

Investigating The Libyan Conflict and Peace-Building Process: Past Causes and Future Prospects

Amal Hamada, Melike Sökmen and Chahir Zaki

INVESTIGATING THE LIBYAN CONFLICT AND PEACE-BUILDING PROCESS: PAST CAUSES AND FUTURE PROSPECTS

Amal Hamada¹, Melike Sökmen² and Chahir Zaki³

Working Paper No. 1383

March 2020

This paper was prepared for the ERF project on Conflicts, Governance and Post-Conflict Economic Transition in War Afflicted Countries. The project is led by Samir Makdisi, Raimundo Soto and Ibrahim Elbadawi. The Project will be completed by 2021 with special thanks to the Ford Foundation. We are grateful to Marie Gaigne and Zelig Gankon for excellent research assistance.

Send correspondence to:
Amal Hamada
Cairo University
amalhamada@feps.edu.eg

¹ Assistant Professor of Political Science, Faculty of Economics and Political Science, Cairo University.

² Independent researcher, email: msokmen@ku.edu.tr

³ Associate Professor of Economics, Faculty of Economics and Political Science, Cairo University, Project leader, email: chahir.zaki@feps.edu.eg

First published in 2020 by
The Economic Research Forum (ERF)
21 Al-Sad Al-Aaly Street
Dokki, Giza
Egypt
www.erf.org.eg

Copyright © The Economic Research Forum, 2020

All rights reserved. No part of this publication may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without permission in writing from the publisher.

The findings, interpretations and conclusions expressed in this publication are entirely those of the author(s) and should not be attributed to the Economic Research Forum, members of its Board of Trustees, or its donors.

Abstract

Libya has been in continuous civil conflict with varying intensity since the Arab uprisings in 2011. It has suffered from recurrent cycles of social, political, security and economic crises, each reinforcing one another. State institutions and the economy have weakened thus facilitating fragmentation, disunity and dysfunction, creating fertile grounds for violence and a war-driven economy. The regional and international powers have been adding to the complexities of the conflict and the difficulties of its resolving. Against this background, this paper aims to analyze the social, political and economic dynamics of Libya from the local to the regional and international levels since the start of the uprisings, and understand the interplay between these forces. It aims to look at three issues: (1) the underlying causes of conflict, (2) why the conflict has sustained and (3) the political and economic agenda for post-conflict reconstruction. In other words, it aims to bring forward an inclusive agenda of peace-building and economic reconstruction, in line with the dynamics of the country.

Keywords: Libya, Civil war, Post-conflict, Peacebuilding.

JEL Classifications: D74, Q34.

1. Introduction

The MENA region has been affected by cycles of conflict, be it armed interventions, non-state conflicts or civil conflicts. It witnessed an increasing number of conflicts during the late 1970s and 1980s resulting from the Cold War era, when the superpowers and their allies fought and supported a broad range of wars and minor conflicts. While the second half of the 1990s was more peaceful than the first half, the decade again witnessed violence in the region. Finally, since December 2010, MENA countries have experienced a wave of protests, uprisings, and demonstrations collectively referred to as “The Arab Spring”.

Libya has been in continuous civil conflict since the Arab uprisings in 2011. As of July 2019, it has suffered from recurring cycles of social, political, security and economic crises that reinforce one another. This has led to increasingly weak state institutions and a deteriorating national economy, all of which have facilitated fragmentation, disunity, and the creation of fertile grounds for continued violence and a war-driven economy. Despite national and international initiatives to achieve national reconciliation, Libya has been unable to turn its initial post-2011 revolutionary success into a transition to a stable and inclusive system. Indeed, political polarization escalated into open armed confrontation in July 2014, leading to the establishment of parallel and rival governance structures and making reunification a major challenge.

The later months of 2019 and early 2020 have brought increasing levels of threats that would complicate the situation in Libya. Regional competition among countries such as Egypt and Turkey are spilling over to domestic politics in Libya.

Given the social composition of its society, the stabilization of Libya requires the consolidation of peace between its politically polarized groups, without the exclusion of any given party in the conflict. Negotiated settlements are vital for preventing the toll of the conflict on the already fragile state institutions, the economy, and the depletion of Libya’s financial reserves. That some local ceasefire agreements are already in place indicates that there is space for resolving disputes through dialogue.

This paper focuses on three major issues: (1) understanding the underlying causes of conflict, (2) identifying the potential peace-building efforts and political transitions in the post-conflict phase, and (3) proposing an economic agenda for post-conflict reconstruction. It brings forward an inclusive agenda of peace-building and economic reconstruction in line with the dynamics of the country. This agenda requires identifying priorities (e.g. political reconciliation), constraints (e.g. lack of transparency, lack of reliable and rigorous data), political challenges (e.g. the presence of powerful parallel governance structures) and necessary resources (e.g. civil society actors, international cooperation), as well as economic challenges (economic diversification, macroeconomic policies, infrastructure, access to finance, trade policies and investment climate).

The remainder of the paper is organized as follows. Section 2 presents an overview of the development path prior to 2011 focusing on both its economic and political dimensions.

Section 3 explains why the conflict was sustained. Section 4 analyzes the economic cost of war. Section 5 shows how Libya can move from an exclusive to an inclusive model of development at both the political and economic levels. Section 6 concludes.

2. Overview of the Development Path Prior to 2011

2.1. Political Background

On the basis of our study of the political and socioeconomic map of Libya prior to 2011, we argue that three different elements have contributed greatly to the emergence of the conflict, its continuation and militarization, and the challenges. These are the particulars of the state-society relationship, the absence of strong state institutions, and the militarization of tribes and radicalization of Islamic groups. In order to articulate these elements, we briefly review the birth and conformation of modern Libya.

The concept of a modern nation state is relatively new and controversial in the Middle East in general (Ayubi 1996, Ghalioun 2015, Sika 2014). Historically speaking, Libya did not have a legacy of central government control. Situated between the grand Maghreb and Egypt, the country historically served as a passageway for trade and pilgrimage from North Africa to the Arabian Peninsula. It had a social structure with strong tribal presence in three locations: Cyrenaica, Tripolitania, and Fazzan. Each of these three locations enjoyed relative independence and conflictual relations with colonial powers (British, French, and Italian). Libya gained independence from Italy in 1951 under the strong leadership of Muhammad Idris Al-Mahdi Al Senusi, the prince of Cyrenaica, who inherited the leadership of the Al Senusi religious/Sufi movement that had a long history of fighting colonialism and playing the role of mediator between different tribes (Varvelli et al: 2017).

2.1.1. State-society relations

During his tenure, the King built his legitimacy on playing the balancing role between competing political and tribal forces and symbolizing the national identity of the newborn state (Golino 1970). The discovery of oil in the late-1950s granted the King with substantial resources to build new state institutions and, more importantly, to improve the living conditions of the small population (around 2 million) and thus increase the legitimacy of the regime. With oil revenues came rising hopes of prosperity, which materialized with relatively fair distribution among Libyans. Using oil revenues, the new monarchy was able to become the major employer, hiring 40.000 out of the 160.000 Libyans constituting the workforce. By the end of the sixties, economic growth was among the highest worldwide, reaching 20% (Vandewalle 1986). Revenues were also used to empower the state, which, in 1963, abandoned the federal system and drafted a new constitution of a unitary state. Nevertheless, dissatisfaction with the rule of King Idris mounted from two segments of the society: the first included people who were influenced by the rising fever of Arab Nationalism in neighboring states (mainly Egypt) and the second segment comprising those concerned about high levels of corruption in the oil industry. On the other hand, the political system was not able to deal with increasing dissatisfaction. The monarchy was outdated, state institutions were not fashioned to reflect people's demands and the ruling elite was isolated from the society (Kawczynsky 2011).

In less than two decades, the Senusi rule came to an end at the hands of the young Lieutenant Muammar Qaddafi in September 1969. Qaddafi, with the help of a group of young officers, led a successful military coup against the King who was abroad on a summer trip. The coup soon gained recognition from the Arab and Western world and a new era started with “free officers” taking control of the country and encountering very little resistance from the people, the elite, or the main tribes. Qaddafi had a different understanding of the role of the state (ideology, approach to the economy and the role of the state) and, in 1973, decided to replace the old format of state institutions with the “Jamahiriya”. The new format was supposed to promote popular engagement in politics and enable citizens to be part of the decision-making process rather than confining management in the upper levels of the state institutions. Committees were formed from neighborhoods upward to the highest levels of the state. On the other hand, and out of distrust of the old elite -university graduates and old technocrats- Qaddafi purged state institutions and created a new elite with different social and professional backgrounds to step in and manage the state. He dismantled the old network that was corrupt yet experienced in running state institutions, especially the oil industry. Detested in the beginning by Qaddafi and his entourage, the tribal structure of the Libyan society nevertheless remained powerful. Qaddafi was able to destabilize the old power balance and force a new arrangement, through which the marginalized and less powerful tribes allied with the state and forced other strong tribes to follow lead (Ladjal 2016). The power of money (from oil), ideology (Arab nationalism) and force (intimidation) secured the new regime for more than four decades under Qaddafi and enabled him to progressively get rid of his colleagues from the free officers’ movement. By 1977, Qaddafi was in full control.

2.1.2. Weak state institutions

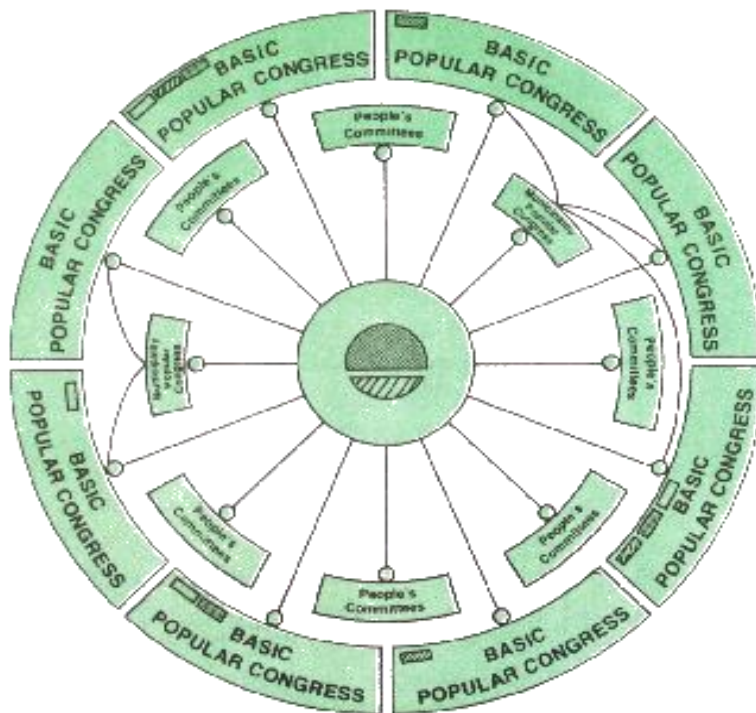
Tribalism was, and remains, the dominant organizational factor in the Libyan society. King Idris tried to respect the tribal system and mirror the state institutions accordingly. With oil revenues came efforts to modernize and urbanize the young society. National education was introduced in order to help create a new national identity, based on loyalty to the state rather than the tribe. The federal system adopted at the time of independence recognized and actually reinforced the power of tribes and deepened the differences between the three main areas of Libya. Federalism was dropped in the early sixties in favor of a unitary state. This should have induced a change in the power structure and state institutions. Yet, the ruling elite remained faithful to their original tribal affiliations and mobilized members from their own tribes for the new ruling elite. In other words, tribal allegiances remained as important as they were before the coup of 1969 (Ladjal 2016).

