SME Development Strategy in Libya

A project funded by the Deauville Partnership MENA Transition Fund

Joint OECD/Libya Enterprise Mission

MISSION REPORT

Tunis, Tunisia – 9-11 December 2013

The OECD and Libya Enterprise undertook a mission to Tunis to hold a series of meetings as part of the diagnostic phase of the project and to prepare for the next Project Steering Committee. The mission included the following:

1) A coordination meeting between Libya Enterprise and the OECD
2) A workshop on the SME Policy Index
3) Bilateral meeting with the African Development Bank Libya desk economist
4) Expert meeting of the MENA-OECD Working Group on SMEs

MENA-OECD INVESTMENT PROGRAMME

Participants

OECD:

Antonio Fanelli, Deputy Head of the Private Sector Development Division, Global Relations Secretariat

Anders Jönsson, Project co-ordinator, Private Sector Development, Global Relations Secretariat

Fares Al Hussami, Project co-ordinator, Private Sector Development, Global Relations Secretariat

Rayann Koudaih, Consultant, Private Sector Development, Global Relations Secretariat

Libya Enterprise project group (LE group):

Abulghasem Mrabet, Head of Strategic Partner Division, Libya Enterprise

Ahmed Belhaj, Libya Enterprise

Honida Mhanni, Libya Enterprise

Libyan experts:

Ahmed Jallala, Applied Economist

Moukhtar Eltaouil, Researcher specialised in SMEs

Hamed Abdallah, Former Director of Libya Trade Net

African Development Bank:

Sahar Raad, Libya desk economist

Objectives of the mission

I. Hold an coordination meeting between Libya Enterprise and the OECD
II. Hold a workshop as part of the diagnostic phase (Component 1) of the project on the SME Policy Index
III. Hold a bilateral meeting with the Libya Desk Economist - the African Development Bank
IV. Hold the expert meeting of the MENA-OECD Working Group on SMEs

Overview of the mission

9 December 2013:

Coordination meetings with Libya Enterprise – Libya Project:

The meeting gathered the joint Libya Enterprise (Abulghasem Mrabet, Honida Ali Mhani, Ahmed Belhaj) and OECD (Anders Jönsson, Rayann Koudaih, Fares Al-Hussami) team responsible of the Libya project. The objectives of the meeting were to:

- Discuss the latest changes in the institutional framework governing SMEs in Libya,
- Prepare for the Project Steering Committee (PSC) meeting that will take place in Tripoli during the first quarter of 2014 and
- Discuss the content of the inception report to be presented to the PSC members

10 December 2013:

SME Policy Index workshop – Libya Project:

The meeting pursued the work started on the SME Policy Index, a tool to assess enterprise development in Libya, and discuss relevant policy areas to SMEs with key stakeholders. The OECD provided, with the support of Libya Enterprise, preliminary results of newly covered dimensions and completed the dimensions covered during the first SME Policy Index Workshop in Tripoli on 11 September 2013.

Meeting with Ms. Sahar Rad, AfDB, Libya country economist – Libya Project:

Informal meeting to establish the contact and to share information on the economic environment in Libya with the AfDB.

11 December 2013:

Expert meeting of the MENA-OECD Working Group on SMEs

The objective of this meeting was to bring together economists and experts in the field of enterprise policies in MENA region to discuss recent economic developments, their impact on private sector development and job creation and appropriate policy responses to contain the deterioration of enterprise performance. The discussion served as a preparation of the 7th meeting of the MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development, which will be held in the first semester of 2014. The meeting was organised jointly by the MENA-OECD Investment Programme and the African Development Bank (AfDB). Libya, represented by Libya Enterprise, will take part to the Working Group future activities.

Monday, December 9, 2014

OECD-Libya Enterprise coordination meeting

OECD: Anders Jonsson, Rayann Koudaih, Fares Al-Hussami

Libya Enterprise: Abulghasem Mrabet, Honida Mhani, Ahmed Belhaj

Local expert: Ahmed Jallala, applied economist

1. Project status: overview of the overall current situation in Libya

Mr. Mrabet gave an update on the latest institutional change affecting SME-related policies in Libya, including:

- **The new SME Policy Unit:** A unit was created within the Ministry of Economy. This unit will have three departments: one for policy evaluation, one for monitoring and evaluation, and one for international relations.

