

# Unpacking the impact of conflict economy dynamics on six Libyan Municipalities



Peaceful  
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# EXECUTIVE SUMMARY

## NATIONAL-LEVEL CONFLICT ECONOMY DYNAMICS AND THEIR LOCAL IMPACTS

The impact of the conflict economy on the Libyan population has been severe: security conditions have worsened, the economic situation has become more uncertain, state services have deteriorated, and the resources available to Libyans to cover essential needs have diminished.

The development of Libya's conflict economy has eroded the ability of the state to provide for its citizens, leaving Libyans unable to rely on the state as they have in the past. These dynamics have created greater incentives for engagement in the private sector, but the relative absence of the rule of law has also seen the illicit sector expand dramatically. As a result of the collapse of state control, competitive security markets continue to shape local economies, while state resources are distributed along patronage-based lines.

Libya's conflict economy pervades all aspects of Libya's economy, not only the informal and illicit aspects more commonly associated with violence. Competition for control of Libyan state institutions continues to connote control of political rents derived from access to oil revenues. This has been particularly notable in the security sector, where armed groups were absorbed into state institutions. These dynamics have led to a situation whereby the state is the primary source of income and the means of supporting an array of patronage networks rather than a platform providing effective governance for the population.

The emergence of parallel governments and institutional leaderships has exacerbated the state's governance failings. While armed forces in the west of the country are focused on penetrating and undermining state institutions based there, armed forces in the east of the country have sought to dominate and supplant institutions operating from the east.

Against this backdrop, several mercenary groups formed of fighters from external states continue to play a significant role on the ground. These groups have sought to develop their own sources of revenue, through engagement in trading arms, the establishment of impromptu checkpoints for extortion purposes, overland smuggling of goods and direct engagement in the human smuggling and trafficking sector.

As the state remains the overwhelming source and distributor of wealth, local dynamics are deeply affected by the performance of central government and state institutions. The economic challenges facing Libyan communities across the country are similar: mounting prices, poor services and infrastructure, and a growing illicit sector.

Government dysfunction and disputes over budgeting processes have led to regular delays over the distribution of salaries, while the weaknesses of the banking sector and an enduring liquidity crisis have meant that most Libyans have been unable to directly access the funds supposedly in their accounts.

State employment remains the only form of income for many Libyans. Nonetheless, Libyans are increasingly engaging in the private sector in order to meet their needs. This is particularly true for Libya's youth, where public sector employment has not kept pace with the growing youth bulge. However, the private sector is reported to cater less effectively for women as they are less likely to provide social benefits, such as maternity leave.

State spending has failed to underwrite development and the provision of services, leading to infrastructure decay in critical sectors such as oil, electricity and water. The electricity sector's failures of management have meant that Libyans have been subjected to regular and lengthy power cuts in the hottest months of the year. These have been the source of significant anger among the population, contributing to the emergence of political protests across the country.

The expansion of the conflict economy has meant that subsidised goods are increasingly unavailable. While cross-border smuggling of refined fuels to neighbouring states has been well established and long standing, much of Libyan fuel is now diverted before it even reaches the pump. These activities generate significant profits for smuggling groups and armed actors that control the security markets and mean that much of the population does not benefit from the significant subsidies the state provides to refined fuels.

Human smuggling and trafficking have become a prominent vector of Libya's conflict economy. Their emergence is the result of a complex confluence of factors, including domestic Libyan dynamics such as the collapse of state authority, the development of competitive security markets, local economic collapse, and the attendant reduction in employment opportunities for migrant workers. But it is also driven by factors in the countries of origin of the migrants, and complicated by the reduction of available legal channels of migration to Europe from those countries.

The variance between the black market rate and the official rate of exchange of the dinar opened up a new vector in the conflict economy. Those who could access foreign currency at the official rate and sell at the black market rate were able to make huge profits. Networks of corrupt businessmen and officials utilised a range of strategies to financially benefit from letters of credit (LCs). Armed groups also got in on the act, using their coercive influence over banks to leverage LCs. Small businessmen unable to access the LC system of the CBL had no other choice but to utilise black market financing mechanisms to access foreign currency to import goods.

Investment in real estate has become a major vector of the conflict economy as those who have made significant profits look for ways to invest their funds. This has contributed to a marked increase in real estate prices, making it more difficult for local residents to afford housing.

As of June 2021, an estimated 212,000 people were displaced in Libya. Unsurprisingly, the impact of displacement has been concentrated in areas that have been subject to local conflict. The presence of large numbers of IDPs has had a negative impact on community relations, fuelling competition between host and displaced communities over scarce resources and access to goods and services, and often feeding into divisive narratives.

The challenges associated with the COVID-19 pandemic have laid bare the weaknesses of the Libyan state. The state response was slow and ineffective. Funding mobilised by the government for the coronavirus response was reportedly subject to diversion. The impacts of conflict, the ongoing COVID-19 pandemic and rising costs of living have further eroded the coping ability of Libyans.

## LOCAL FACTORS INFLUENCING CONFLICT ECONOMY DYNAMICS

Communities that have succeeded in averting outbreaks of localised conflict have been more successful in mitigating the impacts of Libya's conflict economy. Conflict and the subsequent collapse of law and order have made movement more dangerous and more expensive, for residents and commercial activities alike. Insecurity has had a greater impact on the ability of women to play a role in economic life than that of men.

Good relations with neighbouring communities mitigate the impact of the conflict economy. The accessibility of an area is important in determining its level of resilience to shocks caused by conflict.

Another feature of Libya's conflict economy is the emergence of a large number of zones of control, dominated by rival armed factions. This has led to the proliferation of checkpoints that extort fees from those passing through the zones of control. These dynamics deeply impact trade flows. Informal taxation on the flow of goods makes them increasingly expensive by the time they reach market.

The geographic location of some cities has left them better able to mitigate the challenges posed by conflict economy dynamics. Port cities have means of sustaining direct access to external markets. Those in proximity to Libya's borders are key transit points for cross-border trade flows. Yet, the nature of the goods that traverse these international borders has pushed these locations' economies towards the thriving illicit sector and towards economic activities with greater proximity to violence.

The degree of development in the local economy and the availability of resources directly impacts the local economy and means of generating revenues. The presence of functional banking services and the strength of the private sector shape the coping mechanisms of local residents.

Assistance from international donors has become critical in supporting local responses to conflict economy structures. Tangible support to local communities in the aftermath of conflict has been beneficial. In other cases, the impact of international support has incentivised more questionable behaviours. This is particularly notable in the provision of support to Libyan state institutions affiliated with the Department for Countering Illegal Migration, where large funding opportunities have provided incentives for Libyan actors to profiteer at the cost of endemic rights abuses of migrants.

## CONCLUSIONS

Local economic conditions are influenced by national-level dynamics. While local communities cannot insulate themselves from national problems, the impact of the conflict economy can be mitigated: through targeted support to strengthen local cohesion and stability, develop local economic opportunities, and improve individual and community resilience. Donors and implementers should provide support and advocate for national-level initiatives that can alleviate challenges in local contexts. They should then seek to harmonise their local interventions with these national interventions in a 'joined-up' and coordinated way.

## RECOMMENDATIONS

- 1 Promote a twin-track approach whereby local interventions are supported by the implementation of national-level reforms that address structural issues.
- 2 Ensure that economic recovery programmes support communities' resilience to the adverse effects of the conflict economy.
- 3 Incorporate conflict sensitivity considerations into the planning, design and delivery of livelihood interventions.
- 4 Incorporate anti-corruption into organisational and programme policy and practice.
- 5 Support strategies that reduce the role played by violence, and violent actors, in local economic activity.
- 6 Work with private-sector medium enterprises to diversify and strengthen local livelihoods.
- 7 Support livelihood and peacebuilding interventions that strengthen the capacity of communities to mitigate the impact of the conflict economy.
- 8 Establish economic-social peace partnerships that can promote pro-peace business activities across conflict divides.
- 9 Foster economic and trade cooperation between cities and towns that can be conducive to reconciliation and stronger inter-community relations.
- 10 Conduct further analysis to better understand the connections between gender, youth, and the conflict economy in target areas.

# AIMS, METHODOLOGY AND NOTES ON SOURCES

This paper seeks to analyse the impacts of conflict – both direct and indirect – on the Libyan population in order to understand the range of incentives involved in engagement in economic activity in Libya. The main goal of this research is to inform PCI’s programming, providing tangible recommendations for conflict-sensitive peace and livelihoods interventions that build positive community dynamics and mainstream gender and inclusion approaches. More broadly, the analysis also aims to contribute to the existing body of research on the political and conflict economies of Libya

The paper is informed by

- (i) available studies and literature on conflict economy dynamics, including recent assessments by PCI Libya teams and
- (ii) original research on six case studies: Tobruq, Ajdabiya, Sabha, Ubari, Zliten, and Bani Walid. These come in the form of 18 key informant interviews with local officials (three in each case study location), 12 focus group discussions (two in each case study location) and commissioned fieldwork assessing dynamics in the illicit sector in Ajdabiya, Tobruq and Zliten.

The interviews and focus group discussions were conducted during June and July 2021. Key informants and focus group participants were selected to achieve the best possible gender, age and social status balance. However, it should be noted that these findings do not constitute a representative survey of local attitudes. The findings of the research are qualitative and should be treated as such.

Quantitative data<sup>1</sup> on Libya’s economy is limited, particularly at the sub-national level, making it difficult to draw robust conclusions. Quantitative data is drawn upon where possible, but the thrust of this analysis remains qualitative in nature, particularly with reference to the impact of conflict dynamics on economic systems.

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1. Many quantitative assessments continue to draw upon data from the 2013 Labour Force Survey. Data on small and medium enterprises (SMEs) is historic, emanating from the 2006 Business Census. Studies on the private sector undertaken by the World Bank in 2018 and the recently published 2021 UNDP Labour Market Assessment (LMA) reflect the most up-to-date datasets for quantitative analysis, but are limited in scope and do not cover all of the localities analysed in this paper. The LMA generates quantitative data in 14 cities, including Ajdabiya, Bani Walid, Sebha, and Ubari, which are case studies for this paper, but it does not cover Tobruq and Zliten. Further quantitative data is drawn from the work of the Cash and Markets Working Group, which has been assessing the prices of goods across Libya since 2017.

# INTRODUCTION

Since the overthrow of the regime of Muammar Gaddafi in 2011, significant attention has been paid to analysing Libyan conflict dynamics and the challenges of post-revolutionary state building. The proliferation of armed groups across the country has drawn particular attention and has been identified as a critical impediment to the re-assertion of state control over the security sector. Indeed, while traditional doctrines of security sector reform (SSR) and disarmament, demobilisation and reintegration (DDR) identify pathways for state authorities to wield command and control over the security sector, in Libya the process has effectively operated in reverse: armed groups have wielded a degree of control over institutions across the country.<sup>2</sup> Analysis of the political process has focused on the transitional roadmap of Libya, identifying means of developing a sustainable basis for representative government and supporting the delivery of functional governance through Libya's weak state institutions.

## The proliferation of armed groups across the country has drawn particular attention and has been identified as a critical impediment to the re-assertion of state control over the security sector

Libya's myriad local conflicts and national level struggles reflect a process of fragmentation that defies binary categorisations. In the years following the revolution, comparatively little attention was paid to the exploration of economic drivers of conflict in Libya. Yet, more recently, the balance has been redressed with the exploration of the development of Libya's conflict economy, through which a wide array of actors and groups continue to compete for power and influence. This lens also began to draw greater attention from policymakers. The former UN Special Representative for Libya, Ghassan Salamé, told the UN Security Council in November 2017 that "politics in Libya is strongly shaped by economic predation."<sup>3</sup> The UN mission subsequently placed significant emphasis on addressing the economic fault lines of the conflict. However, in international policy-making circles this frame of analysis has tended to centre on the activities of armed groups and the patterns of competition among elites vying for control. This has implied that top-down solutions, via effective SSR or elite bargains over government formation, are considered the most effective means of addressing conflict economy dynamics rather than a political process that focuses on structural reforms to effectively address the grievances of Libyans. Engagement on issues of economic governance have been largely treated as technocratic. These dominant policy approaches have effectively framed the Libyan population as passive victims.

