



REBUILDING LIBYA'S ECONOMY ON NEW AND SUSTAINABLE GROUNDS

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Libya's post-conflict transition is extremely fragile, as the recent postponement of the elections scheduled for 24 December 2021 shows. Positive developments over the past couple of years have, however, hinted at the possibility of ending the conflict that has raged for several years, and the prospect of future reunification and stability has already triggered thinking about and plans for reconstruction and development in the post-conflict period ("Foreign powers jockey for share in Libya's reconstruction projects", 2021). Economic reconstruction, in particular, is one of the fundamental tasks awaiting Libya once it has turned the page of the conflict (Del Castillo, 2008). The country will face the monumental task of rebuilding its economy and infrastructure, both shattered by years of conflict and violence.

Post-conflict economic reconstruction is a very complex and lengthy process. However, it presents Libya with the opportunity to lay the foundations for a new and more sustainable economic model that does not reproduce the weaknesses and risks of the previous hydrocarbon dependent model. Libya has the opportunity to build a new economy that is more diversified and geared towards achieving sustainable economic development and growth, and, simultaneously, one that is aligned with the global green and digital transitions (Digital Europe, 2021). This policy brief explores how Libya can focus its post-conflict economic

reconstruction on building a greener, more diversified, and more digitalised economy. It begins by providing a brief overview of Libya's political economy and highlights the ways in which its oil dependence has exacerbated the conflict. It then discusses the challenges of post-conflict economic reconstruction and the opportunities that policies centred on renewables and digitalisation can offer. The brief provides recommendations to Libyan policy-makers on how to manage this process and to the international community on how to support Libya's reconstruction efforts.

Libya's political economy: oil dependence and conflict

The civil war has devastated Libya's economy. The near total collapse of the state and the fragmentation of authority that followed the 2011 revolution have allowed the emergence of a war economy based on violence and predation (Eaton, 2018). Various groups, and their international backers, have vied for control over smuggling routes, but also over oil and gas production and export facilities (Pack, 2019).

Libya has the largest known oil reserves in Africa, and hydrocarbons have long constituted its main source of revenue. In the post-revolution years, however, what had once been Libya's source of wealth has become the source of its vulnerability and one of the key drivers of conflict. Different actors have sought to capture, control and weaponise the oil sector, with blockades on oil production and export causing immense losses in revenue (Laessing, 2020). In January 2020, Khalifa Haftar's forces shut down oil production facilities and export terminals in Libya's "oil crescent" – the coastal region in eastern Libya extending from Zuwaytina to Sidr from which a substantial share of Libyan oil is exported – to exert pressure on the Tripoli-based Government of National Accord (GNA). Although the facilities are located in an area largely controlled by Haftar, proceeds from exports have mainly benefited the GNA as they are channelled through Libya's National Oil Corporation (NOC) (Pargeter, 2020).

In addition to effectively paralysing the country, the nine-month blockade cost Libya more than 9 billion dollars in revenue ("Haftar announces conditional lifting of Libya oil blockade", 2020). This is a considerable loss in an economy heavily reliant on hydrocarbon revenues, which accounted for 60% of Libya's GDP in 2019 (World Bank, 2021). The fallout from the 2020 blockade was a sharp reduction in government revenue, which declined from LYD 57.4 billion in 2019 to LYD 23 billion in 2020 (World Bank, 2021). As a result, public spending and the government's ability to pay out salaries and pensions have been severely undercut (Zaptia, 2020).

The conflict between the rival authorities in the East and the West has also created a split within key economic and financial institutions, including the Central Bank of Libya (CBL), with parallel branches serving the different parties to the conflict (International Crisis Group, 2019). The lack of a unified budget and monetary policy led to the accumulation of debt on both sides, and, with a foundering banking system, Libya was repeatedly hit by severe liquidity crises between 2015 and 2020 (Zaptia, 2021). The economic contraction put stress on the Libyan currency and the gap between official and unofficial exchange rates increased, leading to the devaluation of the currency in 2021 (World Bank, 2021). The dire economic situation has in turn affected social conditions and public service provision (World Bank, 2021).