- **The regional funds:** The funds will be based in one of five regions (although their remit will not be formally limited to the region). Each fund would be capitalised with USD 200 Million. However, the Ministry of Planning still needs to formally allocate the budget for 2014. It is unlikely that the entire amount of USD 200 Million will be paid out at once, but would rather be disbursed in tranches. **The structure of the funds:** the funds will play several roles. They will provide equity of up to 25% of project capital, while the rest of the credit would be guaranteed (unclear how much risk the investor and the providers of debt financing will have to carry as a minimum). The funds will target only start-ups and firm creation, excluding existing firms (not clear whether existing firms venturing into related but new product areas would qualify – reasonably, they should).

<u>Note:</u> it is important that all stakeholders carry an appropriate amount of risk in the project, or resources will be allocated to high-risk projects that may not make commercial sense. Further, there is no reason to focus on start-ups – rather, the funds should target projects that are likely to contribute to positive externalities – be it in the shape of diversification, employment, or increased productivity. It is important that the funds follow a few, simple principles in their investment decisions, such as targeting "new" projects.

- **The veterans' association**: Important and influential association in the area of enterprise development. The association has established business development services providers in several regions. Three are already established and three more are in the process of being established. Not clear what the services are and how they complement and overlap with those of Libya Enterprise, the Ministry of Industry, donor-funded services, and others. Substantial clarity is needed and should be brought about as part of the work on Component 1, specifically the SME policy index.

- **Ministry of Industry**: The MoI is planning to establish business services centres, but focussed on industrial (probably manufacturing) activities.

- **Ministry of Labour**: A new institution has been established under the Ministry of Labour which has created job centres operating as business centres in different cities.

Overall, there are different and overlapping business support institutions in Libya. The Ministry of Planning seems to be the only institution that attempts to have a comprehensive strategy.

Furthermore, existing policies and institutions overlap in their work and there is a lack of trust between them. For instance, the process of start-up financing starts with Libya Enterprise undertaking a feasibility study that will be transmitted to the state credit guarantee scheme. However, the scheme reproduces the feasibility study before sending the request to the commercial bank. Again, the commercial bank conducts its own assessment.

Internal note: for the diagnostic report, we need, at the very least, a clear mapping of all the services provided. It would make sense to request that Libya Enterprise assemble these data. Also, research and consider engaging the Economic Development Unit at the Office of the Prime Minister.

2. The five components of the project

a. Component one:

i. Macroeconomic overview (growth diagnostic)

The OECD proposes to tweak this activity in the direction of a "growth diagnostic", building on a World Bank-sanctioned methodology aiming to provide guidance on what the binding constraints to economic development are (in contrast to, say, an investment climate assessment which would yield a long laundry list of economic reforms). The OECD will present a draft at the next PSC meeting.

ii. Sector competitiveness (find sector experts)

OECD suggested that it makes little sense to be overly ambitious in formalising the analysis, as there is a dearth of data and sector choices tend to be political in nature. In addition, the OECD wants to underscore that economic development policy should not attempt to predetermine which sectors will be successful and limit resources to those sectors; rather, sector prioritisation should be used to provide guidance to gain a deeper understanding of sector dynamics and to provide input for promotional activities.

Instead, OECD will work on identifying a larger group of six-seven sectors and suggest that three of them be selected as pilots for the purposes of the development of pilot sector roadmaps (to be integrated as annexes to the overall SME development strategy). The goal should be to give the Ministry of Economy and other relevant entities the capacity to repeat the sector competitiveness and sector roadmap exercises on a regular basis and develop internal capacities to think about the development of a number of sectors, including one that emerge without government involvement, perhaps as a result of FDI projects. OECD will present a draft at the next PSC meeting.

iii. SME Policy Index (workshop on Tuesday 10 December)