2. Eaton, T. et al. (2020), *The Development of Libyan Armed Groups Since 2014: Community Dynamics and Economic Interests*, Chatham House, March 2020, p.36, <https://www.chathamhouse.org/2020/03/development-libyan-armed-groups-2014>

3. United Nations Support Mission in Libya (2017), *Remarks of SRSG Ghassan Salamé to United Nations Security Council – 16 November 2017*, <https://unsmil.unmissions.org/remarks-srsg-ghassan-salam%C3%A9-united-nations-security-council-16-november-2017>

4. Turkmani, R. et al. (2015), *Countering the logic of the war economy in Syria*, London School of Economics and Political Science, <http://eprints.lse.ac.uk/64574/>

This report seeks to contribute to filling a gap in the literature on the societal impact of Libya's conflict economy. In their work on the Syrian conflict, Turkmani et al. argue that the Syrian "war economy" is a "societal condition", "where ordinary people have no choice but to rearrange their lives around the conflict."<sup>4</sup> This observation is applicable in the Libyan context. Libyan armed actors and political elites cannot be assessed in a vacuum, without exploration of the socio-economic context of the communities that they claim to represent.

Such an approach also allows for a more expansive exploration of conflict economy dynamics, which sees the population as participants – willing and unwilling – in conflict economy dynamics. Thus, rather than solely characterising conflict economy dynamics as predation, this report will adapt Chatham House's more expansive definition of a conflict economy as "a system of producing, mobilising and allocating resources to sustain competitive, embedded and structural violence, both directly and indirectly." 'Competitive violence' is the type of violence directly associated with violent conflict. It can be defined as violence "deployed by warring elites to contest or defend the existing distribution of power."<sup>5</sup>

Yet, it is also important to note the presence of 'embedded violence' which can be defined as "how a political settlement works, as the deals agreed between elites may revolve around "who has the 'right' to use violence."<sup>6</sup>

An assessment of embedded violence helps to recognise the dynamics of elite capture and patronage-based structures that underpin Libya's conflict economy. Finally, to better understand the impact on the population, this report assesses the impacts of structural violence, which is "not perpetrated by an actor" but is instead "built into the structure and shows up as unequal power and consequently as unequal life chances."<sup>7</sup> Such an assessment is particularly important when analysing the economic coping strategies of the population.

### **This paper is structured in four sections.**

The first section seeks to characterise the structures of Libya's conflict economy at the national level, before exploring how these dynamics practically impact the lives of the residents of the case study locations (Ajdabiya, Tobruq, Zliten, Bani Walid, Sebha and Ubari).

The second section breaks down the local factors that impact the development of conflict economic dynamics in the case study locations. The interplay between the national and local levels is important, as a significant degree of localism prevails in Libya's conflict and significant variation in conflict economy dynamics exists.

The third section draws some conclusions over the responses of individuals, groups, and communities to those dynamics, assessing the incentive structures that govern engagement in economic activity and shifting patterns in that activity.

Based on this analysis, the paper then presents specific recommendations for livelihood and broader development programming.

5,6.Cheng, C., Goodhand, J. and Meehan, P. (2018), Securing and Sustaining Elite Bargains that Reduce Violent Conflict, UK Stabilisation Unit, London,

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/765882/Elite\\_Bargains\\_and\\_Political\\_Deals\\_Project\\_-\\_Synthesis\\_Paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/765882/Elite_Bargains_and_Political_Deals_Project_-_Synthesis_Paper.pdf)

7. Galtung (1969), Violence, Peace, and Peace Research, Journal of Peace Research, 6(3), pp.167–191, <https://www.jstor.org/stable/422690>

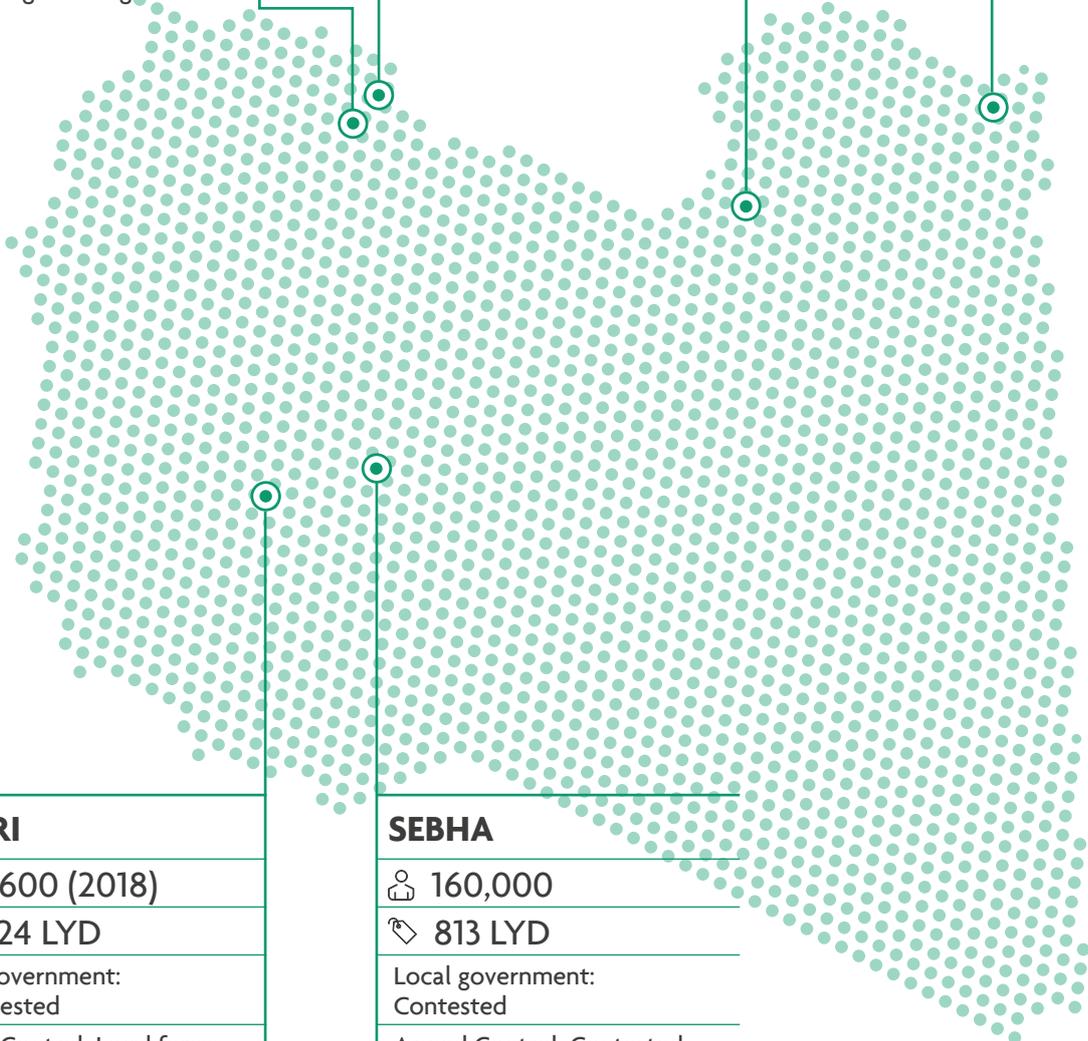
# CASE STUDY LOCATIONS

<b>BANI WALID</b>
86,129
680 LYD
Local government: Uncontested
Armed Control: Local forces. Forces affiliated to Tripoli authorities have also been active in the city
Conflict: Heavy frontline fighting in 2011 and subsequent internal conflict; tense relations with neighbouring Misrata

<b>ZLITEN</b>
289,000
707 LYD
Local government: Uncontested
Armed Control: Local forces affiliated with Tripoli authorities
Conflict: Has not been subject to local fighting since 2011

<b>AJDABIYA</b>
134,358
723 LYD
Local government: Uncontested
Armed Control: Libyan Arab Armed Forces-affiliated groups
Conflict: Frontline fighting in 2011

<b>TOBRUQ</b>
138,353
630 LYD
Local government: Uncontested
Armed Control: Libyan Arab Armed Forces-affiliated groups
Conflict: Has not been subject to local fighting since 2011



<b>UBARI</b>
31,600 (2018)
1,124 LYD
Local government: Uncontested
Armed Control: Local forces with affiliations to the LAAF, Tripoli authorities and Tuareg social leaderships
Conflict: Extensive localised conflict in the post-2011 period in which a many residents were displaced, particularly between 2014 and 2016. A peace agreement has since held

<b>SEBHA</b>
160,000
813 LYD
Local government: Contested
Armed Control: Contested and divided by a range of local groups. Dominant factions since 2019 are LAAF-affiliated
Conflict: Persistent fighting from 2011–2014. Local groups with national affiliations continue to contest control of the city. A high level of violent crime remains present

Population (est.)  
 Prices (average food basket cost)

	FEATURES OF THE LOCAL FORMAL ECONOMY	FEATURES OF THE LOCAL INFORMAL ECONOMY
<b>AJDABIYA</b>	Located in the Oil Crescent, with the oil sector critical to the local economy	Strategically located as the hub for the movement of goods to south-eastern Libya and Sudan. Used cars and household goods travel south, while Ajdabiya is also a waypoint for movement of illicit goods such as drugs, and movements of irregular migrants
<b>BANI WALID</b>	Livestock, clothing and foodstuffs production	Since 2011, Bani Walid emerged as a key transit and detention zone for the operations of human smuggling and trafficking groups
<b>SEBHA</b>	Economic and transportation hub of the Fezzan region. Previously home to a strong agricultural sector, but this seems to have declined since 2011	Since 2011, Sebha has increased in importance as a transitory centre for smuggling and trafficking routes, with the informal and illicit sector becoming increasingly critical to the local economy
<b>TOBRUQ</b>	Port city with a diverse economy including key elements of Libya's oil infrastructure and strong agricultural sector	Located as a key transit point for cross-border smuggling of goods to Egypt and maritime smuggling via the port. Flows of illegal drugs are believed to have increased significantly in the city in recent years
<b>UBARI</b>	Engagement in the oil sector provides well-paid incomes for some from the city while agriculture and trade form the dominant activities for the majority of the population	Since 2011, Ubari has increased in importance as a transitory centre for smuggling and trafficking routes
<b>ZLITEN</b>	A diverse local economy comprises agricultural production, financial institutions, and hub for transportation of goods, utilising the local port	Zliten is the centre of the black market trade for foreign currency, building on its historic involvement in the gold trade. Zliten's cordial relations with all conflict actors allow the city's drivers to travel freely across the country. The city is also a despatch point for maritime smuggling of irregular migrants to Europe

# NATIONAL-LEVEL CONFLICT ECONOMY DYNAMICS AND THEIR LOCAL IMPACTS

The impact of the conflict economy on the Libyan population has been severe: security conditions have worsened, the economic situation has become more uncertain, state services have deteriorated, and the resources available to Libyans to cover essential needs have diminished. Conflict has internally displaced hundreds of thousands of Libyans and torn at the country's social fabric. There has been little by way of accountability for crimes committed. Despite Libya's resource wealth, 1.3m Libyans were deemed in need of humanitarian assistance by UN OCHA in May 2021<sup>8</sup>. The development of Libya's conflict economy has eroded the ability of the state to provide for its citizens, leaving Libyans unable to rely on the state as they have in the past. These dynamics have created greater incentives for engagement in the private sector, but the relative absence of the rule of law has also seen the illicit sector expand dramatically.

As a result of the collapse of state control, competitive security markets continue to shape local economies, while patterns of elite capture distribute the resources of the state along patronage-based lines. The result of these dynamics is an economic system that is overwhelmingly extractive, where actors compete for control of the resources that flow from the revenues of oil and gas. It is competitive rather than cooperative, and motivations appear overwhelmingly parochial rather than national.

## THE STRUCTURES OF LIBYA'S CONFLICT ECONOMY

Libya's conflict economy pervades all aspects of Libya's economy, not only the informal and illicit aspects more commonly associated with violence. Libya's economy is highly dependent on hydrocarbons: 96% of the state's revenues derived from oil and gas in 2013, making Libya among the world's least diversified economies.<sup>9</sup> The Gaddafi regime's 'Libyanisation' policies of the 1970s eviscerated the private sector, concentrating wealth and power in the hands of those in control of state institutions and state-owned enterprises. While there were attempts in the 2000s to introduce market-based reforms and to underwrite a major development programme, these efforts were undermined by corruption and cronyism. Sectors such as banking remain overwhelmingly state-controlled and the plethora of state-owned institutions continue to operate in the market with uncompetitive advantages and little oversight.<sup>10</sup>

In post-revolutionary Libya, competition for control of Libyan state institutions continues to connote control of political rents derived from access to oil revenues. The most direct examples of this are control over government ministries. This has been particularly notable in the security sector, where armed groups were absorbed into state institutions. Yet, this central feature of the conflict economy also has cascading impacts that are less direct. For example, control of the board of directors of a state institution implies the ability to appoint the members of the board of its subsidiaries. These positions are often highly paid as they are rarely subject to fixed government pay scales. In other cases, those in positions of power within state-owned enterprises are able to negotiate contracts with private enterprises despite the existence of conflicts of interest. These dynamics have led to a situation whereby the state is the primary source of income and the means of supporting an array of patronage networks rather than a platform providing effective governance for the population. State resources effectively exacerbate competition among rival actors, thereby fuelling conflict rather than mitigating it.