Post-conflict economic reconstruction: a role for the green and digital transitions?

In the post-conflict period, Libya needs to rebuild its economy and infrastructure. However, as a country emerging from conflict, it faces a multitude of challenges ranging from dismantling war economies and discouraging the spoilers who benefit from them to restoring basic

services and building new economic structures, all while attempting to maintain peace and achieve growth and equitable socioeconomic development (Del Castillo, 2008). This is a crucial, albeit arduous, process as failure to properly and effectively manage post-conflict economic reconstruction increases the probability of backsliding into conflict (Del Castillo, 2008).

If Libya is to do more than just rebuild the previous economic model, the strategic choice of integrating the green and digital agendas in its post-conflict economic reconstruction policy presents an opportunity to build a more diversified and sustainable economy. However, the green and digital transitions bring challenges of their own, adding to those posed by post-conflict economic reconstruction. Like any systemic transformation, the green and digital agendas are likely to produce winners and losers. The risk of widening existing inequalities or creating new ones is therefore high (e.g. job loss and other impacts on labour markets, digital divides, etc.). Furthermore, while the two transitions are often considered “twin” transitions (Digital Europe, 2021), tensions between the two agendas can also arise. While digitalisation is often seen as a potential catalyst for the green transition, digital solutions can also themselves be detrimental to the environment by being energy intensive. If Libya is to build a more sustainable economic model by harnessing the potential of the green and digital transitions, it is important to take these challenges into account.

The green and digital transitions already constitute a highly ambitious project for stable countries. The task is more complex – even counter-intuitive – for conflict-affected countries where war economies and weak institutions prevail, and where the focus is more on immediate needs than on long-term strategies. This does not, however, preclude viewing the green and digital agendas as a framework of action and as the horizon towards which post-conflict economic reconstruction in Libya should look. The difficulties and challenges notwithstanding, the post-conflict reconstruction in Libya is a unique opportunity to lay the foundations of a new and more sustainable economic model that is greener, more diversified, and more digitalised.

Towards a sustainable post-conflict economic reconstruction in Libya

There are many signs that Libya's economic reconstruction is going down the road of economic liberalisation (KAS, 2021). Privatisation and market liberalisation, however, carry many risks when implemented in war-torn countries where rule of law and institutions are yet to be consolidated (Paris, 2004). The weakness of formal state institutions constrains their capacity to oversee reconstruction processes, creating opportunities for corruption and profiteering in the attribution of reconstruction contracts (Leenders, 2012). In Libya, a notable legacy of the previous regime's “stateless society” is that informal networks and social structures (including tribal structures) tend to prevail over formal state institutions (Anderson, 1991). Unless the process of institution-building is taken seriously, economic reconstruction will occur in a context of state weakness with limited safeguards against corruption.

Multiple reconstruction contracts have already been awarded to foreign companies, with Turkish companies taking the lead (Vernhes, 2021). In addition to infrastructure and real estate, foreign companies are particularly eyeing Libya's oil and energy sector. In November 2021 the Libya Energy and Economic Summit was held to attract foreign investments to rehabilitate the oil and gas industry (Energy Capital and Power, 2021). As positive developments in Libya's peace process have enabled the resumption of oil production and announced recovery in the oil sector, there is thus the risk that the previous model of a highly undiversified political economy will be restored (Furness, 2017).