In the mid-1970s, Qaddafi started to abolish state institutions and laws, including the Sharia law, and replace it with his own ideology developed in the “Green Book”. No laws, no bureaucracy, no professional occupations, just revolutionary entities fashioned along the Green Book to manage state affairs and rule in society disputes (Green Book, 1975).

According to Qaddafi’s new ideology, the world had suffered enough from the failure of socialism and capitalism. Western democratic practices did not guarantee the rights of the people, rather they isolated them in favor of a small elite controlling and manipulating the

masses. He proposed a new universal theory where people would restore their ability to make decisions and control their economic affairs. Rather than misrepresenting the will of the people in modern parliaments, popular committees were to be established in neighborhoods to discuss and manage their affairs. Qaddafi conceptualized tribes, parliaments, class and political parties as destructive, misleading, and having divisive effects on society. He stated that “this new theory is based on the authority of the people, without representation or deputation. It achieves direct democracy in an orderly and effective form” (Green Book 1975 p. 22) (see Figure 1).

Figure 1. Conception by Qaddafi



Source: The Green Book, p. 24.

What was proposed as direct democracy turned into a one-man show. Qaddafi managed to get rid of most members of the Revolutionary Council. His family members and tribe became his immediate entourage and the actual power holders in the state. Oil revenues were used to finance political and military adventures in Africa and Latin America, serving Qaddafi’s dreams of ruling the world. Over the years, domestic economic conditions progressively deteriorated. What appeared to be an increasingly prosperous society with the discovery of oil in the fifties, turned into a poor society with deteriorating infrastructure and public services.

The tribal system, on the contrary, remained strong mainly for two reasons. The first is Qaddafi’s reliance on tribes and tribal Sheikhs to consolidate his power and compensate for the inability of the state to exert control over the masses. Following a simple patronage system, the government relied on tribes for services and control and, in return, faithful tribal leaders enjoyed support from the state and secured high-level positions and revenues for themselves, their close families, and tribe members. Second, the tribal system provided a sense of identity. With almost no state institutions and only the popular committees, citizens were not able to

develop a sense of loyalty that went beyond local communities, and tribes remained the viable alternative for belonging and protection (Alshadeedi and Ezzeldine 2019).

By the time the Arab Spring reached Libya and people decided to take to the streets in February 2011, the artificial facade of the Jamahiriya fell to reveal the ugly truth of a stateless country. The tribe, which has always been present in serving and protecting the people and keeping the state running, became the working alternative to the Qaddafi regime. Thus, as emphasized in section 4, it is crucial for any reconstruction plans to stress the importance of restructuring the tribal relations with the state and its institutions.

2.1.3. Militarization of tribes and radicalization of Islamic groups

Before 2011, religion had a controversial role. At the political level Qaddafi's Green Book brought a unique understanding for the role of Islam and Sharia in public life, one that did not match any of the existing political and ideological agendas of Islamists in the region. On the other hand, Sufism had a considerable influence on the people, and Islam provided a certain sense of identity combined with Arab nationalism⁴. Nevertheless, Qaddafi's policies created a void that could not be filled with a working ideology. With the demise and the failing of state institutions to guide, serve, and protect, people resorted to tribes for serving and protection. The absence of the state opened room for different Islamist groups to co-exist and operate at different society levels⁵. Jihadists were the most threatening groups to the legitimacy and stability of the Qaddafi regime. Composed of young Libyans who were trained in Afghanistan and Iraq as part of Al Qaeda during the nineties, they returned to Libya and were able to conduct a number of assaults on the regime.⁶ Few years before the eruption of the 2011 revolution, Qaddafi decided to release Jihadi prisoners in an attempt to demobilize Islamists. This policy continued into the early stages of the conflict in 2011, which resulted in hundreds of radical Islamists being released from prison with no guarantee that they had detached from their original affiliations, nor any idea about their future alliances with competing forces on the ground (Boucek 2011). This decision, along with the failing of the state apparatus, rendered security conditions in the streets in total chaos. Reports at the early phase of the conflict revealed an increasing level of violence affiliated with Islamist groups against locals and international dignitaries and facilities (Wehrey 2012).

Qaddafi managed tribes through a "divide and rule" method. Libya being a tribal society in its essence, Qaddafi used tribes to consolidate his reign and bought their support during the early

⁴ Some scholars argued in the late nineties that Militant Islam does not have a chance in Libya due to several reasons; namely Qaddafi imposed ideology and the legacy of Senousi movement. For example, see: Deeb M.K. (1996), *Militant Islam and its Critics: The Case of Libya*. In Ruedy J. (eds) *Islamism and Secularism in North Africa*. Palgrave Macmillan, New York. Pp. 187-197.

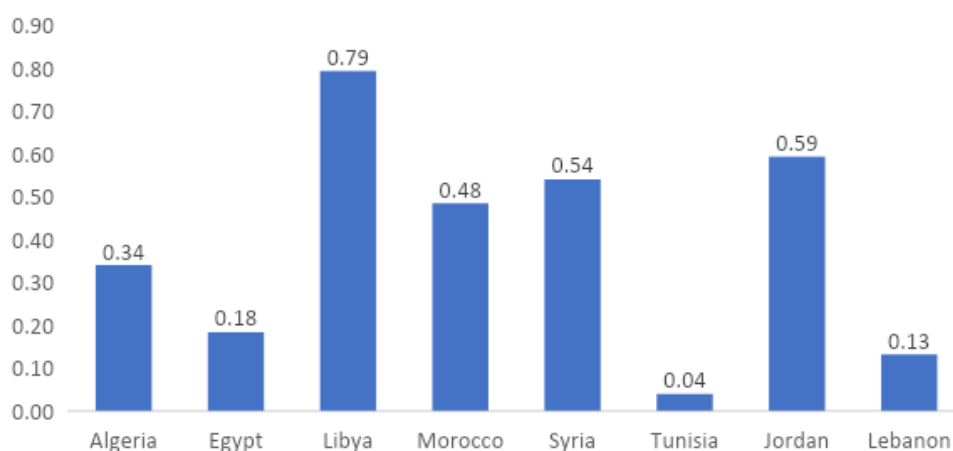
⁵ It is crucial to note that the political map of Islamists in Libya is very complicated. Most of the population are conservative Muslims, nevertheless political Islamist groups are across the map varying from Salafi groups affiliated with Saudi Arabia, Muslim Brotherhood, Sufi apolitical groups, Jihadists affiliated with Qaeda and Bin Laden. Some of these groups include sub-groups that overlap with different political affiliations and vary in terms of the militarization aspect.

⁶ For example, see the following study (in Arabic) on the Jihadis in Libya, Orabi Farouk (2013), *Jihaddis in Libya During Qaddafi*, Al-Misbar Studies and Research Center, 16 September 2013. Available on the following link: <https://www.almesbar.net/الجهاديون-في-ليبيا-في-عهد-القذافي/>

phases of the revolution in 2011. A number of tribes remained loyal to Qaddafi and mis-read the developments in the streets. This made them lose support and influence over political developments in the aftermath of Qaddafi's demise. In the early phases of the conflict, Qaddafi threatened to provide tribes with weapons which would lead to civil war. This materialized later on, though not under Qaddafi, as smuggled weapons found their ways to tribes which developed their own militias and involved actively in the civil war.⁷ A number of additional factors contributed to the increasing levels of militarization of tribes: failure of the state, intervention of the international community (e.g., France supporting some militias), and the fragility of the transitional process. Demilitarization remains one of the main challenges for reconstruction.

Such militarization is coupled by ethnic fractionalization. Libya is characterized as having the highest level of ethnic fractionalization in the MENA region (see Figure 2). Indeed, in Southern Libya, tribal groups have been in armed conflict with each other or the national government ever since the country's civil war. Tribes often shut down oil facilities as a means to negotiate, but this leaves many in the region who are dependent on oil for jobs in dire economic circumstances. Yet, ethnic groups and rival political factions are not the only groups contributing to such circumstances. ISIS, formally established itself in 2014, had carried out countless attacks ever since.

Figure 2. Indicator of Ethnic Fractionalization



Source: Alesina (2003).⁸

2.2. Economic Conditions prior to 2011

Structural problems at both the economic and social levels from which the Libyan economy suffered contributed to the eventual onset of the conflict in Libya. They include state dominance, oil dependency, and high levels of unemployment.

⁷ The role of the tribe in forming the political map in Libya (in Arabic), center for strategic and diplomatic studies (CSDS), 11 January 2019. Available on the following link:

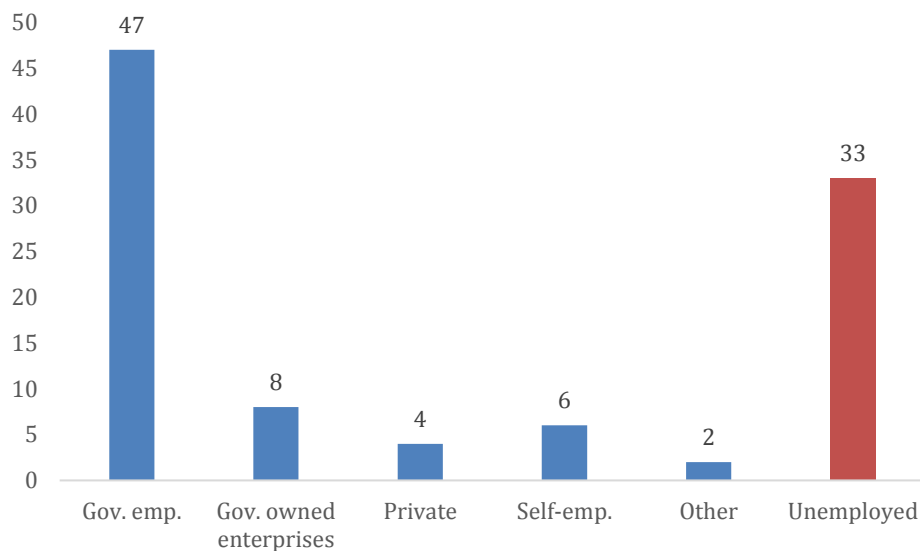
http://www.csdcenter.com/article/دور_القبيلة_في_تشكيل_المشهد_السياسي_الليبي

⁸ important to note that this source relied on different years for each state depending on the availability of data. For Libya, they relied on the year 1995.

2.2.1. State Dominance

One of the major issues in Libya is the dominant role of the state. World Bank data show that in 2010, the number of public employees was around 840.000, representing over 70% of the 1.330.000 total employees (see Figure 3). From a social perspective, the predominance of the state represents high fragility in times of civil war as it may easily jeopardize the incomes of the majority of Libyan families. This significantly reduces the freedom the government has when undertaking reforms.

Figure 3. Labor Force by Job Status, 2010



Source: World Bank (2012).

As the banking and finance system is also dominated by the public sector, the extent and diversity of financial services it provided has been very limited and hindered by institutional weaknesses. The latter include the lack of a robust system of property rights, the absence of credit assessment information, and the lack of competition and government ownership. Table 1 indicates the degree of underperformance of Libya's commercial banking services relative to the average of the MENA region and the upper middle-income countries (UPC) group, to which Libya belongs. Domestic credit to the private sector by Libyan banks, a key variable to support sustained growth, represents only 34% of the MENA region and 20% of the UPC. As a result, the private sector efforts to invest and create employment have been constrained, undermining attempts to diversify the economy.