8. OCHA Libya | Humanitarian Bulletin, May 2021, <https://reliefweb.int/report/libya/ocha-libya-l-humanitarian-bulletin-may-2021-enar>

9. International Monetary Fund (2013), Libya: 2013 Article IV Consultation, <https://www.imf.org/external/pubs/ft/scr/2013/cr13150.pdf>

10. Eaton, T. (forthcoming 2022), The Battle for Control of Libya's State Institutions and the Impact on the Population, World Bank

**96%****of the state revenues derived from oil and gas**

in 2013, making Libya among the world's least diversified economies

**1.3m****Libyans were deemed in need of humanitarian assistance**

by UN OCHA in May 2021

**COMPETITION WITHIN LIBYA'S CONFLICT ECONOMY**

The collapse of central authority in Libya in 2011 soon led to an increase of criminality and the rapid expansion of the illicit sector as armed factions and their communities competed for control of economic assets, markets and trade routes. The illicit sector's expansion was underpinned by the expansion of security markets, which generate profits from privileged access to finance and illicit taxation for the movement of goods and people. These security markets continue to be dominated in large part by local security actors. The shape of these illicit markets varies by location and the available economic opportunities. In Tripoli, the location of state institutions and banks has provided opportunities for armed groups to leverage their security control for financial gain.<sup>11</sup> In other areas of the country, particularly those where access to funding from the state is more limited such as the south, engagement in the smuggling of people, fuel and other goods has been more prevalent.

Conflict actors, and the communities they claim to represent, have leveraged their control of state assets to support their political demands. These dynamics have been most damaging in the oil sector. An extended oil blockade in the oil crescent between 2013 and 2016, led by a local leader seeking the federalisation of the country (and its revenues from oil), is estimated to have cost Libya \$100bn in lost revenues.<sup>12</sup> The Central Bank of Libya placed cumulative losses from oil blockades at \$160bn in August 2017.<sup>13</sup> A further blockade of eastern oil ports from January to September 2020, initiated two days ahead of a major international peace conference on Libya, is believed to have cost more than \$9bn in lost revenues.<sup>14</sup> Control of Libya's oil and gas infrastructure has been a key prize in the conflict for the political capital that it connotes. Major oilfields, particularly Sharara in the south, have been subject to regular shifts in the composition of the forces that control them. But these battles have also displayed distinctly local dynamics over demands for pay, rights and citizenship. The loss of revenues resulting from the oil blockade have led to the imposition of austerity measures by the CBL, contributing towards the development of a liquidity crisis and price inflation, and fuelling the expansion of the black market.

11. Notably, the strategies of Tripoli-based armed groups became less overt in the post-2016 period as privileged access to resources and engagement in financial schemes had become more established. See Lacher, W., and al-Idrissi, A. (2018) Capital of Militias: Tripoli's Armed Groups Capture the Libyan State. Small Arms Survey, <http://www.jstor.org/stable/resrep20046>.

12. Eaton, T. (2018) Libya's War Economy, Chatham House, April 2018, p.22, <https://www.chathamhouse.org/sites/default/files/publications/research/2018-04-12-libyas-war-economy-eaton-final.pdf> 12.

13. El-Tablawy, T. and El Wardany, S. (2017) Libya's Central Bank Sends Warning About Slashed Oil Production, Bloomberg, 29 August 2017, <https://www.bloomberg.com/news/articles/2017-08-29/libya-central-bank-issues-revenue-warning-over-oil-disruption>

14. Al Jazeera, Libya's NOC lifts force majeure on oil in ports without fighters, 19 September 2020, <https://www.aljazeera.com/economy/2020/9/19/libyas-noc-lifts-force-majeure-on-oil-in-ports-without-fighters>

## THE IMPACTS OF CONFLICT ON ECONOMIC GOVERNANCE

The emergence of parallel governments and institutional leaderships has exacerbated the state's governance failings. Following the outbreak of a second bout of civil conflict in 2014, rival governments claimed legitimacy and allied with competing military forces. The Tripoli-based Government of National Accord (GNA), which governed from March 2016 to March 2021, failed to become the national unity government it was intended to be. Without a working relationship with the eastern-based rump of the House of Representatives, the GNA was reliant on the development of emergency budgets and irregular financing mechanisms, entrenching a transactional structure of economic governance. In the east, the Interim Government – which did not step aside following the appointment of the GNA as the political process envisioned – was denied direct access to revenues from oil and gas sales. This led the Interim Government to fund its expenditure from the issuance of bonds to commercial banks, creating an economic system based on debt.

While armed forces in the west of the country focused on penetrating and undermining state institutions based there, armed forces in the east of the country sought to dominate and supplant institutions operating from the east.<sup>15</sup> The GNA was unable to extend its writ meaningfully beyond Tripoli and it possessed little control over the armed groups that were nominally affiliated to it in the capital. In the east, the Libyan Arab Armed Forces (LAAF) of Field Marshal Khalifa Haftar wielded extensive influence over the eastern-based authorities,

receiving significant funding and benefiting from the passing of (contested) legislation to provide the LAAF advantages that would enable them to dominate the private sector through the development of its Military Investment Authority.

The outbreak of a third bout of civil conflict in 2019 led to external actors becoming increasingly influential in determining the trajectory of Libya's conflict. In April 2019, Haftar's LAAF launched an offensive to capture Tripoli, only weeks before a scheduled UN peace conference. As the offensive stuttered, the LAAF became increasingly reliant on Wagner Group and Sudanese mercenaries. In response, GNA-aligned forces obtained direct support from Turkey. The engagement of these external actors has further complicated conflict economy dynamics as they seek economic and political compensation for their support.<sup>16</sup>

Against this backdrop, a number of mercenary groups formed of fighters from external states continue to play a significant role on the ground. This has particularly been the case in the Oil Crescent, where Sudanese armed groups have operated in support of the LAAF, while Chadian groups have also continued to operate. These groups have sought to develop their own sources of revenue, through engagement in trading arms, the establishment of impromptu checkpoints for extortion purposes, overland smuggling of goods and direct engagement in the human smuggling and trafficking sector.

## THE RE-ESTABLISHMENT OF UNIFIED GOVERNMENT?

The Government of National Unity (GNU), appointed in March 2021 following a ceasefire signed the previous autumn, is the first unified government in Libya since 2014. However, familiar problems remain. The GNU appears to represent a perpetuation of existing rentier dynamics, with the government positions divided among representatives from a broad array of constituencies. Under the GNU, the state remains highly fragmented and unable to wield coercive force to those that challenge its authority.

Those in charge of state institutions are subject to highly limited formal oversight. Corruption is rampant: the country is ranked 173 out of 180 in the corruption perception index compiled by Transparency International. Nearly two-thirds of Libyan companies polled by the World Bank said corruption had worsened since 2013, citing the need to pay bribes to obtain financing, and to ensure safe transportation.<sup>17</sup> Yet those who have misused state funds have faced little sanction. Amid conflict, political leaders have found creative ways to provide funding to armed factions, an approach in part justified by the argument that the absence of a unified government and functional relationship with parliament has precluded formal budgeting. This has established a vicious cycle whereby the continuation of these approaches makes the consolidation of state control and the provision of effective state services more distant.

15. Eaton (2022), The Battle for Control of Libya's State Institutions

16. Notably, following its appointment in March 2021, the Government of National Unity (GNU) was quick to agree memorandums of understanding over development projects to be implemented by contractors in Turkey and Egypt, while the House of Representatives has continued to engage with Greece over development projects of its own. Outreach to international players as a means of obtaining support is a clear feature of the precarious balance of power currently found.

17. Rahman, A. and Di Maio, M. (2020), The Private Sector amid Conflict: The Case of Libya. International Development in Focus, World Bank, November 2020, <https://openknowledge.worldbank.org/handle/10986/34818>.

## THE LOCAL IMPACT OF DYSFUNCTIONAL CENTRALISED GOVERNANCE

Local communities cannot insulate themselves from the impacts of the national-level conflict dynamics described above. As the state remains the overwhelming source and distributor of wealth, local dynamics are deeply affected by the performance of central government and state institutions. The economic challenges before Libyan communities across the country are similar: mounting prices, poor services and infrastructure, and a growing illicit sector.

### LACK OF SUPPORT TO LOCAL GOVERNMENT

Officials in all case study locations, especially within municipal councils, bemoan the lack of financial support from central government. Relationships between central and local government entities appear to operate on a transactional basis. In Sebha, an area where the GNA and the LAAF were competing for influence, local leaders sought to play the GNA and the Interim Government off against one another in order to obtain much needed financial support. “Funds and support were given to the municipal council by both governments,” said one local official in Sebha, “but it was done behind closed doors and was not visible to the public.”<sup>18</sup> In 2019, the mayor announced that he would no longer report to the GNA and would instead report to the Interim Government. This announcement led to the GNA announcing the suspension of funding for the council and the development of a Tripoli-based replacement.<sup>19</sup> Only officials from Tobruq were able to confirm receipt of meaningful financial support from the central government. Indeed, despite the presence of the House of Representatives faction in Tobruq (and its support of the Interim Government), a local official noted that the Interim Government “had not even provided a single dinar” to the municipality.<sup>20</sup> The municipality instead retained a working relationship with the GNA because it controlled some of the municipality’s service-providing sectors and channelled some financial assistance. One notable project that appears to have received GNA funding is the development of Tobruq’s corniche.<sup>21</sup>

Some local authorities complained of a complete absence of funding. An official from Ajdabiya said that “no funding has been provided by any government. The Interim Government promised us 100 million dinars, but it was just a promise.”<sup>22</sup> Officials from all six case study locations noted that no funds had been forthcoming from the GNU at the time of interview (July 2021) as no budget had yet been passed. Views differed over the potential for improvement under the GNU; some officials were optimistic and others sceptical. A local state employee in Bani Walid said that he held little hope for a more constructive relationship with the GNU, characterising the relationship as predicated on “deception and exploitation of opportunities.”<sup>23</sup>

While expressing optimism for the municipal council elected in Ubari in 2018, local residents reflected that it had achieved little, in large part due to an absence of funding from the GNA.<sup>24</sup> An official from Bani Walid, whose community had a distant relationship with the GNA, said that the government had failed to provide funds to help the community recover the damage to the local economy. He cited the significant loss of jobs that followed the closure of Bani Walid’s wool factory as a case in point. In September, the GNU announced that it had begun to transfer competencies to the municipalities and issued a regulation that would allow municipalities to generate their own local revenues. However, at the time of writing, wrangling between the GNU and the House of Representatives continues, leaving progress on this issue in question. Even so, the GNU’s recognition of the need to move away from a ‘culture of centralisation’ is a notable impulse. Unsurprisingly, the GNU’s initiative was met with support from municipalities.

18. Interview with local official (man), Sebha, June 2021

19. Interview with local official (woman), Sebha, June 2021

20. Interview with local official (man), Tobruq, June 2021

21. Ben Ali, F. (2020), Contract signed for the construction of Tobruq Corniche for the value of 4 million dinars, al-Wasat, 1 June 2020 (Arabic), <http://alwasat.ly/news/libya/284890>

22. Interview with local official (man), Ajdabiya, June 2021

23. Interview with local academic and director of local NGO (man), Bani Walid, June 2021

24. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021

### GOVERNMENT SALARIES PROVIDE LIMITED BENEFIT TO LOCAL COMMUNITIES AND CANNOT STEM UNEMPLOYMENT

Government spending on the state payroll expanded significantly since 2011, but this has not led to improvements in the lives of Libyans in case study locations owing to broader weaknesses in the economy. By 2015, 85% of the labour force was estimated to have been employed in the public sector.<sup>27</sup> In October 2020, the public wage bill had swelled to 27.8bn dinars, equivalent to around 86% of GDP, and included the salaries of armed actors fighting one another for control of the country. The World Bank notes that this is the costliest wage bill in the world. However, government dysfunction and disputes over budgeting processes have led to regular delays over the distribution of salaries for months on end, while the weaknesses of the banking sector and an enduring liquidity crisis have meant that most Libyans have been unable to directly access the funds supposedly in their accounts. “The current problem is that these salaries are not paid on time,” residents of Ubari told PCI, “and even when they are paid, there is no liquidity in the banks.”<sup>28</sup> Residents of Sebha said that they were only able to get their salaries from the bank every four or five months.<sup>29</sup> Moreover, it should be noted that while state salaries are standardised across the country, the cost of living can differ considerably, as will be noted in this report.