It is of course unrealistic to expect a swift shift away from hydrocarbons in the short term, owing on the one hand to the difficulty of breaking oil dependency, and on the other to the realities particular to conflict and the urgency in war-torn societies of rebuilding the infrastructure, creating jobs, and investing in development. Moreover, the intensification of

international competition over Libya's energy sector and the scramble of a number of countries to ensure their energy security and protect their strategic interests is a reality that a shift in economic policy would have to reckon with. For example, Italy's Eni is the leading energy company in Libya and a major shareholder in the West Libya Gas Project, which includes the Greenstream pipeline, and in oil production assets in the East, but it has increasingly faced strong Turkish competition (Tanchum, 2020). While using hydrocarbon revenues to support the transition in the short-term is important, a simultaneous effort to build an alternative economic model is, however, necessary to avoid reproducing previous dynamics of oil dependence and rentier economy, as well as to ensure long-term sustainability and respond to climate-related challenges. In the medium- and long-term, therefore, Libya should use its hydrocarbon revenues to reduce its fossil fuel dependence and invest in renewable energy, particularly solar. As hydrocarbon resources are finite and will plausibly become less and less in demand in the future – not least as Libya's main import partners are themselves gradually shifting to renewables and clean energy – Libya's post-conflict economic reconstruction needs to align with global calls for a green transition both for environmental and economic reasons.

Putting renewables at the centre of post-conflict economic reconstruction

Reducing dependence on hydrocarbons demands placing a diversification process at the heart of economic reconstruction, thus moving away from the rentier state model towards a more sustainable political economy. Such a call for diversification in Libya is not new. It existed even before the 2011 revolution, but the need has been accentuated by the struggle for and the strategic use of oil resources in the civil war (Costantini, 2016). While other Middle East and North Africa (MENA) oil producers, particularly Gulf states, have elaborated national *Visions* and initiated diversification processes to reduce their dependence on hydrocarbons and lay the foundations for post-oil economies (Ulrichsen, 2017), Libya has lagged behind, and the conflict has certainly not helped (Mazarei, 2019). Nonetheless, although the impact of the conflict makes the initial conditions for diversification very different in Libya than in Gulf states, Libya has enormous potential to build a new economy while achieving energy sustainability *as part of* its post-conflict economic reconstruction (Goodland, 2013). This requires making the transition to renewables a priority of post-conflict economic reconstruction. In particular, the country is well positioned to generate solar energy, given the nature of the climate and the year-long availability of large amounts of sunlight (Bodetti, 2019).

Several studies have underlined the promising possibilities of harnessing solar energy in Libya (Moria & Elmnifi, 2020), some predicting that the country could generate even more energy from the sun than from oil (Al-Habaibeh et al., 2013). The experience of Morocco as the region's leader in the production of clean solar energy demonstrates how significant these possibilities are (Alami, 2021). In Libya, some steps in the direction of renewable energy have already been taken on a smaller scale, but its deployment remains limited and needs to become more assertive. The gradual transition to clean energy would not only increase the country's ability to meet its rising electricity demands (Abulkher, 2020), but also open possibilities for becoming a clean energy exporter. By reducing its dependence on oil, Libya can create a more diversified and sustainable political economy, adapt to the challenges of the climate crisis, and contribute to global efforts towards decarbonisation.

Towards a digital transition in Libya

Achieving a more diversified political economy in Libya is inseparable from the need to build a modern knowledge-based economy that values human capital and harnesses the potential of new technologies and connectivity. This can also contribute to easy and equitable service delivery, which is crucial in a post-conflict setting (Krampe et al., 2021). Another important component of economic diversification in Libya is thus to lay the groundwork for a knowledge-

based economy and reap the benefits of the digital revolution and technological advances (Alfaki & Allam, 2017). The COVID-19 pandemic has considerably accelerated the digital transformation throughout the world, as individuals, businesses and governments turned to virtual platforms to continue to operate despite public health restrictions (OECD, 2020). These digitalisation processes are taking hold and they are already changing financial systems, governance, services, energy, agriculture, etc. (Digital Europe, 2021).

The transition to a knowledge-based economy through digitalisation and technological innovation presents an opportunity for building Libya's post-conflict economy in line with global trends. However, in a post-conflict context, the transition to a knowledge-based economy through digitalisation tools may have negative effects in the short run if conditions for human security and development are missing (Alnafrah et al., 2020). It does not immediately address the population's urgent needs, such as public service delivery and employment opportunities, and thus risks aggravating grievances and inequalities. Conversely, when the right conditions are in place, an approach to post-conflict economic reconstruction that incorporates the transition to a knowledge-based economy can alleviate the long-term impact of the conflict while simultaneously preventing the country from falling behind in the global digital transformation (Alnafrah & Mouselli, 2020).