OECD will, with the support of Libya Enterprise, continue the work on the SME Policy Index by reviewing the existing dimensions and cover new dimensions. During the next mission a workshop will review the information collected for dimension 3 and will present the findings for dimensions 7 and 10 (related to international trade). OECD will develop a concrete plan for Libya Enterprise involvement until the next mission, planned for mid-March.

iv. Business climate assessment: *See component three*.

b. Component two:

The role of the lead SME strategy expert (starting from February): The senior expert is expected to start working on the project in March. She will conduct four long missions (10 working days each) in which she will work closely with the local partners. The LE core working group will write the strategy under the guidance of the expert, who will take them through the process and train them as appropriate.

c. Component three:

It was discussed that component three will start with a gap analysis, combined with the Business climate assessment from the diagnostic phase. An international expert should be hired during the next two months to cover the dimension on competition and business policies of the business climate assessment (diagnostic phase) and link it to the forthcoming work on component three. OECD will provide a detailed plan for how Component three should be operationalised for Libya Enterprise to review. The final decision should be taken at the next PSC meeting.

d. Component four:

No decisions taken. With the participation of the Component 2 expert, and taking into account other donor and Government funded activities, OECD and LD should develop concrete ideas for how to use the resources in this component fruitfully.

e. Component five:

Discussion ongoing regarding the concept note shared with the ICD-IDB.

3. Preparation of future events

a. Next Mission to Libya (date, content, participants)

As the mandate of the current government runs out on 7 February 2014, it was suggested to hold the nest PSC meeting after this date (in later discussions, it emerged that the mission would have to be pushed into March). A tentative schedule for the mission week is presented below. Notably the lead SME expert would join the mission and stay in Tripoli to work with the project working group on planning the execution of Component 2.

<u>*First day*</u>:

- PSC meeting: Presentation of the inception report, 2030 discussion paper, approval of pilot sectors, introduction of the lead SME strategy consultant, and discussion of the contributions and engagement of the different Libyan institutions.

- It was suggested to hold a small donor coordination meeting, including Libya Enterprise, following the PSC meeting.

Second day:

SME Policy Index workshop: Review and complete some dimensions. One should also send material to the participants in advance, asking them to prepare input where appropriate.

Consultations for the completion of the growth diagnostic – primarily with the Central Bank of Libya, the Ministry of Planning, and the Ministry of Finance (OECD will provide a list of questions to discuss and clarify).

Third day:

- Training on sovereign wealth funds
- Consultation between the lead SME expert and local institutions
- Bilateral meetings (to be defined later)

b. Tentative schedule for next missions:

The OECD will tentatively conduct four missions during 2014. This schedule is indicative and the validation of the missions will depend on the overall situation of the country.

	Month:	March				April				May				June				September				October				November				December			
	Week:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Third mission	**Project Steering Committee and trainings**																																
Fourth mission	**Business Climate Review**																																
Fifth mission	**Project Steering Committee and trainings**																																
Sixth mission	**Presentation of the SME strategy**																																

4. Inception report

The inception report will contain detailed discussion of all project activities, suggesting modifications and resource reallocation where necessary. The inception report will be presented during the next PSC meeting. OECD will work on a first version of the inception report to present to Libya Enterprise.

SME Policy Index in Libya

10 December 2013

Background

The SME Policy Index in Libya is a central activity of the SME development strategy, which takes part in the diagnostic study (component 1) of the strategy to provide an assessment of enterprise development policies in Libya.

The SME Development Strategy in Libya seeks to enhance entrepreneurship and SME development by strengthening the overall legal and institutional framework. As economic diversification is key to providing employment and income opportunities, the Libyan Government needs to establish an SME development strategy to promote enterprise creation. To this end, this 3-year project will provide a clear roadmap with comprehensive measures including 5 components:

- ✓ Component 1 is a **diagnostic study** providing an in-depth look of the SME environment in Libya;
- ✓ Component 2 develops through a participative process the actual **SME development strategy;**
- ✓ Component 3 develops, as part of the implementation of the strategy, the necessary **legal framework for enterprise development**, proposing amendments and, if appropriate, a separate SME law;
- ✓ Component 4 provides a substantial **implementation assistance**, covering both general institutional capacities and the design and implementation of key projects;
- ✓ Component 5 proposes a comprehensive programme to improve **access to finance** for SMEs and start-ups. It will be implemented in close collaboration with the Islamic Development Bank.

