Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Libya

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Libya's economy is heavily dependent on its hydrocarbons industry, which accounts for over three-quarters of output. The Agriculture and Fishery sector is estimated at 0.560 Billion US$. Sector share in GDP in 2017 is 1.16%.[1] As the majority (80%) of the Libyans live in urban areas, where financial service providers are present, the financial account ownership rate stands at 65.7%.

However, credit card ownership and online payment remain low rates at 10.3% and 21% respectively. And the large-scale refugee crisis has largely increased the number of unbanked individuals. All this leaves **much room for the expansion of DFS in Libya.**

LIBYA: KEY COUNTRY STATISTICS

6.7 million total

Population
Adults: 4.2 million
80% Urban (5.36m) | 20% Rural (1.34m)

3.19 million

Internet users
46.2% **(+18.2%)**

Mobile subscriber penetration:
5 million (75%)

Mobile connections penetration*
168.1%
of population (+2%)

Broadband connections (% of all connections)
82.4% (+2.4%)

Sources:
1 World Bank, 2017
(*) The high rate of mobile connections penetration is explained by the existence of two mobile operators with attractive packages which leads to multiple SIM ownership per user. Source: https://datareportal.com/reports/digital-2021-libya

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Creating Markets, Creating Opportunities

IMPACT OF THE COVID-19 PANDEMIC

The impact of the COVID-19 pandemic in Libya is compounded by recent shocks and on-going crises affecting the country such as the intensifying conflict that suffocates economic activity, decreasing oil prices that reduce income from oil production in surviving fields. In 2020, the country's real gross domestic product (GDP) declined dramatically by over 60%, one of the sharpest GDP contraction in North Africa.[2] As the long-running liquidity crisis continues, in a recent World Bank survey, only 4% of households reported being able to make purchases using cash withdrawn from banks over the past month, while more than half of the traders who participated in that survey reported accepting only cash. Inability to access money service providers, a poorly functioning internet, and recurrent power shortages continue to hinder the use of electronic payments.[3]

DFS MARKET OVERVIEW

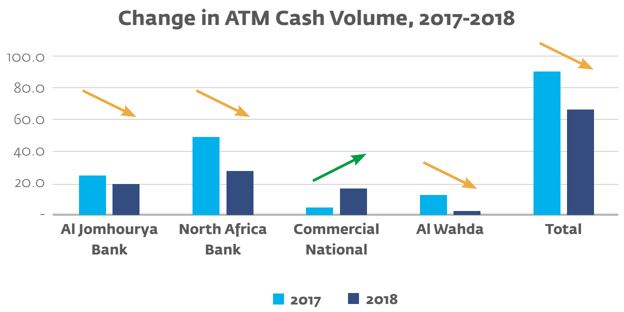
A dynamic DFS sector dominated by banks

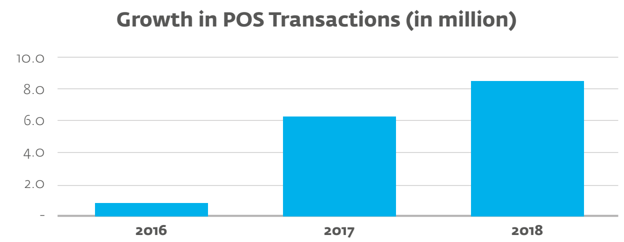
- The majority of banks and telecommunications companies are state-owned, reducing incentives for private innovation.
- Many banks have launched multiple versions of mobile apps and digital services.
- The Central Bank of Libya is backing initiatives like the fintech MIZA, with its mobile wallet, that has successfully enrolled more than 300 000 users since 2017.
- Other fintech startups like Floos-E have exited the market due to insufficient consumer response.

Rising retail transactions

From 2013 to 2018, the number of ATMs has continued to decrease because of the civil war and cash unavailability. In the meantime, POS transactions have increased nearly sixfold in two years (2016-2018) with 80% of POS terminals geographically concentrated in the northwest strip of the country. Shortages of bank notes and limits on weekly cash withdrawals resulted in consumers reducing their cash purchases to essential goods. As retailers began feeling the effects of the lack of liquidity, they reluctantly but increasingly began to accept POS transactions to keep their business.

There are nearly no big e-commerce players in Libya since supply chains and delivery channels are broken mainly because of the on-going conflict. One of the notable players is Zanomy, an online retailer.