Nonetheless, the state-centric nature of Libya’s economy means that state employment remains the only form of income for many Libyans. “The only entities that provide jobs are government sectors,” said a local official in Ubari.<sup>30</sup> Nonetheless, as will be illustrated later in the report, Libyans are increasingly engaging in the private sector in order to meet their needs. This is particularly true for Libya’s youth, where public sector employment has not kept pace with the growing youth bulge: 30% of Libya’s population was under 14 in 2015. A youth unemployment rate of 49% is currently estimated. However, the private sector is reported to cater less effectively for women as they are less likely to provide social benefits, such as maternity leave. Women are reported to be more likely to work in the public sector compared to men (97.6% of working women, compared to only 83.1% for men). A recent study found that women were more than 12 times more likely to be unemployed than men, with 61% of Libyan women already unemployed before the coronavirus pandemic struck.<sup>31</sup> Nonetheless, it is clear that more women have entered the labour market as a result of Libya’s governance crisis, with as many as 40% of them serving as their head of household.<sup>32</sup>

### POOR SERVICES AND INFRASTRUCTURAL DECAY

State spending has failed to underwrite development and the provision of services, leading to infrastructure decay. A corollary of the absence of the budgeting process has been a failure to underwrite the chapter of the state budget earmarked for development, and the money that has been spent has been subject to diversion and a target of corruption. This has denied funding to critical sectors such as oil, electricity and water, and had a cascading impact on the provision of other services, such as power generation – which relies to a significant degree on hydrocarbons to power its grid – and the provision of subsidised fuels.

The electrical grid of the state-owned GECOL and pump stations of the Great Man-Made River Authority have also been subject to intentional damage as a means of imposing hardship on the communities of rival armed factions. In some prominent cases in the water and electricity sector, shutdowns have been used as bargaining chips to achieve the release of prisoners.<sup>33</sup> Both sectors have also had to deal with criminality. In just one incident in August 2021, GECOL reported that 3,690 metres of high voltage electricity wires had been stolen,<sup>34</sup> presumably for resale on the flourishing market for scrap metal.

25. Interview with local academic (man), Bani Walid, June 2021

26. Al Wasat (2021), Dabaiba: We are continuing to transfer competencies to the municipalities, 7 September 2021 (Arabic), <http://alwasat.ly/news/libya/331906>

27. United Nations Development Program (2021), Libyan Labour Market Assessment: February 2021, p.49

28. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021

29. Focus group discussion with 7 residents (5 men, 2 women) of Sebha, Sebha, June 2021

30. Interview with local official (man), Ubari, June 2021

31. United Nations Women (2020), The Economic and Social Impact of Conflict on Libyan Women, January 2020, p.10,

<https://arabstates.unwomen.org/en/digital-library/publications/2020/04/the-economic-and-social-impact-of-conflict-on-libyan-women>

32. Ibid.

The electricity sector's failures of management have meant that Libyans have been subjected to regular and lengthy power cuts in the hottest months of the year. These have been the source of significant anger among the population, contributing to the emergence of political protests across the country in August and September 2020. As of late December 2020, only 13 of 27 power plants were functioning in Libya.<sup>35</sup> Major projects for the building of power stations are seen as connected to political corruption and to the maintenance of relationships between government figures and their counterparts in foreign governments. A study commissioned by the World Bank found that access to electricity was a top constraint for 59% of Libyan businesses across the country (100% of those based in the south).<sup>36</sup> Owing to persistent power outages, many Libyans have become dependent on generators which can cost thousands of dollars and require the purchase of significant amounts of fuel to keep them running.

While representing a success story of sorts, Ubari's power station illustrates these dynamics. Its reconstruction has been subject to delays, owing to the withdrawal of the foreign contractor (as a result of security concerns) and because the requisite power lines to connect the station were not installed.<sup>37</sup> Nonetheless, local residents noted that the stability of electricity from the reopened power station has helped to rejuvenate the agricultural sector in the region.<sup>38</sup>

### LACK OF AVAILABILITY OF SUBSIDISED GOODS AND INCREASES IN SMUGGLING

The expansion of the conflict economy has meant that subsidised goods are increasingly unavailable. Fuel smuggling has increased dramatically since 2011. While cross-border smuggling of refined fuels to neighbouring states has been well established and long standing (drawing a profit on the margin between the heavily subsidised purchase price in Libya and the sale price in the external state), much of Libyan fuel is now diverted before it even reaches the pump. This means that many Libyans, particularly in the south of the country, are unable to purchase fuel at the subsidised rate and must therefore buy it on the black market at heavily inflated rates. As much as one third of the supply of some fuels – such as petrol and diesel – is believed to be diverted to the black market each year in Libya, totalling around 1.3 million tonnes. This would fill roughly 178 Olympic-size swimming pools.<sup>40</sup>

These activities generate significant profits for smuggling groups and armed actors that control the security markets and mean that much of the population does not benefit from the significant subsidies the state provides to refined fuels. Ubari residents complained that “the official price for filling a cylinder with cooking gas is 3 dinars; however, on the black market the price is 60 dinars.”<sup>41</sup> In Sebha, residents noted that the black market rate for petrol was 1.5 dinars a litre, around 10 times the official subsidised rate. “Nothing the government subsidises will reach ordinary people,” they said.<sup>42</sup> One resident of Bani Walid complained that this was a significant problem for the availability of subsidised medicines, which have subsequently increased in price dramatically as they are only available on the black market.<sup>43</sup>

**The official price for filling a cylinder with cooking gas is 3 dinars; however, on the black market the price is 60 dinars.**

33. Fetouri, M. (2020), Weaponising water in Libya despite coronavirus pandemic, Middle East Monitor, 30 April 2020, <https://www.middleeastmonitor.com/20200430-weaponising-water-in-libya-despite-coronavirus-pandemic/>; Al Jazeera (2021), War-weary Libyans yearn for end to daily blackouts, 29 August 2021, <https://www.aljazeera.com/news/2021/8/29/war-weary-libyans-yearn-for-end-to-daily-blackouts>

34. Libya Observer (2021), GECOL announces theft of 3,690 meters of electricity wires in separate areas, 7 August 2021, <https://www.libyaobserver.ly/inbrief/gecol-announces-theft-3690-meters-electricity-wires-separate-areas>

35. World Bank, The Private Sector amid Conflict: The Case of Libya

36. Ibid.

37. Zaptia, S. (2021), GECOL tests first unit at Ubari power station – using Libyan personnel, Libya Herald, 8 July 2021, <https://www.libyaherald.com/2021/07/08/gecol-tests-first-unit-at-ubari-power-station-using-libyan-personnel/>

38. Focus group discussion with 10 residents (6 men, 4 women) of Ubari, Ubari, June 2021

39. <https://chathamhouse.shorthandstories.com/libya-rich-in-oil-leaking-fuel/index.html>

40. Ibid.

41. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021

42. Focus group discussion with 7 residents (5 men, 2 women) of Sebha, Sebha, June 2021

43. Interview with local academic (man), Bani Walid, June 2021

## THE GROWTH OF HUMAN SMUGGLING AND TRAFFICKING

Human smuggling and trafficking have become a prominent vector of Libya's conflict economy. Their emergence is the result of a complex confluence of factors, including domestic Libyan factors such as the collapse of state authority, the development of competitive security markets, local economic collapse, and the attendant reduction in employment opportunities for migrant workers. But it is also driven by factors in the countries of origin of the migrants, and complicated by the reduction of available legal channels of migration to Europe from those countries. The post-2013 industrialisation of the human smuggling sector and the incomes available from engagement within it, either directly – through participation in smuggling activity – or indirectly – through charging fees to smugglers or providing services – are particularly attractive for those in areas of the country that have received little from the state's coffers and for people who have limited access to well-paid employment. Such is the widespread nature of human smuggling and trafficking that all the case study locations house irregular migrants, and all are also transit points for flows of migrants. Ubari and Sebha are major transit points for migrants arriving in Libya from West Africa, while Bani Walid emerged as a key hub for migrant flows from east and west Africa. Zliten is a noted location for the despatch of boats laden with migrants bound for Europe. Flows of irregular migrants also traverse the east of Libya, albeit to a lesser degree.

Here, Ajdabiya's road connection with the south-eastern border regions makes it a major staging post for migrants from East Africa. Tobruq, on the Egyptian border, is also associated with flows of irregular migrants, although these are principally Egyptian citizens entering Libya for work.

Battles have been ongoing between actors engaged in the sector. Bani Walid was noted in 2019 to have between 12 and 15 migrant detention facilities, hosting thousands of migrants.<sup>44</sup> Trafficking groups based in the city, who were benefiting from the indentured labour of the migrants, subsequently became the focus of operations led by the state-affiliated 444 Brigade. In March 2021, 444 Brigade announced the liberation of 120 migrants from detention centres run by traffickers.<sup>45</sup> In other locations, such as Sebha and Ubari and the areas to their north, battles have raged over which groups can operate the smuggling routes. This has made it a competition over control rather than a serious attempt to stamp out the activity altogether (similar dynamics prevail in other smuggled flows such as fuel), despite the announcements of LAAF-affiliated groups to the contrary.

Residents from Ajdabiya, Tobruq and Bani Walid all referenced the extensive presence of human smuggling and traffickers in the city and acknowledged the lucrative nature of the sector. An official working on issues related to migration in Bani Walid said that smugglers can generate up to 5,000 dinars per migrant.<sup>46</sup> In many locations it appears that there is a degree of acceptance over human smuggling activities, particularly where few clear alternatives exist.

## THE EXPANSION OF THE BLACK MARKET FOR COPING AND CRIME

A confluence of factors connected to armed conflict and the governance crisis has led to the rapid expansion of the black market in Libya since 2014. Notably, the aforementioned oil blockades, combined with low international oil prices, led to reduced revenues for the Libyan exchequer. As a result, the Central Bank of Libya (CBL) used the Libyan foreign exchange reserve to finance the fiscal deficit of the budget. Alongside this, the CBL reduced access to foreign exchange from an average of \$40bn between 2012 and 2014 to \$15.6bn in 2015–2017.<sup>47</sup> This led to price inflation, a shortage of liquidity, and the emergence of a significant variance between the black market exchange rate between Libyan dinars and US dollars versus the official exchange rate.<sup>48</sup> The practical impact of the latter for the population and much of the business community was that they were forced to go to the black market in order to access foreign currency. These dynamics fuelled a negative reinforcement loop where confidence in the Libyan dinar slumped, in turn increasing demand for foreign currency. In November 2017, the black market rate had skyrocketed to more than 9LYD = 1USD while the official rate remained stable at around 1.4LYD = 1USD. Prices of consumer goods were subject to rapid inflation as a result.<sup>49</sup>

44. Romanet-Perroux, J-L. (2020), Human Trafficking, Smuggling and Governance in Libya: Implications for Stability and Programming, USAID, May 2020, [https://pdf.usaid.gov/pdf\\_docs/PA00WPXR.pdf](https://pdf.usaid.gov/pdf_docs/PA00WPXR.pdf)

45. Al Jazeera (2021), Libyan military frees more than 100 migrants from traffickers, 11 March 2021, <https://www.aljazeera.com/news/2021/3/11/libyan-troops-free-scores-of-migrants-from-traffickers>

46. Interview with local academic (man), Bani Walid, June 2021

47. Libya Desk, The Black Market Foreign Exchange Rate and the Libyan Conflict (forthcoming)

48. Ibid.

49. Following reform of the exchange rate in January 2021, the margin between the black market rate and the official rate reduced significantly. REACH Initiative (2017), Market Systems in Libya: Assessment of the Wheat Flour, Insulin, Tomato and Soap Supply Chains, Geneva: REACH, October 2017, <https://reliefweb.int/report/libya/market-systems-libya-assessment-wheat-flour-insulin-tomato-and-soap-supply-chains>

The variance between the black market rate and the official rate of exchange of the dinar opened up a new vector in the conflict economy. Those who could access foreign currency at the official rate and sell at the black market rate were able to make huge profits. The mechanism to access foreign currency is through documentary letters of credit (LCs).<sup>50</sup> LCs provide access to foreign currency for companies in order to import goods to Libya. Networks of corrupt businessmen and officials utilised a range of strategies to financially benefit from LCs, from inflating the size of supposed orders to reselling the foreign currency at a massive profit. Armed groups also got in on the act, using their coercive influence over banks to leverage LCs.<sup>51</sup> Small businessmen unable to access the LC system of the CBL had no other choice but to utilise black market financing mechanisms to access foreign currency to import goods. In 2018, 64% of Libyan companies surveyed by the World Bank said that they had difficulty in obtaining credit.<sup>52</sup> These businessmen and the average consumer consequently had to pay higher prices for goods.