The SME Policy Index in Libya

The SME Policy Index is a tool to support policy makers in tapping the full potential of SMEs as drivers for job creation and economic growth. The Index covers areas of key relevance for enterprise development and builds on a set of policy indicators measuring the performance of Libya in each of those areas.

The main objectives of the SME Policy Index are:

- ✓ Identify strong and weak points in policy design and implementation to provide a list of priority actions for reform;
- ✓ Analyse and debate key thematic issues on SME policy elaboration and implementation;
- ✓ Facilitate dialogue and programme co-ordination between policy-makers, private sector organisations, NGOs and donors;
- ✓ Provide a monitoring and evaluation instrument for governments and the SME and donor community.

Objective of the meeting

The meeting aims to review the previous assessment of dimensions 2, 4, 5 and 6 (Bankruptcy and second chance, streamlining public administration to be responsive to SMEs needs, adapting public policy tools to SMEs needs and access to finance*)* of the SME Policy Index, identify gaps for discussion and provide elements to fill in these gaps. The meeting will also focus on addressing a new dimension "Designing rules according to the "Think Small First" principle which focuses on the institutional and regulatory frameworks for SME development.

Participants

The meeting gathered representatives from public institutions involved in enterprise development in Libya, the private sector, and independent experts.

Participants		
Mr. Abulghasem Mrabet	Strategic Partner Manager	Libya Enterprise
Ms. Honida Mhani	Project Assistant	Libya Enterprise
Mr. Ahmed Belhaj	Head of the Financial Unit	Libya Enterprise
Mr. Ahmed Jallala	Applied Economist	
Mr. Moukhtar Eltaouil	Researcher specialised in SMEs	Misrata University
Mr. Hamed Abdallah	Former Director of Libya Trade Net	
Mr. Antonio Fanelli	Deputy director of the Private Sector Development Division	Global Relations Secretariat, OECD
Mr. Anders Jönsson	Project Co-ordinator	Global Relations Secretariat, OECD
Mr. Fares Al Hussami	Project Co-ordinator	Global Relations Secretariat, OECD
Mr. Rayann Koudaih	Consultant	Global Relations Secretariat, OECD
Ms. Sahar Raad	Libya Country Economist	African Development Bank
Ms. Marjorie Chapin	Chargée de mission	ADETEF representative

Agenda of the meeting

08:30-09:00	**Registration and coffee**
09:00-09:15	**Opening session**
	Welcoming remarks • **Mr. Abulghasem Mrabet,** Strategic Partner Manager, Libya Enterprise • **Mr. Antonio Fanelli**, Deputy Head, Private Sector Development Division, Global Relations Secretariat, OECD
09:15-11:15	**Session 1: Review of preliminary results of selected dimensions**
	Participants will review the preliminary findings of the following dimensions of the SME Policy Index. The session will focus on identifying gaps for discussion and providing elements to fill in these gaps. – *Bankruptcy and second chance* – *Streamlining public administration to be responsive to SMEs needs* – *Adapting public policy tools to SMEs needs*

	– *Access to finance* • **Mr. Antonio Fanelli**, Deputy Head, Private Sector Development Division, Global Relations Secretariat, OECD **Discussion**
11:15- 11:30	**Coffee break**
11:30-13:00	**Session 2 : Preliminary results of dimension 3 of the SME Policy Index: Designing rules according to the "Think Small First" principle**
	Participants will discuss the preliminary findings of the following dimension of the SME Policy Index. The session will focus on identifying gaps for discussion and providing recommendations for the assessment process. – *Designing rules according to the "Think Small First" principle* • **Mr. Abulghasem Mrabet,** Strategic Partner Manager, Libya Enterprise **Discussion**
13:00-13:15	**Conclusions and next steps**

Minutes of the meeting

Dimension 6: Access to finance (see presentation):

Participants acknowledged the need to look at major constraints to enterprise development before addressing access to finance. These include:

- A weak business climate
- Lack of co-ordination of enterprise support policies
- An economy largely dominated by the public sector, either directly or through SOEs
- Lack of good investment projects – most project ideas focus on low-hanging fruit in existing sectors such as trade
- No fair competition law: Al Nassim controls large parts of the market and make it difficult for private enterprises to compete efficiently. The only solution is to start from the demand side not the supply side, the state has to take measures to allow open access to markets.