Concretely, the digital transition can substantially redefine and help improve performance in many sectors, from business, commerce, the banking system and the energy sector to education, governance, and public service provision. Projects on the digitalisation of the banking system, for example, have recently been discussed by the CBL ("CBL launches projects concerned with digital transformation", 2021), and this is an initiative that needs to be pursued and developed further. When adequate regulations and oversight are enforced, digitalisation projects such as these can also increase traceability of funds and transparency and facilitate equal and inclusive access for citizens. Some efforts have already previously been made to adopt digitalisation-related reforms, but the eruption of the conflict in 2014 hindered their implementation (OECD, 2017). Libya's post-conflict economic reconstruction should pick up these efforts by increasing connectivity and developing the country's digital infrastructure.

Conclusion and recommendations

Rebuilding Libya's economy on new and sustainable grounds entails confronting multiple layers of risks and challenges. First, there are risks and uncertainties related to whether Libya will succeed in turning the page of a decade of conflict and reunify and consolidate its institutions. Next, there are risks associated with the process of post-conflict economic reconstruction per se and the multi-dimensional challenges it brings. Finally, there are risks and challenges proper to the implementation of the green and digital agendas. All these risks are compounded by the deep fragility resulting from years of conflict and institutional fragmentation. Furthermore, both post-conflict economic reconstruction and the green and digital transitions are fraught with risks of widening inequalities. However, if these risks are properly managed and mitigated, there are real benefits for Libya to focus on the green and digital agendas in its post-conflict economic reconstruction. Not least of these benefits is that the green and digital agendas will be, from the outset, fully integrated into economic and development policy rather than being an afterthought.

This process is not easy, and multiple challenges exist in the short term. In the long term, however, the strategic choice of diversification, the shift towards renewable energy, together with the use of digital solutions to build and consolidate a knowledge-based economy, can deliver a more sustainable economic model, built on solid grounds. The digital and green agendas are, nonetheless, first and foremost political projects. Policies therefore need to be debated and adapted to reflect a concern about people, their rights and welfare, and a

concern about social justice, equity and inclusiveness. It is also important to recognise the need for plans to emerge from the Libyan context itself, as top-down imposed approaches are not likely to succeed.

The following recommendations, though not exhaustive, sketch out a framework for post-conflict economic reconstruction along green and digital lines. They are of relevance to Libyan policy-makers and to international actors interested in supporting Libya in its post-conflict transition.

To Libyan policy-makers

- Libyan policy-makers need to complete the reunification of economic institutions as a prerequisite for reconstruction.
- Dismantling war economies is a key priority. This hinges on creating alternative employment opportunities and fostering an economic environment conducive to growth and equitable public service delivery.
- Mechanisms and strict measures to deter corruption and increase accountability should be established and enforced.
- Libya should capitalise on the advantage given by hydrocarbon revenues to phase out its fossil fuel dependence and invest in renewable energy in the medium term. Reconstruction should include projects to build the infrastructure for renewables, including solar power plants.
- The banking sector needs to be further developed. Digital solutions are key to facilitate access to financial services for individuals and businesses.
- To build a knowledge economy, Libyan policy-makers need to develop the digital infrastructure and integrate information and communication technology (ICT) in education and training.
- Encourage investment in projects connecting service provision and climate adaptation through green loans.
- The green and digital agendas need to be inclusive and centred on the people and their needs. Libyan policy-makers need to develop an adequate social policy to provide social protection and reduce inequalities.

To international actors

- Help Libya restructure its oil industry to generate revenue in the short term. At the same time, international actors should invest in and help finance projects focused on sustainable clean energy.
- Refrain from supporting corrupt actors and find ways to pursue their strategic interests without entrenching corrupt actors and networks.
- Use leverage to insist on enforcing accountability mechanisms to avoid the pitfalls of post-conflict reconstruction.

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