These structural weaknesses of the banking and finance system have been deepened by the introduction of a law banning interest on interest-based financial transactions on January 7, 2013 by the Libyan General National Congress, in compliance with the Sharia. It essentially bans interest on the financing of all civil and commercial transactions. The IMF's Article IV report of 2013 on Libya warned that this law may reduce access to credit for startups, entrepreneurs, and small and medium-sized enterprises, since commercial banks' lending may be interrupted which negatively affects financial intermediation. Indeed, the adoption of this law was associated with, among other reasons, a decline in domestic credit to the private sector by banks from 27% in 2014 to 17.6% in 2018.

Table 1. Financial Aggregates in Libya

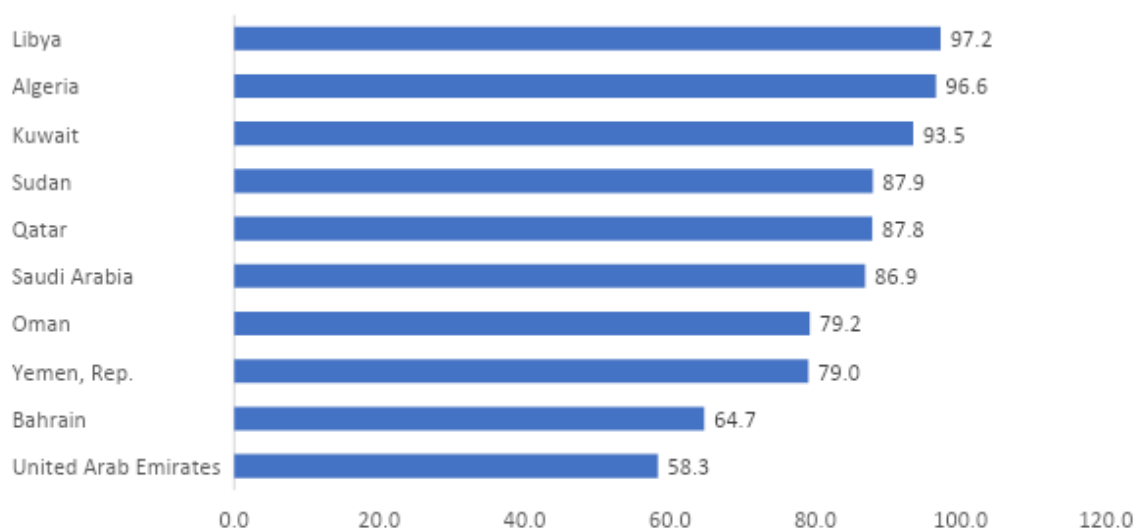
	Libya	MENA	Upper Middle
Commercial bank branches (per 100,000 adults)	11.0	12.8	13.4
Borrowers from commercial banks (per 1,000 adults)	128.2	145.1	196.6
Depositors with commercial banks (per 1,000 adults)	675.6	683.3	-
Domestic credit to private sector by banks (% of GDP)	16.2	46.8	80.9

Source: Constructed by the authors using the World Development Indicators dataset.

Note: Figures are averages between 2004 and 2017.

2.2.2. Oil Dependency

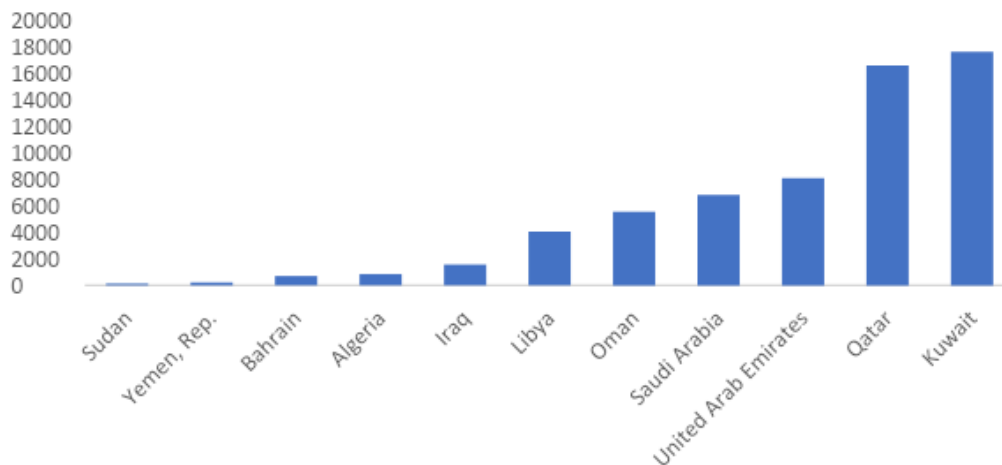
Libya's economic growth is highly dependent on fuel and hydrocarbons that represent 97% of merchandise exports (see Figure 4), the highest among oil exporters in the MENA region. Moreover, hydrocarbon activities represent 75% of government receipts. As a result, oil price volatility renders the country's economic performance vulnerable and complicates fiscal management.

Figure 4. Fuel exports (% of merchandise exports)

Source: Constructed by the authors using the World Development Indicators.

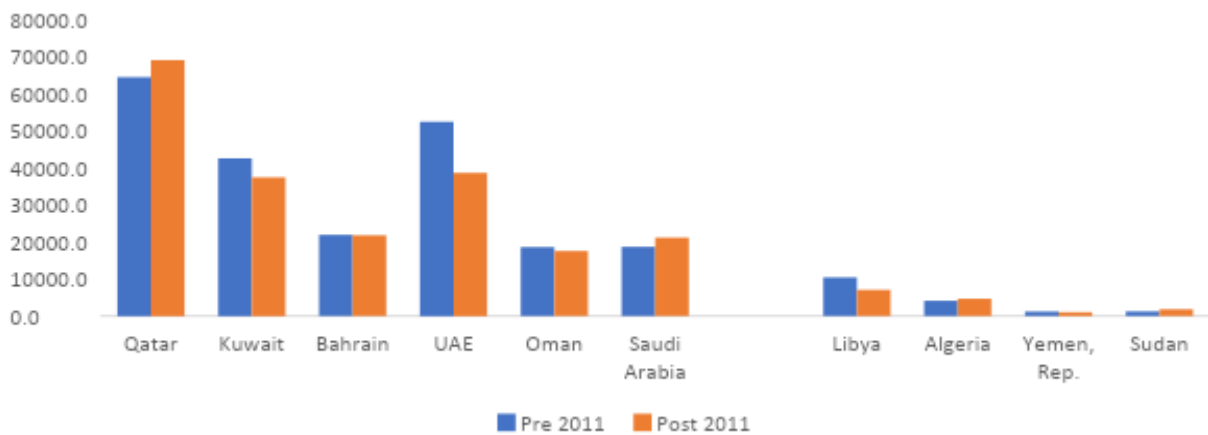
The importance of oil revenues, coupled with a relatively small population, has made Libya the country with the highest GDP/capita in Africa since the 2000s, even though its oil rent/capita (Figure 5) and GDP/capita (Figure 6) are lower than the less populous Gulf Cooperation Countries (GCC).

Figure 5. Oil rents per capita (current \$), average 2000-2017



Source: Constructed by the authors using the World Development Indicators.

Figure 6. GDP/capita of Oil Exporters in the MENA region



Source: Constructed by the authors using the World Development Indicators.

Note: Pre-2011 is an average over the period 2000-2010 and post-2011 an average over the period of 2011-2018.

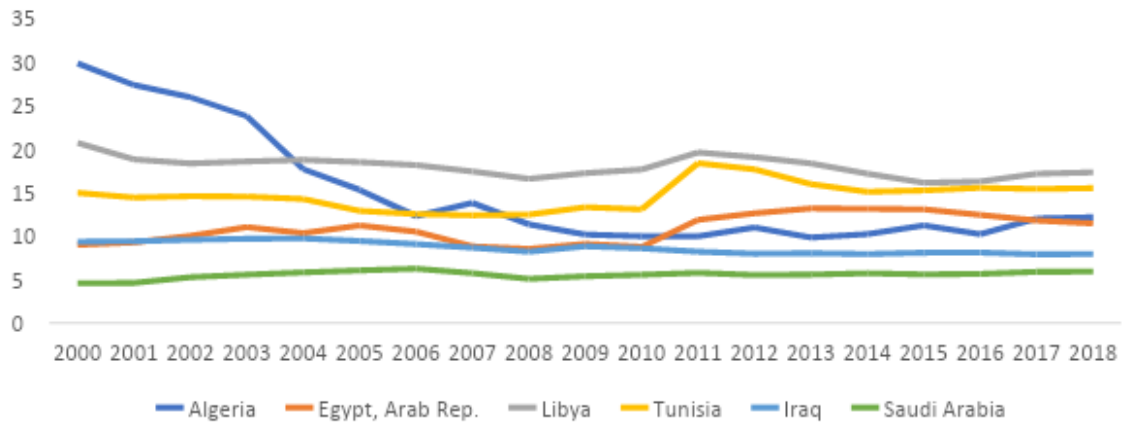
At the sectoral level, it is worth noting that the share of agriculture in GDP is negligible (with the main products are wheat, barley, dates, peanuts, cattle). For 2017, it contributed only 1.3% of GDP and employed around 11.2% of the economically active population. The industrial sector is highly dependent on hydrocarbons with the petrochemical industry representing the same year 63.8% of the GDP and employing 25.4% of the active population (based on the World Development Indicators dataset). Services accounted for 34.9% of GDP and employed 63.2% of labor force.

Thus, the overwhelming position of oil production coupled by the dominance of the state at both the financial and employment levels had two implications: first, it hindered the development of the manufacturing and agriculture sectors leading to a poorly diversified economy. Second, it negatively affected the emergence of a dynamic private sector capable of investing in and producing manufactured goods.

2.2.3. High Levels of Unemployment

The Libyan labor market, similar to most of the other MENA countries, has suffered from chronically high levels of unemployment and, since 2004, it has had the highest unemployment rate in the region (Figure 7).

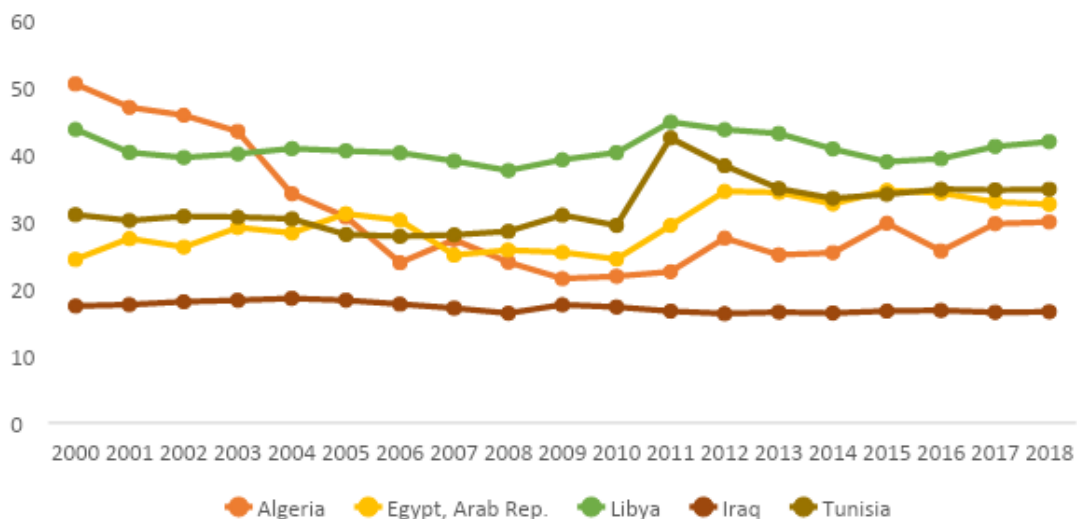
Figure 7. Unemployment Rates (%), 2000-2018



Source: Constructed by the authors using the World Development Indicators.