A dysfunctional financial sector in Libya is characterised by, *inter alia*:

- **A conflict of interest within the banking sector**: the Central Bank owns most of Libya's commercial banks and is also the regulator.
- **Huge collateral requirements for start-ups:** up to 150%. The Government has created a body to guarantee loans up to 70%.
- **Low levels of financial intermediation:** credit to the private sector is a mere 17% of GDP, mostly financing working capital rather than longer-term investment projects.

The Government established a number of **incubators** to support the development of viable, innovative projects. The experience has not been very successful so far because funding has been insufficient. The government is creating 5 regional funds that would offer both technical and financial support to entrepreneurs.

A conflict related to **project evaluation** exists between banks, guarantee bodies and entrepreneurs. A typical situation is when an entrepreneur submits an idea for business, which is reviewed by Libya Enterprise then forwarded to the guarantee body which also reviews the idea, remodel it and submit it to the bank. This kind of dysfunctional process changes the whole project and makes banks reluctant to finance up to 30% of the project. One attempted solution was to seek funding from international organisations, which have strict legal requirements. Moreover, international investors cannot move to the country and support a project.

Land ownership and property rights are still an issue in Libya: A cadastre exists but an owner can lose his land from a day to another, which leads to a problem of guaranteeing loans. Banks do not want to take the risk to give loans based on land collateral. Property rights suffer also from tribal lands, a new law needs to be drafted.

Banking sector composition: 4 specialised public banks exist in Libya, but there is a problem of price land evaluation. There are 3 or 4 private banks that do not benefit from guarantee schemes for instance. Commercial banks do not have risk management unit to evaluate investment.

Loan guarantee scheme: There is a Credit Guarantee Scheme in Libya that operates under the Ministry of Economy. However, the process for commercial banks to be reimbursed in case of business failure is still very long: 6 to 7 years. Even with the new 5 regional funds which are funded by the national budget, the same problem will remain in the sense that these funds give 25 per cent in equity and guarantee the rest in the form of loans from commercial banks.

What happens when the funds are out of money? How do we encourage banks to give loans with fewer guarantees from the state? The funds are only a temporary solution help private sector development.

Medium-sized enterprises face other challenges in accessing finance such as no movable asset registration, unreliable financial statements…

If the Government wants to keep giving funds to companies, it needs to make sure that these companies will yield some sort of social return, for instance companies going to a new sector. Giving a signal that this sector is profitable is the kind of social return the state should ensure. Going into trade for example is not a good idea. It creates no added-value to the economy, especially that big companies are already there and have huge capital that Libyan companies will never be able to match.

Credit information services: the Central Bank created a credit bureau to monitor the creditworthiness of companies and individuals, but it is not operational. Electronic systems exist between banks for transactions. One cannot open more than one bank account per person in Libya by law and this is checked by one system. There is a Libyan national number unique for each person to identify bank accounts. There are currently 35000 companies registered in the Ministry of Economy.

Islamic finance: A law was recently issued by the National Congress stating that all commercial banks should shift to Islamic finance. The shift causes many problems: not all banks are ready to shift; huge transaction costs are linked to the shift; new products such as *Mourabaha* are already being sold; existing loans have to be redenominated by 2015, which involves a lot of transaction costs; and implementing regulations have not yet come out. Other problems add to those: the role of the Central Bank needs to be clarified and according the World Bank there is no framework for microfinance.

Dimension 4: Company registration (See presentation)

The **company registration process** in Libya is relatively slow and complex. Although the assessment indicated that it costs 90 euros to obtain a company registration certificate in Libya, participants noted that the cost in practice is much higher. Participants also noted the high minimum capital requirements for starting a business, reaching LYD 5000 (approximately 2900 euros).

