THE FLETCHER SCHOOL
TUFTS UNIVERSITY

The Sovereign Wealth Fund Initiative
December 2011

The Libyan Investment Authority Question Mark

By Patty Ye Cao[1]

I. Antecedents of Libyan Investment Authority

The Libyan Investment Authority (LIA) was established in 2006 by the General People's Committee of Libya to manage the country's vast oil revenues and, according to its website, to "diversify the dependence of national income." Libya's mounting current account surplus, which was about 30 percent of national GDP in 2010, is the sole source for its sovereign wealth fund. As a fresh face fund, LIA uses external fund managers, including bulge bracket banks and private equity firms, to manage a large portion of its portfolio. Despite—or perhaps because of—its size, LIA is among the most opaque sovereign wealth funds, rated a "2" in transparency when dealing with outside scrutiny.[2] The fund was valued at $64.9 billion by the end of June 2011.[3] Much of its assets are highly liquid, with 78 percent in short-term investment; therefore, LIA is able to participate in international equity-raising deals. Long-term investments totaled more than US$8 billion and represented stock purchases of 107 firms, of which 65% were located in North Africa, 20% in Asia and 15% in Europe, North and South America. The LIA has invested heavily in Europe and Africa, in sectors ranging from property, industrial, banking and beyond. Representative holdings of LIA's assets around the globe are presented below:[4]

---

[1] Patty Ye Cao is a Research Assistant, Sovereign Wealth Fund Initiative at The Fletcher School, Tufts University.
[2] "Libyan Investment Authority," Sovereign Wealth Fund Institute. Available at http://www.swfinstitute.org/swfs/libyan-investment-authority (accessed 5/8/2011).
[3] "Exclusive: Libya wealth fund cash to finance reconstruction," Reuters, November 10, 2011. Available at http://www.reuters.com/assets/print?aid=USTRE7A94IW20111110 (accessed 11/11/2011).
[4] Alistair Dawber, "Oil-fuelled wealth spreads far beyond Libya," *The Independent,* March 1, 2011.

Italy
$20 Billion in bonds and 1% of Eni SPA (Italian oil company)[5]
2% of Finmeccanica (an Italian aerospace company)
7.5% of UniCredit (making Libya the single largest shareholder)
2% of the Italian car manufacturer Fiat
above 7.5% of the arguably the country's best-known football club-- Juventus
UK
0.2% of RBS, now 84%-owned by the Treasury
3% of Pearson, publishers of the Financial Times
£155m Portman House - 146,550 square feet of retail property on Oxford Street
£120m 14 Cornhill, opposite Bank of England
Others
above 1% of Rusal, Oleg Deripaska's aluminium firm
24% of Circle Oil, with assets across Africa and Middle East

II. 2011 Political Turmoil and Libyan Asset Freezes

Colonel Muammar al-Qaddafi's position in power, which had been secure until this year, came under unprecedented pressure in February 2011 following the eruption of anti-regime protests in the second biggest city, Benghazi. It then spread throughout the country. The United Nations authorized the implementation of a no-fly zone over Libya to protect civilians on 17 March through Resolution 1973.[6] The UN resolution also called on all nations to immediately freeze assets in their countries held by Libyan leader. Although there were split opinions within European Union Council, the vast majority of LIA's assets were frozen, as confirmed by UniCredit's struggle in raising its Core Tier 1 capital.[7] During the uprising, the rebels in Libya reached out to the U.S. to seek financial assistance, specifically asking for the usage of frozen assets or to have it applied as collateral for loans. Now, in the aftermath of Qaddafi's fall, the future utilization of $65 billion in fund assets remains uncertain.

III. Future of Libyan Investment Authority

Political risks involved in either operating in the country or being associated with Libyan capital remain high. Several international companies evacuated their staff from Libya amid the unrest. The economic disruption severely damaged the country's operational environment and set back its efforts to regain its foothold as a strong economic powerhouse in North Africa. Many zealous investors in Africa, including China,

[5] Boris Groendahl and Olivia Sterns, "Libyan fund owns $20 billion in bonds, about 1% of Italy's ENI, Zarti says," Bloomberg, March 9, 2011. Available at http://www.bloomberg.com/news/2011-03-09/libya-owns-20-billion-in-bonds-about-1-of-eni-zarti-says.html (accessed 5/8/2011).
[6] IHS Global Insight. Available at http://myinsight.ihsglobalinsight.com.ezproxy.library.tufts.edu/servlet/cats?filterID=1154&serviceID=4078&typeID=34614&pageContent=report&pageType=ALL (accessed 5/8/2011).
[7] "Libya impacts on UniCredit capital raising," Banking Newslink, April 21, 2011. Available at http://www.bankingnewslink.com/factiva

have halted their investments until order and clarity are restored.[8] The hardest hit to LIA's portfolio is its investment in LAP Green Network, a telecom company. The nearly $1 billion investment is currently in default, with a loss of at least 20% expected.[9]

Unfreezing LIA assets will return them to active management. Because ownership of LIA assets is with the Libyan people, assets should be unfrozen once political and social stability has been secured. Real GDP and trade surplus are expected to be in contraction; in the meantime, oil output will shrink dramatically due to the damage to exploration facilities and infrastructure. The new government appears ready to support the LIA despite its prior links to the Qaddafi family. Institutionally, it is one of few created out of Libyan foreign reserves, which has the potential to manage the post-rebellion reconstruction. Because of the short-term bias of its prior investment strategy, the LIA will be able to channel its liquid assets into direct reconstruction efforts and tamper inflation until oil production finally recovers. However, few investment decisions are likely to be made until a new Libyan government seats a permanent management team for the sovereign fund.

IV. Conclusion

Established after the UN sanctions were lifted, the LIA had been advancing until the sudden halt earlier this year. Since March, most countries have imposed sanctions against Libyan assets, including the LIA. With the majority of its holdings frozen, the LIA cannot function normally. This will impact its performance well into 2012. Well-established companies and institutions that have Libyan stakes are suffering from the negative publicity and a liquidity squeeze in the short term. The medium- and long-term outlook of Libya's political environment is extremely uncertain and raises the possibility that the country's economy will enter a period of prolonged disruption.

Given that rehabilitating Libyan domestic economy will be the priority in the future, part of LIA's investment strategy should include a domestic component to focus on providing near-term economic stability and long-term economic growth. As reported, liquid instruments—cash, equities and fixed income products—account for approximately 77% of total LIA assets under management. This liquid component may be used to finance reconstruction and rebuilding local economy. Accordingly, investors might expect a contraction of the fund and possible divestitures once assets have been unfrozen.

[8] Ding Qingfen, Shen Jingting and Zhou Siyu, "China halts Libya investment," China Daily, March 22, 2011. Available at http://www.chinadaily.com.cn/bizchina/2011-03/22/content_12207268.htm (accessed 5/8/2011).
[9] Ibid 2.