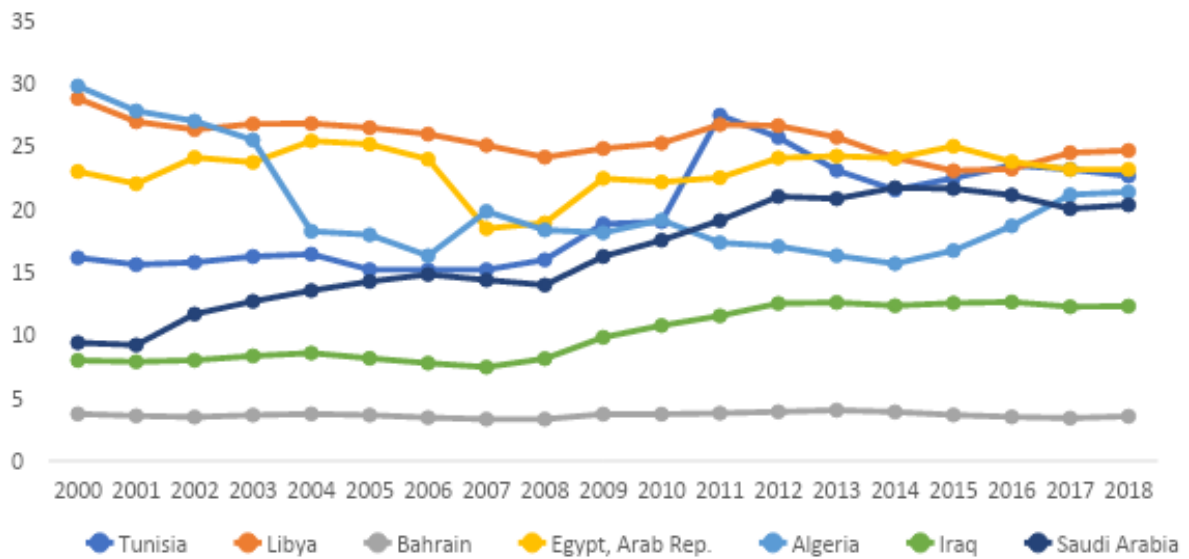
The problem becomes more acute for the youth and women. Youth and female average unemployment rates in the period between 2000-2018 were around 41% and 26%, respectively (Figures 8 and 9 respectively). Combined with existing ethnic fractionalization, these high rates of unemployment were one of the main factors that led to an unstable political equilibrium and rendered Libya one of the most fragile states of the region. Indeed, while its index of state fragility was low before 2011, it increased substantially afterwards when compared to other countries of the region (Figure 10).

Figure 8. Youth Unemployment Rates (%)



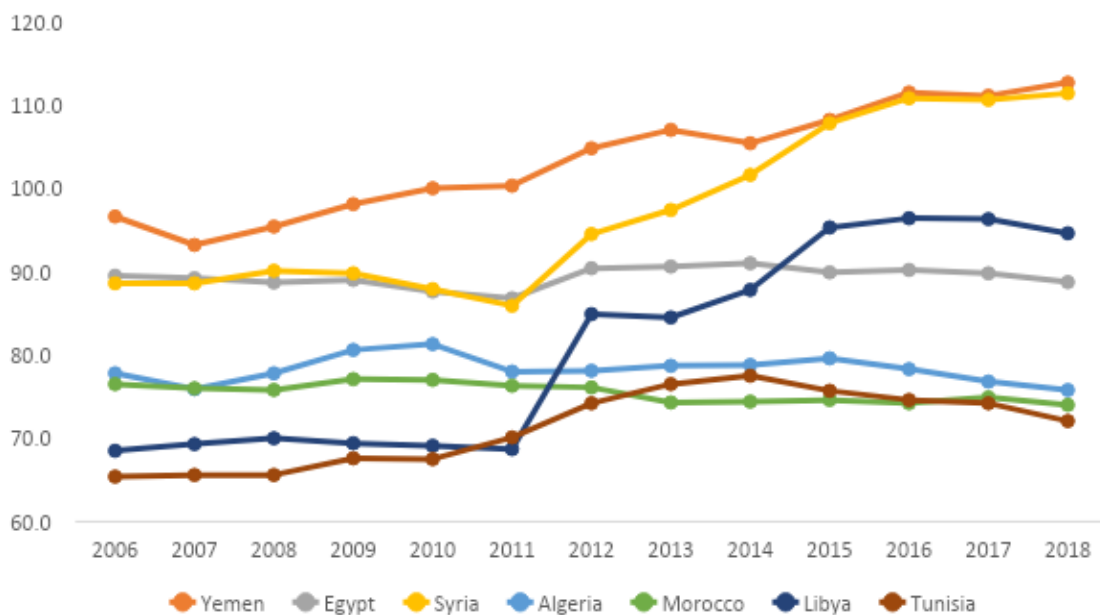
Source: Constructed by the authors using the World Development Indicators.

Figure 9. Female Unemployment Rates (%)



Source: Constructed by the authors using the World Development Indicators.

Figure 10. Fragile State Index, 2006-2018



Source: The Fund for Peace

Note: The FSI is an aggregate of 12 indicators to measure risk and vulnerability in 178 countries. It includes cohesion, political, economic and social indicators. A rise of the indicators represents a worsening of the country's situation. Each index indicator ranges from 10 (the worst situation) to 1 (the best situation). And the global indicator ranges from 120 (the worst situation) to 12 (the best situation).

In a nutshell, the initial economic (oil dependency, high unemployment, and state dominance) and political conditions (weak institutions, tribalism, and militarization) increased the fragility of the country making the conflict very likely to materialize, as it will be shown in the next section.

3. Why the Conflict Has Been Sustainable?

While some of the conflict dynamics in Libya are structural problems common to most countries that experienced the Arab Spring, other elements are specific to the Libyan context. This section will analyze the dynamics that have sustained conflict in order to understand which potential set of policies and actions will/will not lead to a peaceful settlement and a sustainable post-conflict transition.

3.1. Government and the Lack of a Central Authority

Aside from the rooted divisions along ethnic and tribal lines, current political divisions play a great role in preventing the success of a political process aiming to build a functioning and centralized state. The UN supported peace negotiations amongst rival groups and in December 2015 managed to produce a written document signed by them; i.e. the Skhirat Agreement in 2015. The agreement rests on four main principles: ensuring the democratic rights of the Libyan people, the need for a consensual government based on the separation of power, the need to empower state institutions and respect for the Libyan judiciary and its independence (Libyan Political Agreement 2015). The agreement increased international support for and the recognition of the Government of National Accord, yet did not help them consolidate their rule.

The UN-supported and internationally recognized Government of National Accord (GNA) is based in Tripoli, while a parallel administration, the House of Representatives, is based in Tobruk. At the same time, the so-called Libyan National Army (LNA) is based in Beyda and Benghazi under the leadership of Khalifa Haftar, all claiming authority in their respective zones of influence. Some towns and tribes ally with Haftar due to the GNA's lack of military power, while others ally with the LNA to have leverage against their rivals (Wehrey 2019). Each party mobilizes in collaboration with local militias and radical Islamic groups. So long as it persists, political fragmentation will continue to sustain lasting violence, making it difficult to achieve a comprehensive peace settlement.

3.2. Security

Given the lack of a centralized governance or security apparatus, the environment of competition among different groups and actors, both small and big, amplifies insecurity. With local militia groups aligning with political actors, many, if not all, turn into criminal networks with links to businessmen and public officials (World Bank 2019).

Policing has also been heavily affected in this environment. The police was already a neglected institution prior to the Arab Spring as a result of the Qaddafi rule favoring the intelligence apparatus over police. Political fractures have prevented the establishment of a centralized police force to this day (Salem and Kadlec 2012). Informal and localized policing carried out by ethnic, religious, tribal groups at the state or town level have to a large extent replaced the already weak official policing bodies. The increasing level of militarization jeopardize peace talks and attempts of rebuilding the state (Boserup and Collombier 2018).

3.3. War Profiteering and Corruption

Armed conflict and civil war sustain negative incentives, particularly for the security actors in Libya, to profit from this context. While smuggling was controlled and limited to the activities of favored tribes and groups during the Qaddafi era, the fall of the regime created a power vacuum, producing open competition over smuggling routes and conflict between competing groups mainly defined along ethnic, tribal, and city-based lines. The smuggling business has also expanded the protection market and tax generation from the movement of goods between territories under the control of certain groups. Hence groups that provide protection also become directly involved in smuggling (Eaton 2018). The same competition between local actors is recreated in state bureaucracy as well, where appointments have in various cases been based on patronage. Profiteering from the war in Libya is also problematic since these activities sustain the political influence and authority of many security actors. As a result, establishing a unified and central governance or security apparatus becomes extremely difficult, due to the security actors' gain from the absence of stability (Eaton 2018).

3.4. International Actors

While international actors officially welcome the transition process in Libya, some contribute to the fragmentation of Libya's political system by trying to build strategic alliances with different local actors to promote their own interests. The recent developments in the Mediterranean region is a new manifestation for the role played by regional and international actors. Two regional powers -Egypt and Turkey- have intensified their political and economic rivalry in the region. It is important to follow the rising mutual threats to side with fighting parties in Libya, which accordingly could take the civil war to a new level⁹.

An ideological front formed around the Muslim Brotherhood in Libya receives support from the governments of Turkey and Qatar, which entertain contacts with the organization. But countries that consider the Muslim Brotherhood to be a threat to their own regime security (mainly Egypt and the United Arab Emirates) are the main backers of Haftar and the LNA, who oppose the Brotherhood.

As for European countries, irregular migration from the Libyan coast to Europe and the fight against local ISIS militias have been priorities, together with the EU effort to build an effective government. As such, the EU is one of the main backers of the UN-sponsored GNA. At the same time, individual European countries, e.g. Italy and France, have been pushing their own agenda mainly with regards to energy contracts in Libya.

⁹ See below different official and media statements made by the two countries related to political developments in Libya:

<https://www.egypttoday.com/Article/2/79297/Egypt-will-not-stand-idle-while-Turkey-intervenes-in-Libya>

https://www.washingtonpost.com/world/turkeys-parliament-authorizes-troop-deployment-to-libya-as-proxy-war-escalates/2020/01/02/b97d35a8-2d6d-11ea-bffe-020c88b3f120_story.html

<https://www.bloomberg.com/news/articles/2020-01-02/egypt-warns-against-turkish-military-interference-in-libya>

3.5. Migration

Economic migration has been a common phenomenon in Libya since long before the eruption of the civil war, with the composition of migrants changing since 2015. The conflict has led to a surge of smuggling migrants mainly from Sub-Saharan Africa. According to IOM data (IOM Displacement Tracking Matrix 2019), as of February 2019 there were more than 660,000 migrants (10% of the population) in the country, with the top five home countries being Niger, Egypt, Chad, Sudan and Nigeria with a high concentration in western Libya, particularly Tripoli. Only around 57,000 refugees and asylum seekers were registered (UNHCR 2019).