Source: theglobaleconomy.com / Muamalat

DFS innovation coming from multiple sectors

- Assaray Trade and Investment Bank (ATIB) announced in December 2019, that it is introducing **biometric identification** as part of its digitization process that should be completed by 2022. eKYC can greatly **accelerate financial inclusion.**
- ATIB has also launched the **first microfinance institution** in Libya with the help of the UK Ministry of Development and International Cooperation and Expertise France.
- New DFS are emerging such as the launch of Medicate, the first Libyan company to issue **health cards** that include options to receive discounts and make payments.
- **The World Food program runs a large-scale e-voucher assistance program:**
    - Close to **10,000 beneficiaries** in Tripoli and Zwara received commodity vouchers for the redemption of food assistance at local stores. In the month of January, this assistance was valued at **198.000 US$.**
    - These **SMS-based e-vouchers** have the triple benefit of restoring dignity to beneficiaries, stimulating the economy, and strengthening the technological capacity of local partners.
    - Following the successful piloting of this voucher modality in 2020, **WFP plans to scale-up its use of vouchers in 2021** to reach more beneficiaries in urban areas, where feasible, with a positive multiplier impact on local markets.

GAPS AND CHALLENGES

The DFS sector faces many challenges related to **weak financial infrastructure, financial inclusion and access, regulatory and legal framework** as well as the effects of the **economic crisis and liquidity shortages.**

Financial Infrastructure

- **The land registry is dysfunctional with no movable assets registry.**
- The Libyan Credit Information Center created in 2009, provides limited information, and quality is a concern, resulting in banks **inability to assess risks** and returns on SMEs financing.
- A national switch has been instituted, but **not all banks** are yet connected.

Financial Inclusion and Access

- In 2015, only **2% of private firms** reported having a **loan or credit** from a bank due to a lack of financial infrastructure.
- Refugees and migrants are excluded from accessing formal financial services putting them at risk of **robbery** with **no safe place** to store and **limited money transfer options.**

Sources:

2 *The Economist Intelligence Unit. Libya Briefing Sheet, March 1st 2021.*

3 *World Bank. Libya Economic Monitor. Spring 2021*

Regulatory and Legal Framework

- **There are two separate central banks** with separate compensation systems each aligned with one the two government systems in place in the country.
- **There is a need to develop legislations** for Electronic Transactions, Consumer Protection, Privacy and Data Protection, and Cybercrime.
- A revised telecommunications regulatory framework has been drafted but is not approved.
- A consumer protection law was drafted in 2010 but has not been adopted.
- An interest proscribing law to cover broader business cases including non-bank financing need to be drafted.

Economic Crisis

- The **GDP growth rate** decreased by **66.7% in 2020.**
- The civil war and many conflicts have damaged infrastructure and **broken value chains and business networks.**
- The country's oil production and exportation since 2013 has cost Libya **$180 billion in losses.**
- The country suffers from widespread **power outages** caused by shortages of fuel for power generators.

Liquidity Crisis

- The financial system has suffered for years because of the liquidity crisis caused by the **black market dominance** over foreign currency exchange.
- To face the problem, the two Central Banks **agreed to devaluate** the Libyan Dinar to counter the black market with an official new rate. The first reports show that it was a **successful strategy,** and the crisis is on its way to be resolved.
- The **informal sector** plays a major but hard-to-quantify role. By 2018, almost **30% of Libya's cash** was outside the banking system.

OPPORTUNITIES FOR MARKET GROWTH

Opportunities to expand the use of DFS exist by addressing issues related to financial infrastructure and services, customer acquisition and distribution networks, as well as the regulatory and legal framework.

Financial Infrastructure & services	**Enrollment and distribution** (Customer Acquisition and Distribution Networks)	**Regulatory and Legal framework**
• Deploy mobile wallets to increase digital payments adoption and resolve liquidity crisis sustainably and in a highly scalable way. • Mobile wallets can also help building transactions history and improve access to credit and encourage users to save money. • Improve risk assessment by building the missing financial infrastructure, including land registry and collateral registry, restructuring the Libyan Credit Information Center, to ease access to credit and revitalize economy.	• Achieve full interoperability between banks via the national switch to make financial transactions seamless and financial institution agnostic. • Launch agents banking to extend retail banking limits, accelerate DFS adoption, and increase financial inclusion. • Deploy eKYC to significantly accelerate financial inclusion and unbanked customers' enrollment. • Digitalize value chains to accelerate trade activities, improve transactions traceability and protect from robbery.	• Deploy legal regulations for eCommerce to protect vendors and customers and drive up online sales. • Build a sandbox within the central bank to encourage Fintechs to dare to innovate and safely test new solutions. • Create fiscal incentives for cashless payments usage to accelerate vertical adoption and encourage investments in cashless economy. • There is a growing demand for Islamic banking products and services that a practical regulatory framework must accompany. • Reinforce national switch's role to centralize transactions and improve interoperability.

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