Black market financing mechanisms continue to evolve. Privileged access to trade financing and to liquidity is used by some actors in the black market to make significant profits. Zliten's historic position as a gold market and a centre of money trading has seen local businessmen become highly influential in this market. Key informants told PCI that Zliteni traders utilise their connections to commercial banks to ensure that their cheques are cashed, and their business networks to facilitate LC applications to make profits on sales of currency. For example, a regular customer of a bank knows that it will likely take months for their cheques to be cashed, so they sell the cheque to the money trader, who charges a commission for the service. The money trader uses their connections with the bank to cash the cheque without delay, thereby making an immediate profit. The cost of cashing cheques for Libyans is significant, ranging from 20–30% in the case study locations, while paying for goods with cheques can add up to 40% to the listing price.<sup>53</sup>

Zliten residents claimed that “influential businessmen, in collaboration with armed groups, take hold of the money that banks are given... the bank manager instructs the staff to disburse only 3% to the citizens and then the bank is closed claiming that there is no longer liquidity available, while the rest of the money is given to people with power.”<sup>54</sup> As the residents' comments indicate, there is a perception that elites benefit from these activities at the cost of the broader community in Zliten. Given the nature of the activity, information is difficult to obtain on how profits are distributed, but key informants indicated that investments made by Zliten's traders have historically been in cities such as Misrata and Tripoli, and outside of Libya. However, they suggested that this has been changing recently, pointing towards the city's new mall, gold market, hospital, beach resorts and the expansion of the seaport.<sup>55</sup> Reflecting the nuanced impacts of conflict economy dynamics, these positive developments in the local economy may be a result of money laundering, as businessmen seek to invest their growing resources in new assets. But, of course, they come at the cost of the broader population.

## The Central Bank of Libya reduced access to foreign exchange

2012 — 2014

**\$40bn**

2015 — 2017

**\$15.6bn**

50. Global Witness (2021), Discredited: How Libya's multibillion-dollar trade finance scheme risks defrauding the country via London banks, February 2021, <https://www.globalwitness.org/en/campaigns/natural-resource-governance/discredited/>

51. Eaton et al, the Development of Armed Groups Since 2014

52. World Bank, The Private Sector amid Conflict: The Case of Libya

53. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021

54. Focus group discussion with 4 residents (3 men, 1 woman) of Zliten, Zliten, June 2021

55. PCI interviews with business figures operating in Zliten, July 2021

## PROPERTY SEIZURES

Disputes over property rights and legislation preceded the revolution in 2011 but have escalated since.<sup>56</sup> In the absence of a functioning state, tribal groups and business figures have taken advantage of this situation to annex property that the state would contend belongs to it by law. In Ajdabiya, this practice has become commonplace. Key informants note that investment in real estate has become a major vector of the conflict economy as those who have made significant profits look for ways to invest their funds. They note that this has contributed to a marked increase in real estate prices, making it more difficult for local residents to afford housing.<sup>57</sup> In Zliten, a series of beach resorts have been developed without proper licensing, prompting a response from Libya's attorney general's office in July 2021.<sup>58</sup> In the latter case, we see the intersection of the positive and negative impacts of the conflict economy, with new businesses providing jobs at the cost of denying revenues to the state. This is an important issue not only for matters pertaining to individual ownership, but also for the structural impact, as property rights are accepted to be a cornerstone of any effective modern economy.

## AN ENDURING LIQUIDITY AND BANKING CRISIS

These dynamics form the background for an enduring liquidity crisis that has forced Libyans into using the black market as they are unable to withdraw sufficient cash from their bank accounts to cover their daily and other needs. "The black market is the main driver and it controls the country," a resident of Ajdabiya told interviewers, in comments that were mirrored by residents in all of the case study locations.<sup>59</sup> While e-banking services are becoming more available, they remain limited, as Libya's economy is overwhelmingly cash-based. Trust in the banking sector is low across the case study areas. A resident of Ajdabiya said that the majority of staff at the banks engage in bribery, charging personal fees in order to cash cheques.<sup>60</sup> Another Ajdabiya resident complained that even a simple money transfer from one account to another took 45 days, while a businessman in the city cited his preference for operating through the black market due to the weakness of the banking system.<sup>61</sup>

In fact, a survey commissioned by UNDP found that nearly 100% of private sector companies across nine sectors reported that price fluctuation and currency rate instability were a problem.<sup>62</sup> Businesses across the case studies also note the lack of availability of loans to help them expand.<sup>63</sup> The lack of confidence in the banks exacerbates the problem, as Libyans do not deposit their cash for fear that they will not be able to access the funds when they need it. The result is that the coping mechanisms the population are forced to use provide opportunities for profiteers (i.e. those who can access cash from banks) and disadvantage the average consumer, whose salary translates into less cash.

56. Fitzgerald, M. and Megerisi, T. (2015), *Libya: Whose Land Is It? Property Rights and Transition in Libya*, Legatum Institute, May 2015 [https://www.academia.edu/36711433/Libya\\_Whose\\_Land\\_Is\\_It\\_Property\\_Rights\\_and\\_Transition\\_in\\_Libya](https://www.academia.edu/36711433/Libya_Whose_Land_Is_It_Property_Rights_and_Transition_in_Libya)

57. PCI interviews with business figures operating in Zliten, July 2021

58. PCI interviews with business figures operating in Zliten, July 2021

59. Focus group discussion with 11 residents (5 men, 6 women) of Ajdabiya, Ajdabiya, June 2021

60. Focus group discussion with 8 residents (4 men, 4 women) of Ajdabiya, Ajdabiya, June 2021

61. Focus group discussion with 8 residents (4 men, 4 women) of Ajdabiya, Ajdabiya, June 2021

62. United Nations Development Programme (2021), *Libya Labour Market Assessment Report: February 2021 (August 2021)*, p.48

63. PCI interviews with business figures operating in Zliten, July 2021

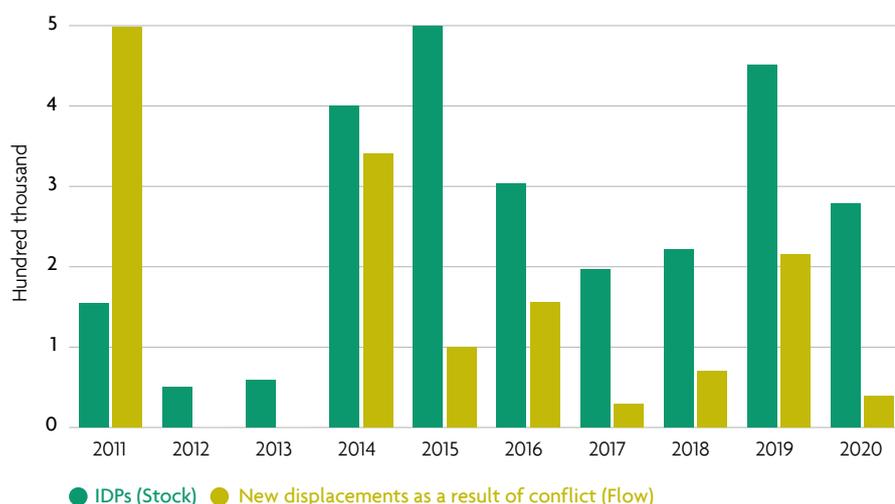
## DISPLACEMENT

As of June 2021, an estimated 212,000 people were displaced in Libya.<sup>64</sup> As can be seen in Chart 1 below, internal displacement has occurred in waves in Libya, resulting from outbreaks of conflict most notably in 2011, 2014 and 2019. Unsurprisingly, the impact of displacement has been concentrated in areas that have been subject to local conflict. Of the case study locations, Sebha and Ubari have witnessed major displacement of local populations. In Ubari and Sebha alone in 2014, nearly 25,000 people were estimated to have been displaced as a result of clashes between Tebu and Tuareg factions.<sup>65</sup>

A return to peace in Ubari has subsequently led to the return of some of the displaced: over 28,000 people were reported to have returned to Ubari as of June 2021 in comparison to 3,600 who had recently left. Yet among the case study locations this was the exception; each of the other locations covered by the IOM Displacement Tracking Matrix saw a net exodus of citizens. In Ajdabiya, 15,000 left the city, in comparison to 500 returnees as of June 2021.<sup>66</sup> Some of the case study locations have also been the destination of significant numbers of IDPs following different waves of displacement over the years.

By the end of 2020, around 25,000 IDP families from Ajdabiya, Benghazi, Derna, Tripoli, and other western towns were estimated to have relocated to Zliten since 2014.<sup>67</sup> Around 4,750 IDPs were estimated to be living in Bani Walid and 6,050 in Ajdabiya as of June 2020, having been displaced mainly from Terhouna and Sirt as a result of the conflict in 2020.<sup>68</sup> Sabha also received a large portion of IDPs from Murzuq (~21% of 16,700) due to the war in August 2019.<sup>69</sup> The influx of large numbers of IDPs has had a negative impact on community relations, fuelling competition between host and displaced communities over scarce resources and access to goods and services, and often feeding into divisive narratives.<sup>70</sup>

Chart 1: Internal displacement and conflict



Source: Internal Displacement Monitoring Centre

**212,000**  
people were displaced  
in Libya as of June 2021

**25,000**  
IDP families  
from Ajdabiya, Benghazi, Derna, Tripoli,  
and other western towns are estimated  
to have relocated to Zliten since 2014

64. International Organization for Migration (2021), Libya – IDP and Returnee Report 37 (May–June 2021), July 2021, <https://displacement.iom.int/reports/libya-%E2%80%94-idp-and-returnee-report-37-may-june-2021>

65. United Nations Central Emergency Relief Fund, Resident Humanitarian Coordinator Report on the Use of CERF Funds in Libya Conflict-Related Displacement, December 2014, [https://cerf.un.org/sites/default/files/resources/Libya%20RC.HC\\_Report%2014-RR-LBY-001.pdf](https://cerf.un.org/sites/default/files/resources/Libya%20RC.HC_Report%2014-RR-LBY-001.pdf)

66. International Organization for Migration (2021), Libya – IDP and Returnee Report 37

67. Key informant interviews with municipality officials and members of the SPP conducted by PCi in November 2020.

68. IOM (2020) DTM – Libya: Bani Waleed, Tarhuna, Sirt, Ejdabia, Benghazi, Flash Update (18 June 2020)

[https://reliefweb.int/sites/reliefweb.int/files/resources/DTM\\_Update-TarhunaSirt\\_2020-06-18.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/DTM_Update-TarhunaSirt_2020-06-18.pdf)

69. OCHA, LIBYA: Communal Violence in Murzuq, Flash Update (30 August 2019)

[https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/2019/08/20190830\\_Murzuq-Flash-Update-FINAL.pdf](https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/2019/08/20190830_Murzuq-Flash-Update-FINAL.pdf)

70. Peaceful Change initiative (2021), Local Economic Assessments in Six Libyan Municipalities (March 2021)

These statistics illustrate that economic insecurity is a driver of migration and displacement. An IOM study found that 30% of those interviewed listed the deterioration of the economic situation as a driver of displacement, noting that economic and conflict-related drivers are often connected.<sup>71</sup> In Ubari, residents note that while the security and economic situation is improving, most in the city have already spent their savings and are effectively bankrupt.<sup>72</sup> Residents of the city, as well as Sebha residents, said that the difficulties of day-to-day life have incentivised them to relocate to more stable locations. Residents from the cities said that everyone who has the ability to leave has already done so.<sup>73</sup> In other locations, a perceived lack of opportunity in the local area has spurred businesspeople to move to larger cities, such as Misrata and Benghazi.<sup>74</sup>

For IDPs, obtaining access to accommodation, food assistance and health services are the principal challenges faced. Moreover, access to broader services can also be complicated. For example, an IDP resident in Ajdabiya notes that her local bank refuses to provide services to her because it says that it deals with customers of its branch alone.<sup>75</sup>

### THE IMPACT OF THE COVID-19 PANDEMIC

The challenges associated with the COVID-19 pandemic have laid bare the weaknesses of the Libyan state. As of October 2021, nearly 350,000 cases of coronavirus and nearly 5,000 deaths have been reported as a result of infections.<sup>76</sup> However, limited testing and laboratory capacity has meant that cited numbers of coronavirus cases and deaths are likely to significantly under-report the scale of the problem. The state response was slow and ineffective. Funding mobilised by the then-GNA for the coronavirus response was reportedly subject to diversion. Municipalities complained that funds earmarked to help them respond were not received, and in September 2020 arrest warrants were issued for then-deputy minister of health Mohamed Haythem and five others over charges of corruption and embezzlement of coronavirus response funds.<sup>77</sup> Haythem denied the charges and reportedly fled the country to evade arrest. The GNU moved quickly to secure coronavirus vaccines following its appointment. In April 2021, Libya's National Centre for Disease Control launched its national vaccination programme.