Besides losses in human capital, mass displacements of population have also been recorded both in the country and across borders. According to the International Organization for Migration, as of 2018, around 200,000 people (around 3% of total population) were displaced inside the country (IDPs); but the last numbers of the UNICEF report (2019) reveal that there were 97,000 internally displaced people this year. In addition to internal displacements, many other civilians moved to neighboring countries. The UNHCR counted 287,000 people (4.3% of the total population) who had to flee (for instance to Tunisia) and a great proportion of those who left the country were children.

Libya is not a signatory to the 1951 Refugee Convention, which means there is no formal refugee protection. According to UNHCR data, around 1.3 million people or 20% of the population are in need of humanitarian assistance in Libya. Through EU funds and training to cut the migration flow from the Mediterranean to Europe, the Libyan coast guards have been capturing boats and returning migrants to Libyan territory, who are then placed in detention under extremely dire conditions (Human Rights Watch 2018). On the other hand, NGOs such as IOM and UNHCR are extremely active on the ground in supporting migrants, displaced persons and affected communities, and providing medical care, but these efforts have not been enough to tackle the problem.

To sum up, the lack of centralized and stable government or security apparatus and the surge of corruption in Libya are some of the driving political factors of the conflict. The benefit- and ideology-driven international involvement and the inability to manage movement of people amplifies the current conflict to a large extent.

4. Economic Cost of the Conflict

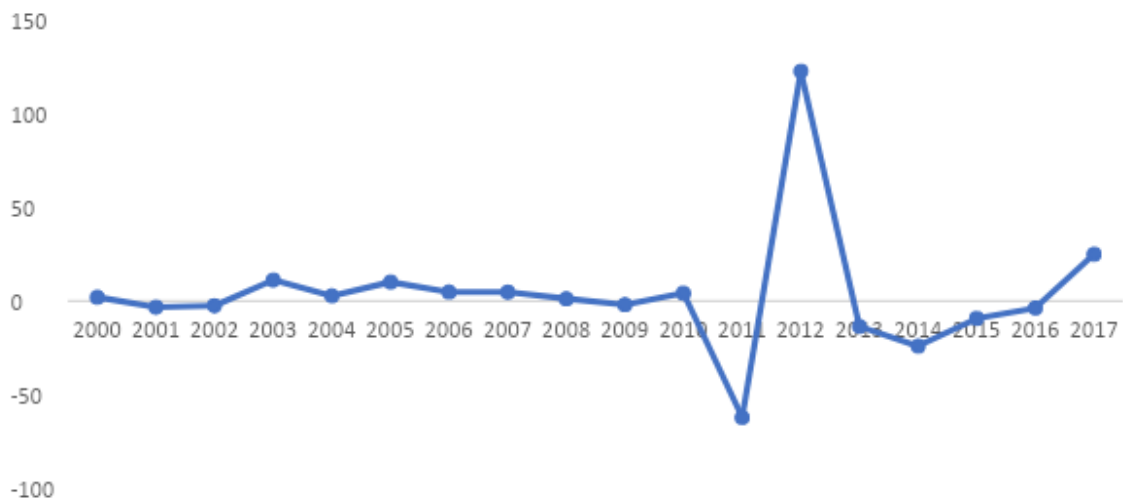
A typical conflict leads to an immense amount of damage: losses in infrastructure and human capital and deteriorating health and living conditions. Furthermore, the costs of a civil war persist long after the war is over¹⁰.

¹⁰ According to Collier (2006), by the end of a civil war, the economy is on average almost 15% poorer than it would otherwise have been, and the mortality rate is higher due to diseases and the collapse of the health system.

4.1. Macroeconomic costs

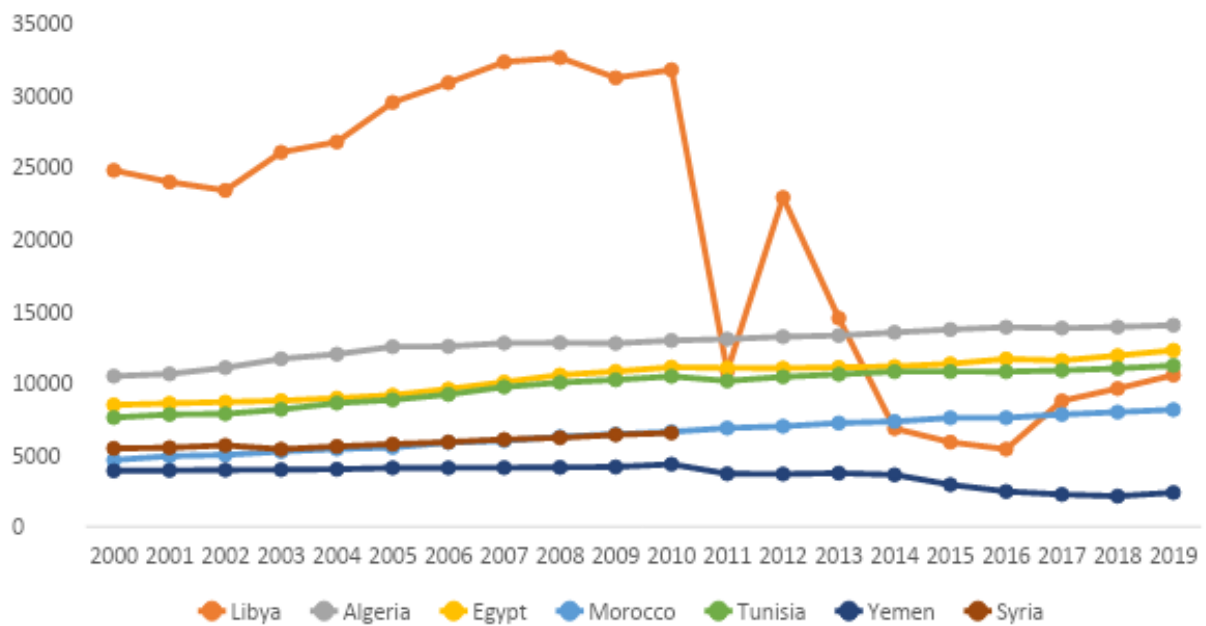
As a result of the conflict, GDP growth declined significantly and became negative rates between 2013 and 2016, as shown in Figure 14. In cumulative terms, GDP per capita decreased from USD 31,735 to 5,378 in 2016 but recovered slightly to USD 11,187 in 2018. This decline is chiefly attributable to the decline in hydrocarbon activity that has been jeopardized by the armed conflicts, especially around the main oil fields and terminals in the Sirte Basin. Indeed, a country where the primary source of income is oil production, this damage affects the entire economy. According to data from the World Bank, the fall in hydrocarbon exports in 2011 led to a budget deficit of 15.4% of GDP and a sharply reduced current account surplus. Oil production was around one million barrels per day in the first five months of 2018 before collapsing to only 0.7 million barrels per day in June. Average oil production was 1.6 million barrels per day before the revolution. Oil factories suffered from severe damages during the conflict. The Libyan National Oil Corporation has estimated that, as of 2018, damages to oil fields and terminals stood at about USD 180 billion or three times the GDP of 2018.

Figure 11. GDP Growth in Libya



Source: Constructed by the authors using World Development Indicators.

Figure 12. GDP per capita in PPP, constant 2011\$, 2000-2019



Source: Constructed by the authors using the World Development Indicators.

4.2. Human Capital Cost

Human casualties are estimated at nearly 16,126 deaths and 42,633 injuries between 2011 and 2017, comprising 1% of the population. Around 350,000 persons had been internally displaced, and 270,000 persons forced to flee the country. According to Daw et al. (2019), the overall mortality rate was 2.7/1000 population and the injury rate was 7.1/1000. At the gender level, the overall male-to-female ratio of mortality and injury was 4.4:1. If age is taken into consideration, it is worthy to note that 42.3% of casualties aged between 20 and 30 years old and 26.4% aged between 31 and 40 years. These figures show that the cost of the conflict has disproportionately affected young people, which in turn has a negative impact on the structure of the labor force.

Moreover, according to UNICEF, 1.3 million (circa 20% of Libya's total population) people were in need of vital humanitarian assistance as of end 2017, of which more than 430,000 were children. In terms of education, OHCHR has estimated that 40% of schools had been damaged (OHCHR 2016). The remaining schools lacked the necessary equipment and skilled teachers. The UNHCR estimates that about 2 million children were out of school in 2018, and one fifth of the school-aged displaced didn't have access to education.

4.3. Infrastructure and Access to Services

The pre-existing problems regarding infrastructure and access to services have multiplied with the eruption of the civil war. Difficulties in recruiting people to work in services and infrastructure have resulted in a very slow improvement in conditions, if any.

Additionally, the militarization of health facilities and humanitarian aid has affected working conditions negatively, mainly because they became targets of armed groups. As a result, outbreaks of communicable diseases such as malaria, polio and tuberculosis have become

increasingly common, particularly in-migrant detention centers. While there is a great need for mental health services, this is extremely limited (Massiah et al. 2018). Chronic shortage of electricity caused by damaged networks, lack of maintenance, fuel and chronic shortage of water are recurring structural problems. Large parts of the country experience power outages of up to 10 hours a day because of generation shortfalls and network problems.

Regarding health, the Service Availability and Readiness Assessment (SARA) survey published in 2017 by the WHO showed that 17.5% of the 97 Libyan hospitals, 20% of the 1355 Primary Health Care (PHC) facilities and 18% of specialized health facilities in Libya have been partially damaged or completely destroyed by the conflict. Only 4 hospitals are functional with a 75-80% operating capacity. Prenatal care availability is limited due to a lack of medicines, guidelines and trained staff. The needs of the Libyan health system have been well documented by the WHO but no monetary estimation of the costs is available to date. In 2011, the World Health Organization (WHO) launched a new program to rebuild the Libyan health system. However, the repeated emergencies since then have not allowed a proper recovery of public sector services. The Ministry of Health has continued to rely on support from the WHO to access essential medicines. Provision of primary health care, especially for communicable diseases among migrants and refugees in detention centers, has become a major challenge¹¹.

5. Moving from Exclusive to Inclusive Development: A New Social Contract

We have argued in this paper that the type of state-society relationships that governed Libya before 2011 greatly contributed to the subsequent breakdown of institutions. The old social contract relied heavily on the power of the state in terms of economic resources and security as well as on the “divide and rule” mechanism as a means of relating the different tribes. The ongoing civil war, with limited prospects for ending in the near future, have added further problems to social cohesion and hampered the ability of the Libyan society to rebuild peace.

The Libyan conflict will eventually be settled. We submit that only a new social contract would pave the way for sustainable development in the post conflict era. Such a contract, in our view, should include three major dimensions: (1) a politically inclusive agenda, (2) an equitable economic reconstruction, and (3) an end to militarization. However, this best-case scenario will clearly be impeded by some spoilers in the short run. This is why we first present spoilers and opportunities in the short run and what are the main features of feasible scenario. Second, we show how international actors can affect the development of the Libyan conflict. Finally, we present the main structural and stabilization policies required to achieve the economic new social contract.

