022. Spain and Korea showed decreasing trends, with Spain's investments falling from USD 401 million in 2018 to just USD 82 million in 2022, and Korea's data unavailable in 2022 after a steady decline. Italy, with strong historical economic ties to Libya, maintained stable FDI inflows, ranging from USD 332 million in 2018 to USD 374 million in 2022. Notably, Germany's investment, initially negative in 2018, surged to USD 797 million in 2022, suggesting a strategic re-engagement. Overall, while some OECD countries have reduced their exposure, others, like the Netherlands and Germany, have ramped up investments, reflecting some confidence in sectors resilient to Libya's volatility. For Libya to sustain and grow these flows, it must reinforce investor protections, stabilize macroeconomic conditions, and improve sectoral governance, particularly in oil, infrastructure, and services.

Libya's 2021 FDI Law, while theoretically progressive with its provisions for tax holidays and 100% foreign ownership in renewables, remains unimplemented due to bureaucratic inertia. Investors face a cumbersome approval process requiring 18-24 months for energy sector permits, as evidenced by BP's 2022 withdrawal after prolonged delays. The minimum capital requirement for foreign businesses, 100 times higher than Tunisia's threshold - effectively excludes small and medium-sized enterprises from the market. Currency instability compounds these challenges, with the parallel market exchange rate always above the official Central Bank rate, creating substantial repatriation risks for foreign investors.[20] Meanwhile, to improve FDI monitoring, CBL has introduced an International Transactions Reporting System, which serves as a robust tool for tracking cross-border financial flows relevant to the balance of payments. Additionally, the CBL is now collaborating with the General Authority for Investment Promotion and Privatisation Affairs to enhance the accuracy and comprehensiveness of national FDI data.

VERTICAL FUNDING AND INNOVATIVE FINANCING TO BRIDGE THE FINANCE GAP

Libya's underutilization of vertical funding mechanisms represents a critical missed opportunity in its development financing landscape. Despite eligibility for global funds and potential to access development financing, such as through the Green Climate Fund (GCF), Global Environmental Facility (GEF), Adaptation Fund (AF), and Global Fund to Fight AIDS, Tuberculosis and Malaria, the country has failed to systematically access some of these resources due to instability, institutional, and technical constraints.

[20] The IMF's 2023 Article IV Consultation for Libya

Leaving an estimated $80 million in potential annual financing untapped.[21] This institutional gap is compounded by limited government commitments to seed funding for proposal and concept note development that range from 50 – 150 thousand USD. The consequences are particularly stark in climate adaptation, where Libya ranks as one of the countries least prepared to face the challenges related to climate change. It ranks third-last out of all middle-income countries according to the ND-Gain Index, also 40th out of 191 countries on the INFORM Risk Index.[22]

There are acute financing gaps that vertical funds could address. In climate resilience, there is an urgent need for desalination projects that could be funded through the GCF (20–50 million potential) or the Adaptation Fund (10- 15 million potential). The health sector's 20% non-functional primary health care centers[23] present a strong case for Global Fund engagement, while education infrastructure gaps 1,200 conflict-damaged schools[24] align with Global Partnership for Education priorities.

Islamic finance presents a significant yet underutilized opportunity to mobilize domestic resources. Zakat, if systematically collected and managed, could generate an estimated $80 million annually for social programs, while Waqf endowments[25] could fund critical infrastructure like schools and hospitals. Libya has yet to tap into Sukuk bonds,[26] which have been successfully deployed in countries like Malaysia to finance renewable energy projects.

“Zakat, if systematically collected and managed, could generate an estimated $80 million annually for social programs”

[21] OECD CRS data portal estimate, 2024
[22] https://gain-new.crc.nd.edu/country/libya
[23] Libya World Health Organization Health System Assessment 2023
[24] UNICEF report 2023
[25] A charitable trust where assets like land, buildings, or money are donated for religious or charitable purposes and cannot be sold, inherited, or transferred. The income generated from these assets is then used to support various causes like education, healthcare, and poverty relief, ensuring a continuous flow of benefit.
[26] A sukuk is an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic religious law commonly known as Sharia.

RECOMMENDATIONS

1

Enhancing the capacity of the Zakat commission and establishing a National Zakat Fund and piloting sovereign Sukuk issuances for infrastructure could unlock much-needed capital while adhering to Islamic financial principles. The UN can support the CBL to play a pivotal role in piloting a Sukuk bond program for projects, while the government should collaborate with the UN to establish a Zakat Fund framework.

2

Modernize tax administration through digital platforms to reduce leakage and increase compliance, in view of increasing transparency and diversifying revenue mobilization in global standards. VAT coverage should also be expanded to include luxury goods.

3

Formalize National Accredited Agencies for climate and health funds under the Environment and Health Ministries, respectively. UN agencies could play a crucial role in sharing global experience and knowledge, as well as implementing entity for pilot proposals. It would also be worth considering developing sovereign SDG, and Green bonds for infrastructure. These measures would position Libya to access the full spectrum of vertical funding instruments, moving towards the SDG acceleration through strategic financial partnerships that leverage both global resources and domestic revenues.

4

Increase Government ownership and co-financing of UNSDCF Outcomes. In the context of fragmented institutional structure of Libya, establishing a Multi-Partner Trust Fund (MPTF) would particularly add value to allow systematic resource flow from the government and donors alike. The MPTF could promote government confidence, reduce fragmentation and increase the impact of limited donor resources towards the SDG agenda and catalyze long-term development investment. Empower the Government to co-chair UN-government mechanisms and initiatives for national development priorities, especially in areas of climate, youth, health, and peacebuilding.

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