The impacts of conflict, the ongoing COVID-19 pandemic and rising costs of living have further eroded the coping ability of Libyans. Businesses were affected by the indirect impacts of coronavirus. In Ajdabiya, for example, businessmen reported that the restrictions imposed by the state in response to coronavirus contributed to shortages of raw material and spare parts, and difficulties in obtaining the requisite labour.<sup>78</sup> 84% of private sector companies polled in February 2021 said that the COVID-19 pandemic had had an adverse impact on their business, although this was tempered by the fact that Libya imports most of its goods and by the fact that the public sector continued to employ such a large percentage of the workforce.<sup>79</sup> On several occasions, the vital economic flows over the land border with Tunisia have been shut down over risks of coronavirus transmission. The shutdowns have been the longest of their type in decades and have had a cascading impact on the prices of goods, driving inflation. In Bani Walid, food and hygiene items were subject to 70–100% price spikes as local authorities instituted a 24-hour curfew in April 2021.<sup>80</sup> When the border reopened, requirements for coronavirus testing continued to hamper the freedom of movement of goods.

# 70–100%

**In Bani Walid, food and hygiene items were subject to 70–100% price spikes as local authorities instituted a 24-hour curfew in April 2021**

71. United Nations Central Emergency Relief Fund, Resident Humanitarian Coordinator Report on the Use of CERF Funds in Libya Conflict-Related Displacement, [https://displacement.iom.int/system/tdf/reports/DTM\\_R29\\_IDPReturneeReport\\_FINAL\\_0.pdf?file=1&type=node&id=8190](https://displacement.iom.int/system/tdf/reports/DTM_R29_IDPReturneeReport_FINAL_0.pdf?file=1&type=node&id=8190)

72. Focus group discussion with 10 residents (6 men, 4 women) of Ubari, Ubari, June 2021

73, 74. PCI interviews in Sebha and Ubari

75. Focus group discussion with 11 residents (5 men, 6 women) of Ajdabiya, Ajdabiya, June 2021

76. World Health Organization (2021), Libya Situation Dashboard, <https://covid19.who.int/region/emro/country/ly>

77. Abdulkader, A. (2020), Military Prosecution says Health Undersecretary fled Libya with fake passport, Libya Observer, 8 October 2020, <https://www.libyaobserver.ly/news/military-prosecution-says-health-undersecretary-fled-libya-fake-passport>

78. PCI, Local Economic Assessments

79. UNDP, Libya Labour Market Assessment, p.51

80. Reach Initiative (2021), Updates On Ongoing Research and Activities Linked to COVID-19, 14 July 2021

[https://www.reach-initiative.org/what-we-do/news/updates-on-ongoing-research-and-activities-linked-to-covid-19-pandemic/#%E2%80%A2\\_Assessments\\_from\\_1604\\_-\\_3004\\_Updates\\_from\\_Jordan\\_Syria\\_Nigeria\\_Ukraine\\_Yemen\\_Libya\\_Global\\_migration\\_Central\\_African\\_Republic\\_DRC\\_Colombia](https://www.reach-initiative.org/what-we-do/news/updates-on-ongoing-research-and-activities-linked-to-covid-19-pandemic/#%E2%80%A2_Assessments_from_1604_-_3004_Updates_from_Jordan_Syria_Nigeria_Ukraine_Yemen_Libya_Global_migration_Central_African_Republic_DRC_Colombia)

# LOCAL FACTORS INFLUENCING CONFLICT ECONOMY DYNAMICS

There is significant variation in the degree to which national-level challenges manifest at the local level and, in particular, the available mechanisms that local communities can draw upon to cope. This chapter offers a framework for understanding the key factors that produce these differences.

## COMMUNITY COHESION AND CORRELATIONS WITH LOCAL STABILITY

A number of location-specific factors play a role in conditioning conflict economy dynamics.

First, the degree of community cohesion tends to correlate with stability in the local security sector. Communities that have succeeded in averting outbreaks of localised conflict have been more successful in mitigating the impacts of Libya's conflict economy. The degree of violence deployed in each case study location varies significantly. Ubari has been subject to repeated cycles of localised conflict that have displaced residents, most notably in a conflict that emerged between Tebu and Tuareg factions between 2014 and 2016<sup>81</sup>, and from which the city has slowly sought to recover. Tobruq, on the other hand, has avoided the breaking out of violent conflict among residents of the city – despite its proximity to the epicentre of the 2011 war, and the subsequent extreme violence of the prolonged period of LAAF campaigns in Benghazi between 2014 and 2017.

The other case study locations lay somewhere in between these two extremes. In Sebha, power is divided among tribal groups that have competed against one another for control of the city and its hinterlands' security – which connotes control of trade routes – as well as political institutions. In many cases local power struggles have been exacerbated by national level conflict dynamics, as local actors forged alliances with the Tripoli-based government or Haftar's LAAF. The actions of these national actors have had a major impact on the local contexts, notably when the LAAF expanded into southern Libya in 2019. In assessing these dynamics, it is important to note that tribal constituencies do not form unified blocs. In most cases, there are elements within tribal constituencies that form alliances with rival national blocs, but it is clear that some localities, such as Zliten, enjoy far higher degrees of social cohesion than others, like Sebha, and this has a major impact on the conduct of economic life in the cities.

Residents of locations directly impacted by conflict and the subsequent collapse of law and order note that insecurity has made movement more dangerous and more expensive, for residents and commercial activities alike. A municipal council member from Sebha said that residents would not go out past seven o'clock in the evening in the years 2014–19 due to fears of being subjected to robbery and extortion.<sup>82</sup> A group of Sebha residents added that they still felt insecure travelling anywhere before 9am and that travelling outside of Sebha is only possible during daylight, noting that this was very difficult during the soaring temperatures of the summer months.<sup>83</sup> Residents in Ubari directly connected the improved security situation in the city with the reopening of businesses: “every day we see a new business open its doors, which means the security situation has improved,” said a local official.<sup>84</sup> More stable locations have not fully escaped failings in the rule of law. Residents of Tobruq note that social protections remain in place for those connected to illicit drug smuggling, while those who have relocated to new cities complain that they do not receive equal treatment compared to host communities when it comes to accessing services or security.

81. Murray, R. (2017) Southern Libya Destabilized – The Case of Ubari, Small Arms Survey, 1 April 2017, <https://globalinitiative.net/analysis/southern-libya-destabilised-the-case-of-ubari/>

82. Interview with local official (woman), Sebha, June 2021

83. Focus group discussion with 7 residents (5 men, 2 women) of Sebha, Sebha, June 2021

84. Interview with local official (man), Ubari, June 2021

The prevailing power balance among local security actors plays an important role in determining who is able to engage in the illicit sector. Between 2014 and 2017, LAAF groups established a rear base in Tobruq to support their ongoing operations in Benghazi. During this period, LAAF groups controlled Tobruq's port, which allowed the LAAF and its local partners to shape trade flows through the port. This is believed by several officials to have facilitated the smuggling of illicit goods such as illegal drugs and scrap metal through the port, superseding the pre-existing cross-border overland smuggling routes to Egypt.<sup>85</sup> However, upon the LAAF's announcement of victory in Benghazi, LAAF forces relocated, seeking to close Tobruq's port and to divert traffic via the port in Benghazi. Local officials note that this shift in Tobruq allowed for a subsequent increase in overland narcotics smuggling.<sup>86</sup>

The primacy of social components in the administration of the case study locations means that social factors play a significant role in the application of the law. This can allow local forces to operate with impunity in case study areas. In Sebha and Ubari, residents reported a fear of raising any issues in case of reprisals, and asserted that such an approach would be in vain as tribal entities would protect the perpetrators of crime.<sup>87</sup>

In Tobruq, some local residents noted that despite the stable security context, it was drug gangs that controlled the situation. "Social norms are a double-edged sword in that they provide safety, but at the same time the community is silent when it comes to violations," said one Tobruq resident.<sup>88</sup> Those who are outside of systems of social protection are more vulnerable. An IDP currently resident in Ajdabiya said that her relative was forced to pay for repairs to a vehicle involved in an accident despite it being the other party's fault. The relative was told that this was because he was an IDP.<sup>89</sup> Across the case study locations, residents reported the selective application of justice.

Insecurity has had a greater impact on the ability of women to play a role in economic life than that of men. In a number of the case study locations, residents note that the lack of security is a significant impediment for women, particularly in terms of mobility. A study by UN Women found that women were four times as likely to have never left their homes alone as men.<sup>90</sup> Owing to safety concerns, women in Sebha have reported being nervous to leave central areas of the city to work in newer neighbourhoods on the city's outskirts, where there is a construction boom.<sup>91</sup>

## RELATIONSHIPS WITH NEIGHBOURING LOCALES

Good relations with neighbouring communities mitigate the impact of the conflict economy. For Zliten, a city known as a logistics and transportation hub for a wide range of commercial sectors, maintaining a positive relationship with neighbouring cities and national-level actors is seen as a necessity in order to maintain its business. The ability of the city's traders to utilise the city's strategic position between Tripoli and Misrata on the north-western coast, while also maintaining extensive commercial relationships with the east of the country, has helped the city to thrive.

On the other hand, Bani Walid's relationships with its neighbours, most notably Misrata, have been strained as a result of the lingering impacts of conflict in the 2011 war. This has undermined the city's ability to do business and the ease of travel of its residents. "The existence of checkpoints outside the city obstructs the free and easy flow of commodities and complicates connections with other cities," noted one resident of Bani Walid.<sup>92</sup> A PCI assessment of Bani Walid's economy in November 2020 found that 93% of residents said that they faced difficulties in making a living.<sup>93</sup>

## Insecurity has had a greater impact on the ability of women to play a role in economic life than that of men

85. PCI interviews with local officials and residents, Tobruq, August 2021

86,87. PCI interviews with local officials and residents, Tobruq, August 2021

88. Focus group discussion with 9 residents (6 men, 3 women) of Tobruq, Tobruq, July 2021

89. Focus group discussion with 11 residents (5 men, 6 women) of Ajdabiya, Ajdabiya, June 2021

90. UN Women, *The Economic and Social Impact of Conflict on Libyan Women*, p.10

91. Eaton, T. and Ramali K. (2020) *How women are dealing with Libya's ever-present armed groups*, 15 June 2020, Chatham House,

<https://www.chathamhouse.org/2020/06/how-women-are-dealing-libyas-ever-present-armed-groups>

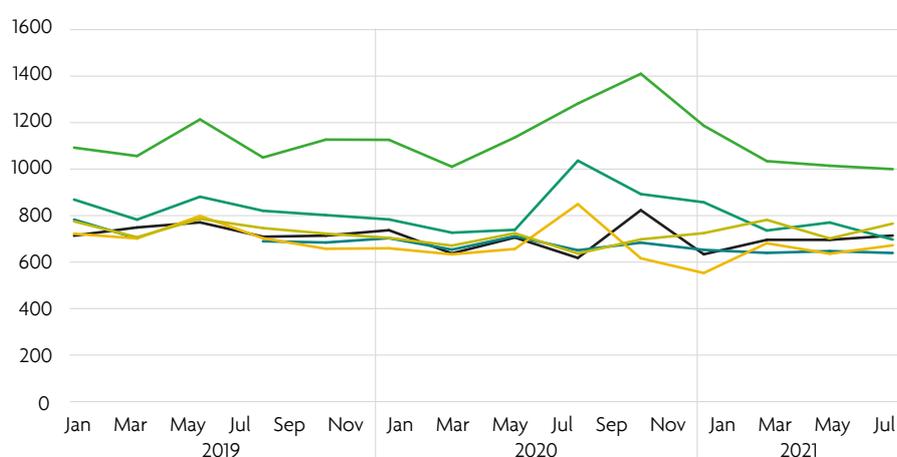
92. Interview with local academic (man), Bani Walid, June 2021