5.1. The New Political Contract

5.1.1. Reconstruction: Opportunities and Spoilers

As analyzed throughout this paper, the main spoilers of an inclusive model for reconstruction can be summarized as: (a) a contested transition process; (b) the lack of social cohesion; (c) a

¹¹ For 2019, the WHO estimates at US\$ 37.9 million the health sector funding requirements at US\$ 37.9 million for this year.

persistent security and economy vacuum; (d) the lack of transparency and accountability of public institutions; (e) a fragmented and non-diversified economy; (f) volatile international oil prices and frequent interruptions to domestic oil production; and (g) fragmented international engagement (World Bank 2019).

The potential for growth and development, social resistance against sectarianism and important resources -primarily oil- are opportunities to consider when building an inclusive model for post-conflict reconstruction in Libya (World Bank 2019). It is also worthy to note that the initial Arab Spring protests were against authoritarianism and demanded more freedom, participation, rights, justice and inclusion. This is a positive sign in terms of grassroots and inclusive peacebuilding efforts in Libya.

Transition to democracy should include two tracks: following international experiences in democratic practices; and planning a long term project of building democratic values to integrate with education and culture. Current efforts to hold national elections would be a big step in terms of democratization, particularly if it can be combined with an effort to adopt a new democratic constitution and a comprehensive plan for reconstruction.

Reconstruction means building new state institutions and reconciling different social groups, keeping in mind there is no simple economic agenda to achieve full reconstruction. Since there is little consensus among national and international actors on how to tackle the conflict in Libya, reconstruction remains a challenging issue. International involvement in reconstruction in many cases can come with expectations of economic, political, and ideological returns. As long as the new social contract does not have local and grassroots engagement, international involvement might act as a spoiler.

Non-state actors (e.g. militia groups and tribes) are usually motivated to be affiliated with the state, not only for access to more resources but also for consolidating political power in their zones of influence. This can act as an opportunity if a central government can reach out to non-state actors and cooperate in providing access to services and security. The highly esteemed social standing of tribal leaders can be used as a push factor for state reconstruction. This can be achieved through convincing tribal leaders to recognize and support the peace process and act as informal forces in accord with a central government (Fraihat 2011). In the meantime, as long as Libya undergoes a political transition process without centralized governance, communication and reconciliation with strong non-state actors such as tribes will be necessary to maintain peace. Were a post-conflict reconstruction process to be dominated by certain groups, this would likely result in its distortion, if not failure. Hence, pushing for mediation among all concerned groups is part of institutional reconstruction. It has been argued that, so far, the record of Libya in transitional justice needed for reconstruction has proven to be selective and lacking comprehensiveness (Kersten 2015).

5.1.2.A Feasible Peacebuilding and Reconstruction Scenario

An ideal scenario of reconstruction is an inclusive settlement where the power is balanced and shared. The Skhirat Agreement might serve as a good background for such a scenario. All

parties included have the goal to rebuild the state, and the bureaucracy becomes meritocratic. Hence the political settlement has a high probability of surviving, but this scenario is hard to achieve in practice, and the UN supported agreement has failed to ground itself and help the transitional period. The worst-case scenario is where the settlement ends up being exclusive, where the minority of elites are the ones involved in state-building and the system is clientelistic. This type of settlement becomes constantly threatened internally and externally, by excluded elites and parts of the society (Elbadawi 2019). As a result, we will look at an in-between reconstruction scenario in Libya, which considers the opportunities and spoilers, and works towards achieving a realistic settlement.

In this scenario, all parties in Libya should manage to facilitate dialogue and some level of cooperation firstly on security, e.g. on militias, and then governance. Such a consistent and impartial dialogue is possible if no one actor -e.g. Haftar- succeeds militarily over other parties. Once dialogue is established, groups that undermine the settlement process need to be targeted politically by all actors involved in this process, in order to reduce their political legitimacy.

Accountability is an important component of the settlement. The settlement process in this scenario will include setting up an independent body that investigates violations of rights and law at all levels. Since such a settlement process is likely to include multiple actors, accountability that applies to all parties will give these parties more political legitimacy in front of the Libyan society.

The process will first and foremost focus on peacebuilding and reconstruction at the local level. Given that grassroots social movements have changed the political landscape in Libya before -e.g. during the Arab uprisings in 2011-, the power of social groups and civil society will not be ignored by the parties to the settlement process in this scenario. Governing actors of the settlement process will minimize pressure on civil society organizations.

Even though there have been elections in Libya since 2011, citizens' approval of democratic norms has been mostly replaced by the need for stability and an end to the violence (BTI Libya Country Report 2018). As such, reaching at least a necessary minimum of stability and political settlement is a precondition to a constitutional referendum or national elections. Until then, a transition government that is accountable to the rule of law will, in this scenario, govern the country. Here, support from the international community for reconciliation in the short term and preparation for elections in the longer term can be an impetus to the settlement process.

Two more processes need to be integrated into this scenario: the first one is women's integration at all levels of the peacebuilding and reconstruction process. According to UNSCR1325, women have to be included in all processes of conflict resolutions and state buildings, which has not been materialized in the Libyan case. Women need to be represented at talks around political and economic debates. The second one is fact-finding commissions investigating human rights violations. Democratic transition experiences all over the world did not succeed without the integration of these commissions and integrating their outcomes within the constitutional and legal framework of state building.

5.1.3. Migration and International Involvement

Libya will continue to be a transit country attracting migrants from neighboring countries. Even as part of a broader reconstruction model, refugee repatriation will be a challenging issue. In the short term, providing access to basic services, security and legal protection to refugees and IDPs is the starting point. In terms of healthcare, developing a national policy, increasing human resources and improving infrastructure is a necessity, but the availability of funding is a decisive factor on the quality of healthcare, especially in the short and medium term.

Regarding international involvement in Libya, the agendas of international actors in Libya have been context specific. This issue aside, the UN has put an immense effort into unifying Libya's state institutions. Preventing the National Oil Corporation to sell crude oil on the international market, for example, played an important role in Haftar's agreement to allow oil revenues to flow through Tripoli (International Crisis Group 2018).

As much as support from the international community in terms of institution-building and mediation is an extremely useful resource, taking decisions based on loyalties or favors to specific international actors can reinforce corruption and favoritism in Libyan state bureaucracy as well as the energy sector. Hence, institutional decisions regarding governance and economy should favor the Libyan state and society before anything else. Such a setup would greatly benefit from transparency and open competition. Supporting local authorities at the expense of the central state and not adapting to the Libyan context can do unintentional damage.

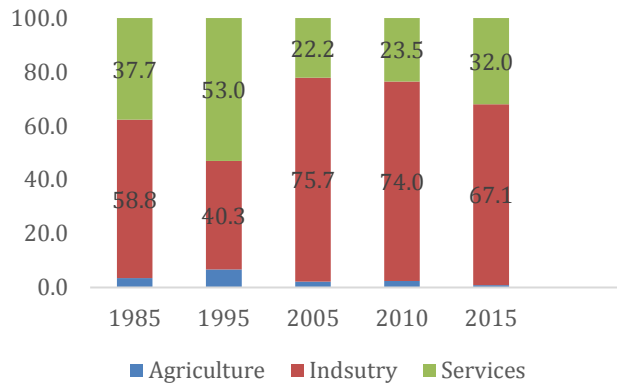
5.2. The Way Forward for the Libyan Economy

Analyzing the post-conflict recovery of Lebanon, Kuwait and Iraq, Sab (2014) finds that the speed of recovery differed significantly across countries. It depends on the economic and institutional development of the country, the structure of the economy (oil versus non-oil), the duration of the war, and engagement of the international community. The GDP growth recovers faster in oil exporting countries compared to oil importing countries, as the oil sector may recover rapidly after the civil war. However, the political situation in Libya remains uncertain, adding an extra layer of complexity to the conflict.

5.2.1. Sources of Growth: Between Distortion and Volatility

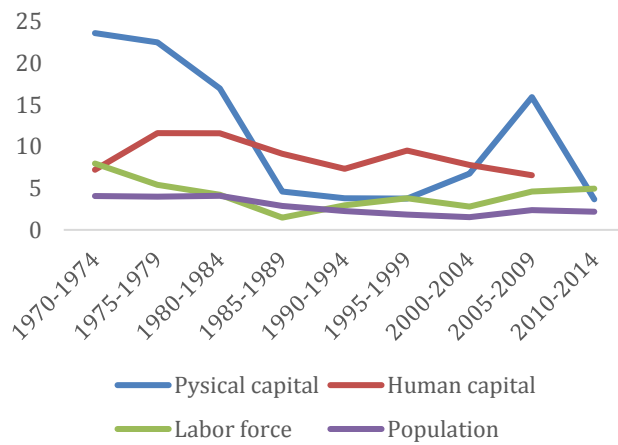
Before proposing some recommendations for the Libyan economy, it is important to analyze its production structure and what are the sources of growth. Figure 13 presents the structure of GDP by sector. Obviously, it is chiefly dominated by industry (related to fuel and refineries) with a modest share of services and a negligible one of agriculture. Given that the industrial sector is capital intensive, it does not help generate jobs. Second, in terms of sources of growth, Figure 4 shows that the growth rate of physical capital experienced a significant decline whereas that of human capital and labor were relatively stable (Bhattarai and Taloba, 2017). Thus, more recently, both human capital and labor have contributed to growth more than capital. This is important for the way forward, as the recovery might be lengthier given the large human capital losses that were previously presented.

Figure 13. GDP Composition by Expenditure



Source: UN Statistics.

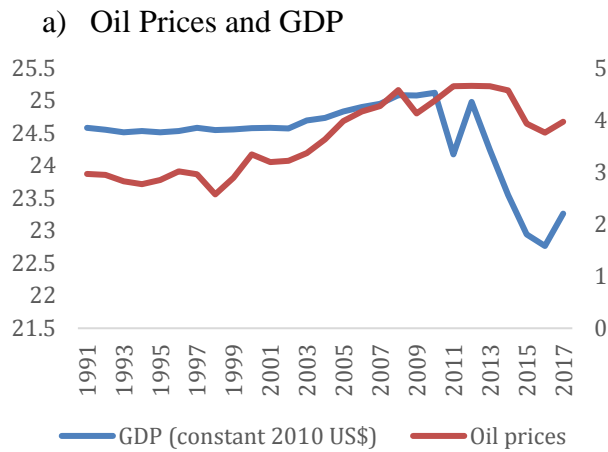
Figure 14. Growth rates in input factors per five-year periods in Libya (1970-2014)



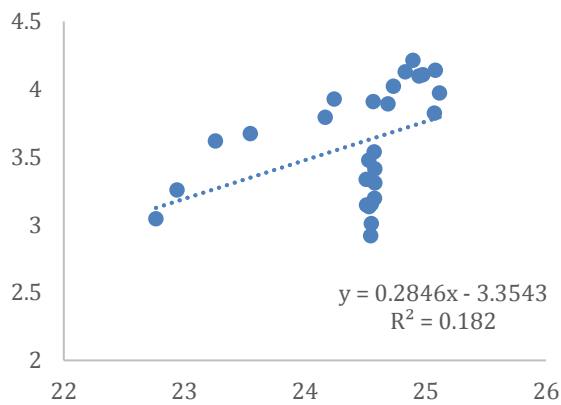
Source: Constructed by author using Bhattarai and Taloba (2017).