It is relatively easy to establish a local company with procedures lasting one week maximum. Procedures become much more complex when a foreign company wishes to have participation in a local company. Legally speaking, one cannot start a business and operate without a licence.

A **one stop-shop** (OSS) was established before the revolution. All notaries have access to the OSS to facilitate registration. After the revolution, a problem of centralisation appeared. For instance, a notary in the East of Libya had to fly to Tripoli to finalise the process. To solve this issue, the Ministry of Economy issued a decision that OSS will not be in charge of registration anymore. Only in Tripoli, a business can be registered in an OSS. Companies can register in the Ministry of Economy branches in regions but the process is centralised.

Dimension 5: Business support services (see presentation)

Libya Enterprise is not the only **business development service** (BDS) provider. A new institution has been established under the Ministry of Labour which has created job centres operating as business centres in different cities. The War Veteran Association is also a BDS organisation which operates in 3 cities: Benghazi, Tripoli and Sebha and has the intention to expand. The organisation is targeting 70 000 veterans (not all of them will start businesses) which have new business centres and incubators already operating. There appears to be considerable confusion as to the extent to which these services complement or overlap with each other; in particular, there appears to be few checks and balances in place to ensure that valuable resources are allocated to the most viable and strategically valuable projects. As a consequence, the need for a strategy to provide guidance based on a firm understanding of resources available and binding constraints in the economy is patent.

Libya Enterprise (LE) manages business centres in most the regions. It appears that the coaching process of Libya Enterprise for entrepreneurs needs to be upgraded and intensified. No business plan is required from entrepreneurs, only a cost-benefit analysis (feasibility study). Up to date 600 entrepreneurs came to LE which received more than 100 feasibility studies. Candidates can then go through a training process which is optional and only lasts for 8 days. LE relies on university staff for trainings, who might not have the qualifications as they are not professional trainers. Moreover, LE does not provide follow-up services but only basic services to start-ups and not to existing SMEs.

The law on **public procurement** needs to be updated. A procurement committee exists but only has small amounts of contracts. A tender committee also exists. In case of a foreign partnership, an approval is needed from the Prime Minister's office directly which makes it more complex for public procurement. As a significant portion of GDP is disbursed through public procurement, this is perhaps the single most important lever for promoting enterprise development and encourage linkages and partnerships between Libyan and foreign companies.

Industrial law allows people to work in the private while being in the public sector; the labour law forbids it.

Institutional framework

Co-ordination between public institutions: There are three main public institutions involved in enterprise development policies in Libya: the Ministry of Economy, the Ministry of Industry which control state-owned enterprises through the General Authority for Industrialisation and the Chambers of Commerce; and the Ministry of Labour. There is a lack of co-ordination between these institutions. Even within the Ministry of Economy, there is no co-ordination for instance between Libya Enterprise, the Investment Board and Libya Trade Net. The private sector is rarely involved in the consultation process with the government. The issue is also who would represent the private sector? In other MENA countries, the typical structure under the Ministry of Economy would be to develop a strategy to co-ordinate all initiatives and build consensus around them.

A new SME policy unit will be established under the Ministry of Economy. The unit will have 3 departments: policy evaluation, monitoring and evaluation, and international relations. The unit is not yet functional, but will most probably focus on managing the regional funds to be established.

SME strategies: Different SME strategies from before the revolution till now: 2008 -2018 strategy, each ministry has its own strategy, also 2030 and 2040 vision. No single legislation.

Next steps

Participants agreed to contribute to the next assessment of Dimensions 7 and 10 of the SME Policy Index which deal with SMEs' international trade. A major contribution will be done by Mr. Hamed Abdallah, Former Director of Libya Trade Net, which is currently developing a single window that will link all authorities to ports, customs and shipping agencies and will be completely electronic. The single window will be supervised by a Board of Ministers chaired by the Ministry of Economy with the collaboration of the Ministry of Finance, the Central Bank, the Ministry of Roads and Bridges and the Ministry of Planning.