93. PCI, *Local Economic Assessments*

## ACCESSIBILITY

The accessibility of the case study area is important in determining its level of resilience to shocks caused by conflict. This can be illustrated most clearly in southern Libya, where Sebha and Ubari are dependent on a limited number of trade routes from the coastal cities. An indirect impact of the LAAF’s assault on Tripoli in 2019–2020 was to choke trade flows earmarked for the southern region, thereby inflicting greater hardship on local communities. Another feature of Libya’s conflict economy is the emergence of a large number of zones of control, dominated by rival armed factions. This has led to the proliferation of checkpoints that extort fees from those passing through the zones of control. A group of Sebha residents said that travelling by land to Tripoli used to cost 30 dinars, but can now cost as much as 200 dinars due to such fees.<sup>94</sup> These dynamics deeply impact trade flows. Informal taxation on the flow of goods makes them increasingly expensive by the time they reach market in Sebha. In turn, Ubari is dependent on transport routes that traverse through Sebha for many trade flows, meaning that goods may be more expensive again. Residents of Ubari told interviewers that the cost for a vehicle to deliver goods to Ubari from Tripoli has risen from 2,000 dinars in 2014 to 15,000 dinars in 2021.<sup>95</sup> More than half of businesses polled by the World Bank in 2018 said that the predation and extortion they faced from armed groups was a top constraint.<sup>96</sup> Chart 2, below, illustrates the significant variances between the costs of goods in case study locations. The two southernmost locations, Ubari and Sebha, have the highest costs.

**Chart 2: Minimum Expenditure Baskets for food and non-food items in case study locations 2019–2021**



Source: REACH Initiative, authors’ calculations ● Zliten ● Ubari ● Tobruq ● Sebha ● Bani Walid ● Ajdabiya

Case study locations with more stable security contexts note fewer such concerns. “Any clean person... has no problems with checkpoints” said a local official in Ajdabiya.<sup>97</sup> A number of residents credited the LAAF and local armed forces with improvements in Ajdabiya’s security, although some residents noted that this also placed limits on freedom of expression.<sup>98</sup> The Chairman of the Chamber of Commerce of Zliten told interviewers that the city’s location far from conflict zones and close to major seaports meant that business faced few major obstacles.<sup>99</sup>

The geographic location of some cities has left them better able to mitigate the challenges posed by conflict economy dynamics. As port cities, Tobruq and Zliten have means of sustaining direct access to external markets. Due to their proximity to Libya’s borders, Tobruq, Ubari and Sebha are key transit points for cross-border trade flows. Yet, as will be argued, the nature of the goods that traverse these international borders has pushed these locations’ economies towards the thriving illicit sector and towards economic activities with greater proximity to violence.

These dynamics are reflected by the cost of goods in the local market, with wide variations visible among case study locations. In May 2021, the median price of a minimum expenditure food basket in Bani Walid was 568 dinars, in comparison to 760 dinars for the same items in Ubari.<sup>100</sup>

94. Focus group discussion with 7 residents (5 men, 2 women) of Sebha, Sebha, June 2021  
 95. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021  
 96. World Bank, *The Private Sector amid Conflict: The Case of Libya*  
 97. Interview with local official (man), Ajdabiya, June 2021  
 98. Focus group discussion with 8 residents (4 men, 4 women) of Ajdabiya, Ajdabiya, June 2021, Focus group discussion with 11 residents (5 men, 6 women) of Ajdabiya, Ajdabiya, June 2021  
 99. Interview with local official (woman), Zliten, June 2021  
 100. REACH Initiative (2021), *Research and Activities Linked to COVID-19*

## LOCAL RESOURCES AND ECONOMIC DEVELOPMENT

The degree of development in the local economy and the availability of resources directly impacts the local economy and means of generating revenues. Major oilfields and associated oil infrastructure are located in Ajdabiya and Ubari, providing well-paid jobs – and also, as noted earlier, an asset that can be leveraged for political gain. It is notable, however, that while local actors in the oil crescent have been successful in utilising blockades to wield influence on national-level dynamics, actors in the south of the country have not been able to do the same. Instead, oil infrastructure has been a target of competitive violence. Moreover, communities complain that highly-paid positions in the oil companies do not go to local staff and that, in many cases, local residents have been reduced to the role of providing security.

The presence of functional banking services and the strength of the private sector shape the coping mechanisms of local residents. Political factors, such as the split between the branches of the CBL, play a major role in determining the impact in the case study location. This is because the CBL in Tripoli sought to insulate itself from the impact of the eastern debt accumulation, leaving bank branches based in the east of the country shorter on liquidity, and with more severe challenges to clearing cheques, than their branches in the west of the country.

A resident of Tobruq complained that branches of the major banks were unavailable to residents.<sup>101</sup> Residents in areas with more limited access to banking services and fewer opportunities outside of the more dominant state sector have struggled to cope with the impacts of the governance crisis. The costs of accessing liquidity appear to be higher in Ubari and Sebha, with residents reporting that they are more likely to pay for goods with cheques.

## ACCESS TO SUPPORT FROM INTERNATIONAL DONORS

In lieu of effective support from the Libyan state, assistance from international donors has become critical in supporting local responses to conflict economy structures. Tangible support to local communities in the aftermath of conflict has been beneficial. In Ubari, for example, the support of UNDP to facilitate repairs to damaged buildings and install solar lighting following local conflict in 2014 was noted as vital to the return of stability in the city.<sup>102</sup> Local residents noted that no contribution had been made by the GNA, Interim Government or the Municipality in this regard.<sup>103</sup> The critique of such funding has been, however, that it has been unable to be sufficiently scaled to address the magnitude of the problems faced by local communities. This is particularly notable in livelihoods programming and support for local economic development, where limited funding is not sufficient either for existing businesses to scale up, or for the needs of struggling businesses that are already major employers.<sup>104</sup> International donor support alone cannot meet these challenges.

In other cases, however, the impact of international support has incentivised more questionable behaviours. This is particularly notable in the provision of support to Libyan state institutions affiliated with the Department for Countering Illegal Migration, where large funding opportunities have provided incentives for Libyan actors to profiteer at the cost of endemic rights abuses of migrants. Such funding witnessed the creation of a market for ‘anti-human smuggling’, by distributing rents directly (through support to detention centres) and indirectly (through support to Libyan authorities) for reducing flows of migrants to European shores from Libya.<sup>105</sup> These dynamics are in no small part a result of the approach of European policymakers to halt flows of migrants through financial support and means that, arguably, override rights-based approaches. At the same time, providing financial support in locations where conflict remains ongoing provides a significant challenge to donors. This is particularly the case when those donors retain unrealistic expectations of entirely firewalled any material support from engagement with Libya’s conflict economy structures.

101. Focus group discussion with 9 residents (6 men, 3 women) of Tobruq, Tobruq, July 2021

102. Focus group discussion with 10 residents (10 men) of Ubari, Ubari, June 2021

103. Focus group discussion with 10 residents (6 men, 4 women) of Ubari, Ubari, June 2021

104. PCI Local economic assessments

105. Micallef M. et al (2019), The Human Conveyor Belt Broken: Assessing the collapse of the human-smuggling industry in Libya and the central Sahel, Global Initiative Against Transnational Organized Crime, April 2019, <https://globalinitiative.net/analysis/the-human-conveyor-belt-broken-2/>

# CONCLUSIONS AND IMPLICATIONS FOR PROGRAMMING

This report has sought to illustrate how developments at the national level have conditioned conflict economy dynamics in case study locations, and how local factors have impacted the ability of local communities to cope. While they may be born out of necessity, some of the coping mechanisms developed, such as a reduced dependence on state support and greater interest in the private sector, offer opportunities to support local development. Others, such as the sustenance of competitive security markets, reliance on illicit markets and extractive business models, exacerbate the challenges posed by the enduring structures of the conflict economy.

## GREATER OPENNESS TO THE PRIVATE SECTOR

As a result of failings in the state-run formal sector, Libyans across the case studies are more open to engagement with the private sector. “The culture of having a government job still exists in most minds,” said a local official in Zliten, “but the reality of the situation is that work is available in the municipality of Zliten through the private sector, which has grown... in an unprecedented manner.” He concluded that “the private sector is now dominant in the structure of the municipality’s economy.”<sup>106</sup> In other locations, such as Ubari, the high cost of living and the challenges of accessing salaries leads residents to seek private sector employment in addition to their government job in order to supplement income and meet living costs.<sup>107</sup>

An official in Bani Walid said that the city had little option but to create its own job opportunities.<sup>108</sup> In many cases, private sector employment provides a means of obtaining cash for work, thereby avoiding the challenges of accessing banking services. This is seen as a major advantage in the current circumstances.<sup>109</sup> Key informants in Ajdabiya argued that the city has begun to make greater gains out of its strategic position as the transit point towards south-eastern Libya and the Chadian and Sudanese borders, by becoming an important market for electrical goods and cars.<sup>110</sup>

Engagement with the private sector offers a path away from dependence on the state, a key prerequisite for developing a more robust economy. Entrepreneurship appears to be on the rise and the engagement of women in the economy is improving, particularly where conflict dynamics are less acute. Moreover, while views are mixed, a number of interviewees noted that attitudes towards the types of jobs perceived as acceptable is changing. This is the case for roles that involve elements of manual labour. These dynamics have likely surfaced in significant part out of necessity, given dwindling revenues, the need for roles that pay in cash, and the inability of the state to employ the entirety of an expanding population. Yet, they also provide clear entry points for programming that supports livelihoods and local economic development.

106. Interview with local official (man), Ajdabiya, June 2021

107. Interview with local official (man), Ubari, June 2021

108. Interview with local official (woman), Bani Walid, June 2021

109. Interview with local official (man), Sebha, June 2021

110. PCi interviews with local officials and residents, Ajdabiya, August 2021

## INCENTIVISATION OF EXTRACTIVE BUSINESS MODELS AND BEHAVIOURS

On the other hand, other shifts clearly reinforce conflict economy dynamics. This is most notable in the absence of the rule of law, the continuing presence of competitive security markets, and extractive practices that profiteer from state wealth – the result of competitive and embedded violence. In the public sector, such models are extractive in the sense that they draw down upon the capital generated by Libya's natural resources without investing back into the economy in any meaningful sense. These behaviours are witnessed in plain sight and sometimes even possess a veneer of legality and legitimacy. Examples abound, from financial schemes that profiteer from exchange rate variations and access to capital rather than generating profits from commercial activity, to the capture of institutional budgets by getting on the payroll (often without providing productive labour) or receiving lucrative contracts at inflated costs.

Outside of the public sector, the formal/informal and licit/illicit markets are very difficult to separate. Few taxes are paid and legal requirements are rarely met. For example, the flow of used cars from Ajdabiya is predicated on importing the cars without paying tax or vehicle registration. In these contexts, and in lieu of formal state control, it is actors with access to coercive force who shape the market. In the south, the taxation of economic activity by armed groups has become a major source of revenue for armed actors. In the east, the dominance of the LAAF and its affiliates has also determined which actors can engage in illicit activity.

Through illegal exports of items such as scrap metal and the management of illicit flows, the LAAF and its affiliates are believed to generate significant profits through these activities – though, as the example of Tobruq has illustrated, there remain locations where local actors dominate the formal and illicit sectors. Moreover, the theft and sale of fuels subsidised by the state has increased dramatically. Ironically, the profits made on the movement of illegal drugs and weapons, and from human smuggling and trafficking, are some of the few economic activities which do not rely on tapping the resources of the state.

Such activities have come to define much economic activity in Libya and are a source of wealth for those involved, but ultimately make the emergence of a more functional, peaceful and inclusive system of economic governance a more distant prospect. This is true regardless of whether the individuals or groups involved resort to these activities as a necessary coping mechanism or as a means of generating huge profits. But it is worth noting that some activities – such as the smuggling networks – appear to distribute the profits made among a wider group of people than those associated with schemes such as letter of credit fraud. In this sense, some activities generate a greater degree of societal support than others.