Third, growth was and is still closely correlated to oil prices. Indeed, Figure 15a and b show that oil prices and GDP have almost the same trends and that oil rents are significantly correlated to GDP growth. This is why the latter is highly volatile in Libya when compared to other oil abundant countries (like Algeria) or other regions (see Figure 16). Finally, labor productivity has also been declining (Figure 17).

Figure 15. Relationship between Oil and GDP

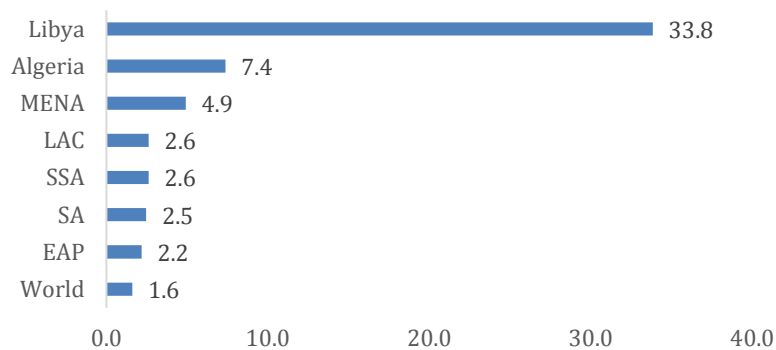


b) Correlation between Oil Rents and GDP



Source: Constructed by the authors using the World Development Indicators.

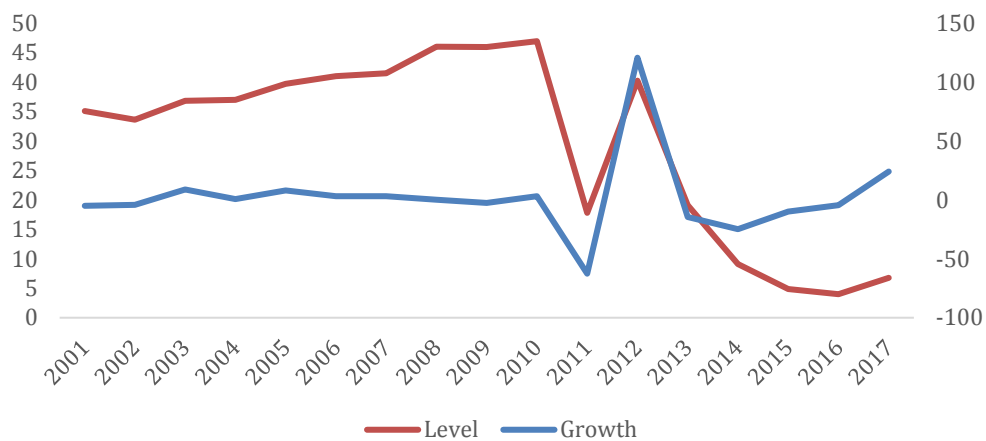
Figure 16. GDP Growth Volatility



Source: Author's elaboration, using the World Development Indicators.

Note: Volatility is measured by calculating the standard deviation of GDP growth rate for each country/region.

Figure 17. Labor Productivity



Note: Authors' elaboration using UN statistics.

Level: Labor productivity calculated by dividing real GDP per employed person.

Growth: Annual growth rate of real GDP per employed person (GDP constant 2010 US \$) (%).

Two preconditions are indispensable for the reconstruction of the Libyan economy. First, having better institutions by neutralizing the militias and reestablishing the rule of law are crucial. The second precondition for any economic recovery is to rebuild the main infrastructure destroyed in the war zone, including transport infrastructure, sanitation, telecommunication, schools, public buildings and hospitals. Indeed, despite its oil wealth, Libya did not manage to build an adequate infrastructure that would support private sector investment and growth or attract foreign direct investment (FDI). As a result of the conflict, most of the infrastructure was destroyed. This damage has led to reduced connectivity, higher transportation costs, and disruptions in supply chains and networks. Restoring damaged infrastructure is a priority to attract FDI in the manufacturing sector and for the tourism industries. In fact, the latter could regrow once there is some stability and adequate infrastructure. Furthermore, reconstruction will give the opportunity to improve the education and health systems of Libya and to modernize infrastructures. This, in turn, will contribute in the long term to develop trade, tourism activities and to attract FDI.

In what follows, we present reforms at three levels, stabilization, institutional and structural, that we believe should be implemented if Libya is to pursue a successful post conflict recovery once a political settlement has been reached.

5.2.2. Institutional Reforms

As discussed in section 2, weak institutions are the main problem affecting the Libyan economy. There is a clear need to enhance transparency, especially throughout the public sector. Data compilation remains weak and responsibilities are spread over several agencies. Compilation of many key indicators have been interrupted by the conflict and has not been restored. The reconstruction of the state after the civil war represents a unique opportunity to foster transparency and accountability.

The role of the civil society is crucial in reconstruction process. The civil society has suffered from structural problems during the Qaddafi era, that rendered its roles almost non-existent.

During the post-Qaddafi period of conflict, new civil society organizations were quickly working to establish common grounds for engaging and networking. Though not well grounded, new civil society organizations such as Forum for Democratic Libya (FDL) managed to build natural networks of tribal and ethnic affiliations to launch a limited social dialogue around the constitution (Geha 2016). As such, supporting the civil society should be prioritized on the agenda of international donors.

At the legal level, the IMF advises the Libyan government to adopt an Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) law in line with international standards and to devote resources to its effective implementation. The aim of this program is to deprive the militias and armed groups of financing means by limiting illicit financial flows and to support the recovery of stolen assets. In addition to this, efforts should be exerted to reform security sector, fight corruption, and restore order and rule of law.

5.2.3. Structural Reforms

In order to build a strong post-conflict economy and reduce the reliance of the economy on capital, oil and its associated industries, the Libyan economy should address three main issues: a more vibrant private sector, economic diversification and finally SMEs' development and access to finance. It is important to note that, using a simple simulation with a 5% of employment elasticity, when economic growth is 2%, around 2000 jobs will be created. This number increases by 1.2% and by 3.1% when GDP growth rate reaches 5% and 10% respectively. Hence, even with a high economic growth rate, the private sector will not be able to reduce unemployment under the current scheme. This is why structural reforms are crucial to generate more jobs.

First, to have a more dynamic and vibrant private sector, the Libyan state may delegate some of its activities to the private sector and should foster the development of SMEs through investments. Policies to enhance the business environment and develop infrastructures are part of these investments. However, the development of the private sector is not possible in the presence of a weak banking sector. Banks are not intermediating effectively and suffer from the presence of the government in the sector as well as the lack of an enabling legal environment. The banking system suffers from several other problems such as the lack of a robust system of property rights, the absence of credit assessment information, the lack of competition and government ownership. Finally, the law prohibiting interest introduced in 2013 in compliance with Sharia law has to be revisited since it significantly hinders the development of new activities.

Second, in terms of economic diversification, it is important to note that hydrocarbons have long dominated the Libyan economy, accounting for more than 70% of GDP, more than 95% of exports, and approximately 90% of government revenue. A strand of the literature on oil-abundant countries has put forward the "resource curse" theory, showing that resource abundance is associated with poor development outcomes (Gelb, 1988). Led by Sachs and Warner (1995), empirical work showed that resource-abundant countries have slower growth than resource-poor countries (Collier and Goderis, 2007). This is why in order to benefit from

such revenues, the Libyan government must diversify its economy and introduce effective political reforms, accompanied by strong system of political checks and balances. This can trigger reform in macroeconomic institutions in general and fiscal institutions in particular, that would improve the management of natural resources, achieve more savings and implement more effective public spending programs.

Third, in order to boost SMEs, financial-sector intermediation is also necessary. This will help increase access to finance for all firms and especially small and medium-sized enterprises. This should have two consequences: first, a non-hydrocarbon sector will be developed; second, SMEs will be able to generate jobs in the short term. Indeed, according to the World Bank dataset, youth unemployment is 44.43% on average between 1991-2016. SMEs must also be connected to larger and foreign firms to guarantee their sustainability. Therefore, while promoting FDI, the government should attract them in the manufacturing sector in order to generate a higher value-added and create more jobs. A transfer of resources to more productive and higher value-adding sectors will be an important determinant of sustainable and labor-intensive growth, which will help attract more FDI to sectors with strong job-creating potential.

5.2.4. Reforms for Macroeconomic Recovery

In principle, Libya does not need financial resources but mainly technical support to enhance the management of the abundant revenues drawn from its natural resources and consolidate the budget, thereby contributing to a stable macro-economic recovery. Some policies have already been set up to stabilize macroeconomics variables. In September 2018, the Libyan government approved an economic reform program under which fuel subsidies were to be reduced. This measure was enforced in October 2019, when the price rose from 0.15 to 0.85 Libyan dinars (\$0.6) per liter, which is also the production cost.

The government also devalued the dinar to eliminate the considerable gap between the official and parallel exchange rates. These reforms ought to be complemented with other budget reforms. Government expenditures are skewed toward wages and subsidies, which undermines the fiscal stance and reduces space for spending on human capital and infrastructure. There is also a need to redesign the regressive energy-subsidies that generate damaging externalities for the environment. The fiscal space may then be used to implement conditional cash-transfer programs targeting the poorest households. Successful transitions implemented in Latin America (Mexico, Brazil) or in the MENA region (“Takaful and Karama” in Egypt) may serve as a model for Libya.

Monetary policy also needs reform. It is important to have the Libyan dinar to reflect its real value. Despite the recent devaluation, there is still a significant difference between the official exchange rate –fixed at LYD 1.3 to one USD—and the black market rate, which in 2018 fluctuated at around LYD 6-7 per USD. Furthermore, the government imposed a service fee of 184% on the official exchange rate for all foreign currency purchases (commercial or personal transactions). This led to the creation of a second official exchange rate of 3.90 LYD/USD which, according to the government, would help lower the black market exchange rate.

Nevertheless, the latter remained as it was. Ensuring easier access to foreign currency through the official banking system rather than the black market will help reduce such a gap.

In a nutshell, while the first and the second sets of reforms will help the Libyan economy improve its current structure, the last set of reforms shall enhance the macroeconomic management of the country.

6. Conclusions

Libya, in sustained civil conflict to varying degrees since the Arab uprisings in 2011, has been suffering from a cycle of social, political, security and economic crises that reinforce one another. This has weakened state institutions and the economy, thereby facilitating fragmentation, disunity and dysfunction, and creating fertile grounds for violence and a war-driven economy. Even though progress has been achieved through national and international initiatives, Libya has so far not been able to turn its initial post-2011 revolutionary success into a process of transition to a stable and inclusive system; as of mid-2019 it has been facing a variety of challenges across multiple layers.

Libya continues to lack a unified territorial or state structure and state institutions have not been able to become legitimate. There is a lack of coordination between different levels of government and a lack of transparency at the broader level. Tribalism and ethnic divisions sustain insecurity. High levels of violence, a non-functioning security apparatus and extremism enhance the conflict. In terms of the economy, oil dependency with its negative impact on the growth of other sectors, high inflation, the growth of the shadow economy and black market, a fragile macroeconomy, lack of trust, and unemployment are some of the most difficult challenges the country is facing. The exclusion of youth and women from participating in public life and a crisis of migrants, refugees and IDPs are large scale societal issues. In terms of foreign policy, religious/ideological proxy wars and oil rivalries have exacerbated the conflict, while international peace initiatives have not succeeded due to a one-size-fits-all approach to peace promotion and the economic interests of individual states in Libya.