## INCREASED RELIANCE ON ILLICIT MARKETS IN SOME AREAS

Faced with limited prospects – a symptom of structural violence – the views of many Libyans are mixed as to the social acceptability of illicit activity and engagement with armed groups. For many respondents, such activities remain socially unacceptable. This seems particularly to be the case in areas where alternatives are available. For others, however, and especially in areas where 'formal' economic opportunities are more limited, such avenues represent the only perceived means of obtaining sufficient income to buy a house and support family life.<sup>111</sup>

As cities that are transit points for the cross-border flow of illicit goods, the dependence of local actors in Ubari, Sebha and Tobruq upon incomes from these illicit flows has grown, particularly in light of the failures of the formal economy to provide adequate livelihoods. "There is no social pressure. The dominant nature and the goal is to get money, regardless of the type of activity," said an official based in Sebha.<sup>112</sup> It is worth noting here that these areas have for centuries been part of transnational trade routes and that these routes have largely remained informal.<sup>113</sup> The competitive security markets that have grown in the post-2011 period in Libya comprise a wide array of actors that seek to control and tax these illicit movements. The result is the generation of powerful market forces that are not easily addressed.

111. Eaton and Ramali (2020), How Libyan Women Are Dealing With Libya's Ever-Present Armed Groups

112. Interview with local official (man), Sebha, June 2021

113. The economics of these trade routes has been shifting over decades: the advent of deep seaports in west Africa has undermined trans-Saharan trade, as low-value goods can be moved around the coast of the continent at greater volume and lower cost. The result is that the goods that flow through the Sahel now need to bring a higher return on investment, which has led to a shift in these routes towards illicit movements of arms and drugs, and human smuggling. These activities bring higher profits.

# RECOMMENDATIONS

This paper illustrates that means of reducing the societal impact of the conflict economy cannot solely rely on a rule-of-law approach, or on attempts to formalise the economy. To address the societal elements of conflict economy structures, there needs to be an emphasis on reducing violence and instability, making the role of multi-track peacebuilding initiatives highly pertinent. This research consistently highlights the direct correlation between national-level conflict dynamics and local (in)stability.

Stabilisation and peacebuilding programming that supports livelihoods and local economic development should incorporate approaches that explicitly seek to reduce the competitive, embedded, and structural violence inherent in Libya's conflict economy in order to promote peaceful cooperation and co-existence. The recommendations in this section seek to develop strategies to reduce the role played by violence, and violent actors, in local economic activity and to reduce the diversion of public funds. Such efforts will combine incentives and disincentives with a focus on strengthening individuals' ability to cope and to sustain livelihoods that are not dependent on coercion or graft.

## THE IMPERATIVE OF NATIONAL-LEVEL REFORM

**1** Promote a twin-track approach whereby local interventions are supported by the implementation of national-level reforms that address structural issues.

Economic conditions in the case study locations are influenced to a significant degree by national-level dynamics. Structural problems (highlighted above) must be addressed through critical reforms implemented at the national level. Beyond the challenges of cohering the state's security apparatus and bringing armed groups to heel, reform of the state and its institutions is paramount. The establishment of a more functional relationship between central and local government is a key priority highlighted in this paper. Indeed, attempts to support local government have been repeatedly undermined by the intransigence and ineffectiveness of national government. The bloated public sector and the uncompetitive advantages afforded to state-owned enterprises present a generational challenge for reform. Such reform must be wedded to a national approach to supporting the development of the private sector, and a national development plan.

No meaningful process is currently in place at the state level to devise this. Moreover, Libya's legal framework, widely contested, needs to be solidified, with key areas such as property rights in dire need of settlement.

Donors and implementers should engage in these broader discussions, provide support where possible, and clearly advocate for the ways in which national-level initiatives could alleviate challenges in local contexts. They should then seek to harmonise their local interventions with these national interventions in a 'joined-up' and coordinated way.

## STARTING LOCAL

While local communities cannot fully insulate themselves from national problems and the failures of central government, this analysis has indicated that the impact of the conflict economy can, to some degree, be mitigated: through targeted support to strengthen local cohesion and stability, develop local economic opportunities, and improve individual and community level resilience. Moreover, if the future governance model of Libya is to afford greater powers to local government, then local government must develop the requisite capacity to manage its resources and drive improvements for its residents.<sup>114</sup>

114. Social contract is the set of formal and informal rules and behavioural norms that regulate state-society relations, with relevance both for individuals and for the social groups that constitute a society. (Kaplan (2017), *Inclusive Social Contracts in Fragile States in Transition: Strengthening the Building Blocks of Success*, Barcelona, Institute for Integrated Transitions)

2

Ensure that economic recovery programmes support communities' resilience to the adverse effects of the conflict economy.

Donors and implementers delivering economic recovery and livelihoods interventions should design their programmes based on a good understanding of the different coping strategies that local stakeholders may adopt in order to manage the impact of the conflict economy. Opportunities arising from these programmes should benefit communities across conflict divides and not be perceived to favour one side over others. To this aim, analysis to map populations from a livelihood and social capacities' standpoint should be conducted and should inform the design of all interventions. Such a mapping could, for example, identify livelihood-oriented coping strategies; economic and social disparities within and between communities and migrant populations; gender disparities; and the needs of more marginalised groups, especially women. It should include a nuanced analysis of the diverse range of incentives and disincentives (personal, social, economic, and other) of different segments of the population for engaging in the informal and illicit economy and in armed violence. Programme design and adaptation that focuses on this evidence base will be more relevant, up-to-date and impactful.

3

Incorporate conflict sensitivity considerations into the planning, design and delivery of livelihood interventions.

It is critical that conflict sensitivity considerations inform the planning, design, and implementation of livelihood interventions. This will ensure that, if leveraged, market opportunities benefit the target stakeholders without exacerbating conflict and, where possible, contribute to peace. Livelihood and economic recovery interventions should benefit stakeholders across conflict divides and not favour – or perceive to favour – one side over others.

External resource injection in resource-scarce areas, if not well designed, has the potential to cause unintended negative consequences. Given the sensitive nature of livelihood interventions, context analysis should always be conducted to determine key stakeholders and powerbrokers and their extended social networks. Conflict analysis should seek to identify underlying causes and key local drivers of conflict. In so doing, international agencies should ensure that the selection of project participants is always based on sound analysis, including their potential responses to shocks or stressors, as well as the likelihood of participation in, or being affected by, armed conflict and violence.

4

Incorporate anti-corruption into organisational and programme policy and practice.

An anti-corruption focus should be applied to all projects and programmes promoting economic recovery and livelihoods. This should be done in three ways: first, by establishing and strictly adhering to a working definition of 'corruption' that acknowledges that corruption is not limited to bribe-taking, but goes far broader and deeper; second, by strictly applying that definition in directly combating corruption when it interferes with project goals and intent; third, by establishing strict standards so that corruption is not tolerated in the workings of the project or donors themselves.

**Donors and implementers should design their programmes based on a good understanding of the different coping strategies that local stakeholders may adopt in order to manage the impact of the conflict economy**

## Where armed group members are targeted, positive incentives must be provided to encourage them to demobilise, disarm and reintegrate into the labour force

**5** Support strategies that reduce the role played by violence, and violent actors, in local economic activity.

Both in the context of national reform and at the local programming level, finding means of reducing (and ultimately removing) armed group engagement in the local economy is a critical goal. While very difficult to achieve, placing conditionality on the provision of salaries and funding to state-affiliated armed groups must be leveraged as a means of establishing disincentives for armed groups to use coercive force to further their economic interests. Red lines should also be built into programmes, ensuring that armed groups are not direct or indirect recipients of livelihoods support. Where armed group members are targeted, positive incentives must be provided to encourage them to demobilise, disarm and reintegrate into the labour force. Such efforts will thus combine incentives and disincentives with a focus on strengthening individuals' ability to cope and to sustain livelihoods that are not dependent on coercion or graft, while seeking the reduction of rent seeking by armed groups.

**6** Work with private-sector medium enterprises to diversify and strengthen local livelihoods.

In case study areas, the private sector has helped to shape the coping mechanisms of communities and their resilience to the impact of conflict. The increased appetite for engagement in the private sector and its growing importance in local economies provide an entry point to support training of the workforce in key skills that are relevant and expendable in local job markets, and which can support the development of new and innovative businesses that will be more resilient to shocks and sustainable over the longer term. The private sector also has a number of unique qualities that have not been sufficiently harnessed for the purposes of conflict management. This sector's interest in stability is self-evident; programmes should therefore seek opportunities to support this sector in bringing more pressure to bear on local and national government officials – rather than local civil society or international actors – to adopt constructive policies.

However, investment in micro and small enterprises has often proven to achieve only small-scale impact. Especially in small towns, vocational and professional trainings cause market saturation for certain jobs and result in a lack of viable employment opportunities. While this would require more substantial resources and large-scale programmes, investment in medium enterprises (20–100 employees) could provide more sustainable opportunities for developing local economies. These opportunities could be developed and benefit stakeholders across conflict divides.

**7** Support livelihood and peacebuilding interventions that strengthen the capacity of communities to mitigate the impact of the conflict economy.

Building on the work of PCi and other organisations, programmes should support local livelihood and conflict management interventions that will strengthen capacity not only to resolve current disputes and conflict, but also to contribute to transforming the underlying dynamics (described above) that incentivise engagement in the conflict economy. In support of this, interventions should include an inception phase to allow an updated conflict analysis to be conducted, together with an analysis of community coping mechanisms in case study areas (see Recommendation 3). Other studies have shown that higher levels of social cohesion, good relations with neighbouring communities, and safe access to markets and trade routes, particularly to coastal areas, all contribute to mitigating the impact of the conflict economy and are deemed a necessity to sustain or rebuild livelihood opportunities. If this is confirmed in locally updated analysis, interventions should identify programming entry points that would support these factors.

## Local livelihood and conflict management interventions should contribute to transforming the underlying dynamics that incentivise engagement in the conflict economy

## Economic activities promoted through the partnerships should have a strong theory of change around peace and conflict

8

Establish economic-social peace partnerships that can promote pro-peace business activities across conflict divides.

Building on the model of the Social Peace Partnerships established by PCI and the positive role played by local small businesses in supporting these initiatives, programmes should involve chambers of commerce, business associations and networks, and other economic actors with a view to facilitating peace-conducive investment and business activities. Economic activities promoted through the partnerships should have a strong theory of change around peace and conflict. These partnerships could be established not only at the local level, but also between municipalities, both within and between different regions of Libya, hence supporting national reunification and reconciliation efforts.

9

Foster economic and trade cooperation between cities and towns that can be conducive to reconciliation and stronger inter-community relations.

While trade flows have continued across Libya in spite of ongoing conflict, some long-established companies have navigated the challenges of traversing trade routes by establishing social agreements and workarounds – such as employing drivers from specific communities to avoid problems at checkpoints. However, it is clear that trade has experienced greater friction (through informal taxation) and logistical challenges (goods have to travel further, via more difficult routes), resulting in price increases and the reduced availability of goods. Engagement between communities on issues pertaining to trade may be an effective incentive to bolster relationships between neighbouring locales.

In line with Recommendation 8, recent pilot initiatives to twin Libyan cities to foster local development have demonstrated good potential and may be replicated. Such engagement would likely be context-specific, but might focus on technical cooperation between local authorities in areas such as governance, innovation, private sector development, service delivery, and others, and extend to business leaders and other economic actors. Where possible, these initiatives could also seek to engage relevant security stakeholders and aim to reach agreements over freedom of movement and market access, recognising that socio-economic factors and the security context are inextricably linked.

10

Conduct further analysis to better understand the connections between gender, youth, and the conflict economy in target areas.

As experienced during the production of this report, understanding the connections between gender and the conflict economy can be challenging. Further research is needed to better conceptualise and design livelihood interventions that address issues relating specifically to gender, youth and the conflict economy.

With high rates of unemployment among youth (49%) and women (61%), there is a need to support these two demographics in gaining relevant skills, including technical and vocational skills, for employment and entrepreneurship. Lack of livelihood opportunities is one of several drivers that result in youth joining armed groups, while for women, lack of access to livelihood resources, insecurity, and restrictions on activities outside the home present significant challenges. Programmes should include sufficient resources (funds and time) for participatory research, for gender analysis, and to design support for robust and resilient alternative livelihoods for youth and women.

## Unemployment rates

**49%**  
Youth

**61%**  
Women

**Peaceful Change initiative**

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