Reconstruction requires building new state institutions and a new economy. We recognize that there continues to be little consensus among both national and international actors on how to tackle the conflict in Libya, and hence reconstruction remains a challenging endeavor. Nonetheless, the authors submit that the basis for any enduring settlement is a new social contract that would comprise at least the following three dimensions: (1) an inclusive political regime approximated by a substantive democratic arrangements, (2) an equitable economic reconstruction and (3) an end to the militarization of militias.

References

- Agency for Peacebuilding. 2016. "Peacebuilding and reconciliation in Libya: What role for Italy?".
- Al-Gaddafi, Muammar. 1975. *Green Book*.
- Alshadeedi, H. and N. Ezzeldine. 2019. "Libyan Tribes in the Shadow of War and Peace". *Netherlands Institute of International Relations*. Accessed on May 30, 2019. https://www.clingendael.org/sites/default/files/2019-02/PB_Tribalism.pdf.
- Anderton, C. and J. Carter. 2001. "The Impact of War on Trade: An Interrupted Time-Series Study." *Journal of Peace Research* 38(4): 445–57.
- Ayubi, NN 1996. *Overtating the Arab state: Politics and Society in the Middle East*, Bloomsbury Publication.
- BTI. 2018. "2018 Libya Country Report". <https://www.bti-project.org/en/reports/country-reports/detail/itc/lby/ity/2018/itr/mena/>
- Bhardwaj, M. 2012. "Development of Conflict in Arab Spring Libya and Syria: From Revolution to Civil War", *The Washington University International Review*.
- Boserup, R. A. and V. Collombier. 2018. "Militarization and Militia-tization Dynamics of Armed Group Proliferation in Egypt and Libya". *Menara Working Papers* No. 17. https://www.iai.it/sites/default/files/menara_wp_17.pdf.
- Boucek, C. 2011. "Islamist Terrorists in Libya". *Carnegie Endowment for Peace*. <https://carnegieendowment.org/2011/05/11/islamist-terrorists-in-libya-pub-43951>.
- Ghalioun, Burhan 2015, *The Arab Predicament: putting state against Nation*, Arab Center for Research and Policy Studies.
- Collier, P. 2000. "Economic Causes of Civil Conflict and Their Implications for Policy", *Economics of Crime and Violence Paper*, World Bank, Washington DC.
- Collier, P. and Benedikt Goderis. 2007. "Commodity Prices, Growth, and the Natural Resource Curse: Reconciling a Conundrum." *Economics Series Working Papers WPS/2007-15*, University of Oxford, Department of Economics.
- Collier, P., Anke Hoeffler, and Mans Soderbom. 2004. "On the Duration of Civil War," *Journal of Peace Research*, Vol. 41, No. 3, pp. 253–73
- Collier, P., L. Elliot, H. Hegre, A. Hoeffler, M. Reynal-Querol, and N. Sambanis. 2003. *Breaking the Conflict Trap. Civil War and Development Policy*. Oxford: Oxford University Press.
- Daw, M. A., El-Bouzedi, A. H., and Dau, A. A. 2019. "Trends and patterns of deaths, injuries and intentional disabilities within the Libyan armed conflict: 2012-2017". *PloS one*, 14(5), e0216061.
- Devarajan, S. and Lili Mottaghi, 2016. "Les effets économiques de la guerre et de la paix", *Bulletin trimestriel d'information économique de la région Moyen-Orient et Afrique du Nord*, (janvier), Banque mondiale, Washington, DC. <https://www.banquemondiale.org/fr/region/mena/publication/mena-quarterly-economic-brief-january-2016>
- Devarajan, S. and Lili Mottaghi, 2017. "L'économie de la reconstruction d'après-guerre au Moyen-Orient et en Afrique du Nord", *Rapport de suivi de la situation économique au Moyen-Orient et en Afrique du Nord* (avril), Banque mondiale, Washington, DC.

- Eaton, T. 2018. "Libya's War Economy: Predation, Profiteering and State Weakness". *Chatham House*.
- Elbadawi, I.; B. Fallah; M. Louis; S. Makdisi; J. Youssef; R. Albinyana and S. Tumen. 2019. "Repatriation of Refugees from Arab Conflicts: Conditions, costs and scenarios for reconstruction". *FEMISE Euromed Report 2019*. http://www.femise.org/wp-content/uploads/2019/09/FEMISE_EuroMed4-FINAL-small-upd.pdf.
- Fraihat, I. 2011. "Imperatives for Post-Conflict Reconstruction in Libya", *Brookings*. https://www.brookings.edu/wp-content/uploads/2016/06/12_libya-reconstruction_sharqieh.pdf.
- Frederic Wehrey. 2019. "A Minister, a General, and the Militias: Libya's Shifting Balance of Power". *Carnegie Endowment for International Peace*. <https://carnegieendowment.org/2019/03/19/minister-general-and-militias-libya-s-shifting-balance-of-power-pub-78632>.
- Gates, S., H. Hegre, H.M. Nygard, and H. Strand. 2010. "Consequences of Armed Conflict in the Middle East and North Africa Region." *Mimeo*.
- Geha, C. 2016. "Understanding Libya's Civil Society". *Middle East Institute*. <https://www.mei.edu/publications/understanding-libyas-civil-society>.
- Gelb, Alan. 1988. *Oil Windfalls: Blessing or Curse*. New York: Oxford University Press (for the World Bank).
- Ghalioun, B. 2015. "The Arabic Predicament: Putting the State against Nation". *Arab Center for Research and Policy Studies*.
- Glick, R. and A.M. Taylor. 2008. "Collateral Damage: Trade Disruption and the Economic Impact of War." NBER Working Paper 11565. Cambridge: National Bureau of Economic Research.
- Golino, F. R. 1970. "Patterns of Libyan National Identity". *Middle East Journal* Vol. 24 No.3 pp. 338-352.
- Human Rights Watch. 2018. "Libya: Events of 2018". <https://www.hrw.org/world-report/2019/country-chapters/libya>.
- IOM Displacement Tracking Matrix. January-February 2019. "IDP and Returnee Report Round 24 – Libya Mobility Tracking". <http://www.globaldtm.info/libya/>.
- International Crisis Group. 2018. "After the Showdown in Libya's Oil Crescent". Report No. 189. <https://www.crisisgroup.org/middle-east-north-africa/north-africa/libya/189-after-showdown-libyas-oil-crescent>.
- International Monetary Fund. 2012. "Libya beyond the revolution : challenges and opportunities", Washington, D.C.
- International Monetary Fund. 2013. "Libya, 2013 Article IV Consultation". IMF Country Report No. 13/150.
- Karam, F and Zaki, C. 2016. "How Did Wars Dampen Trade in the MENA Region?", *Applied Economics*, vol. 48 no. 60, pages 5909-5930.
- Kawczynski, D. 2011. *Seeking Qaddafi: Libya, the West and the Arab Spring*. Biteback Publishing.
- Kersten, M. 2015. "Transitional Justice without a Peaceful Transition- The Case of Post Qaddafi Libya". *Center for Research on Peace and Development (CRPD) Working Paper* No. 38.

- Ladjal, T. 2016. "Tribe and State in the History of Modern Libya: A Khaldunian reading of the development of Libya in the modern era 1711-2011". *Cogent Arts and Humanities* Vol. 3 Issue 1. Access date: May 28th, 2019.
<https://www.tandfonline.com/doi/full/10.1080/23311983.2016.1183278>.
- Libyan Political Agreement. 2015.
<https://unsmil.unmissions.org/sites/default/files/Libyan%20Political%20Agreement%20-%20ENG%20.pdf>
- Massiah, E, M. Abdalla and K. Garber. 2018. "Is there a doctor in the house? The challenge of primary health care in Libya". Brookings. <https://www.brookings.edu/blog/future-development/2018/12/10/is-there-a-doctor-in-the-house-the-challenge-of-primary-health-care-in-libya/>.
- OHCHR. 2016. "Investigation on Libya". A/HRC/31/CRP.3.
- Oneal, J. and B. Russett. 1999. "Assessing the Liberal Peace with Alternative Specifications: Trade Still Reduces Conflict." *Journal of Peace Research* 36(4): 423-442.
- Page Fortna, V. 2008. *Does Peacekeeping Work? Shaping Belligerents' Choices after Civil War*, Princeton: Princeton University Press.
- Pollins, B. 1989a. "Conflict, Cooperation, and Commerce: The Effect of International Political Interactions on Bilateral Trade Flows". *American Journal of Political Science* 33:737-61.
- Sab, R. 2014. "Economic Impact of Selected Conflicts in the Middle East: What Can We Learn from the Past?". IMF Working Paper Middle East and Central Asia Department, <https://www.imf.org/external/pubs/ft/wp/2014/wp14100.pdf>
- Sachs, Jeffrey, and Andrew Warner. 1995. "Natural Resource Abundance and Economic Growth". NBER Working Paper 5398. Cambridge, Mass.
- Salem, P. and A. Kadlec. 2012. "Libya's Troubled Transition, Carnegie Middle East Center. <https://carnegie-mec.org/2012/06/14/libya-s-troubled-transition-pub-48511>.
- Sika, Nadine. 2014, "the Arab State and social Contestation" Beyond the Arab Spring: the Evolving ruling bargain in the Middle East, pp 73-98.
https://www.researchgate.net/profile/Nadine_Sika/publication/299887393_The_Arab_State_And_Social_Contestation/links/57da760e08ae4e6f18429db4.pdf
- UNDP. "Towards National Reconciliation in Libya".
- UNHCR. 2019. "Libya UNHCR Update".
<https://data2.unhcr.org/en/documents/download/68641>.
- Vandewalle, D. 1986. "Libya's Revolution Revisited". *MERIP Middle East Report* No. 143.
<http://www.jstor.org/stable/3012013?origin=JSTOR-pdf>.
- Varvelli A. et al. 2017. "State Building in Libya: integrating Diversities, Traditions and Citizenship". *The Monograph of Reset DOC*.
- Wehrey, F. 2012. "The Wrath of Libya's Salafis". *Carnegie Endowment for International Peace*. <https://carnegieendowment.org/sada/49364>
- World Bank. 2011. "Reducing Conflict Risk: Conflict, Fragility and Development in the Middle East and North Africa." Washington DC: World Bank Sustainable Development Department, Middle East and North Africa Region.
- World Bank. 2012. Rapid assessment of the Libyan labour market, World Bank.

World Bank. 2019. “International Bank for Reconstruction and Development and International Finance Corporation and Multilateral Investment Guarantee Agency Country Engagement Note for the State of Libya for the Period 2019-2021”.

Websites:

1. <https://www.reuters.com/article/us-libya-security-economy-exclusive/exclusive-libyas-un-backed-government-readies-new-war-funding-but-hopes-vital-business-to-continue-idUSKCN1S21M6>
2. <https://www.hrw.org/fr/world-report/2019/country-chapters/325756>
3. <http://www.libyabodycount.org/table>
4. https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/2019_lby_hno_draftv1.1.pdf
5. https://www.unicef.org/appeals/files/UNICEF_Libya_Humanitarian_SitRep_March_2019.pdf
6. <https://www.who.int/hac/crises/lby/sitreps/libya-infographic-health-situation-october2017.jpg?ua=1>
7. https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/2019_lby_hno_draftv1.1.pdf