

Report

Economic Development and Security in the New Libya



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The Fund for Peace is an independent, nonpartisan, 501(c)(3) non-profit research and educational organization that works to prevent violent conflict and promote sustainable security. We promote sustainable security through research, training and education, engagement of civil society, building bridges across diverse sectors, and developing innovative technologies and tools for policy makers. A leader in the conflict assessment and early warning field, the Fund for Peace focuses on the problems of weak and failing states. Our objective is to create practical tools and approaches for conflict mitigation that are useful to decision-makers.

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The New Libya Overview

Introduction and Executive Summary

This report was compiled by The Fund for Peace, an independent, nonpartisan, non-profit research and educational organization that works to prevent violent conflict and promote sustainable security. The views contained in this report are those of The Fund for Peace alone and do not represent the views or opinions of any other institution.

This report represents the findings of The Fund for Peace, based on research and consultations in Tripoli, Libya in January, 2012. The report and recommendations are written from a business and human rights perspective, with an emphasis on economic development and responsible business practices in what is a complex and challenging environment.

Executive Summary

Libya is currently undergoing a period of reconstruction after having endured a months-long civil war that brought to an end over four decades of dictatorial rule by Colonel Muammar al-Qadhafi. As the country stabilizes and rebuilds, there will be significant interest in new and renewed investment in the country. It will be necessary for businesses to understand the challenges facing Libya in the short- and medium-term and to invest and operate responsibly in the country.

Business in Complex Environments

Business can have direct and serious consequences and impacts upon local communities and even conflict itself. These impacts can be both positive and negative. The potential for serious impacts is by no means a reason to not invest, but rather is a

reason to invest responsibly – to be aware of the potential consequences, and to plan and act in a manner that is sensitive to these impacts and in a manner that maximizes the positive consequences and prevents – or at worst, minimizes – the potential negative consequences.

Challenges in Libya

The primary short- and medium-term challenges facing Libya currently fall into four categories: security, social unrest, political instability and legal uncertainty.

- **Security Challenges:** With the conclusion of the civil war, there is now a proliferation of weapons throughout Libya, as well as thousands of armed, young former combatants. Furthermore, the security forces lack basic training and professionalism. These issues will undermine security in Libya.
- **Social Unrest:** Societal divisions could potentially erupt if the transition destabilizes, as Libya is considered one of the most tribal nations in the Arab world. There is also a significant risk of revenge attacks against former Qadhafi loyalists.
- **Political Instability:** The temporary nature of the National Transitional Council (NTC) has created an uncertain environment. The NTC has also struggled to gain the trust of the people through a lack of effective communications with the Libyan people. There is also pressure upon the authorities to deliver reforms and opportunities on a near impossible time scale of expectations.
- **Legal Uncertainty:** Again, the temporary

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nature of the NTC is leading to uncertainty in the legal arena. Further, many business contracts from the Qadhafi era are under review. The focus on elections and drafting a new constitution is delaying necessary reforms to other areas of the legal code, such as labor laws.

Businesses need to know and understand the actors and the environment through Conflict and Risk Assessments to make informed decisions. Operations should then take into account the best practices and guidelines of corporate social responsibility frameworks. Responsible investment and business practices, along with a long-term commitment to Libya, will go a long way to supporting the rebuilding of the nation.

Recommendations

The rapid and urgent creation of economic opportunity is necessary to prevent the worsening of a potential driver of conflict. Foreign and local investment will be the catalyst for these economic opportunities and it will require a more secure and stable operating environment. This security and stability will be reliant on professional and adequately trained state security forces.

Corporate social responsibility frameworks, such as the Voluntary Principles on Security and Human Rights, will be a critical tool in promoting security sector reform in Libya. The Voluntary Principles provides a robust platform upon which to facilitate dialogue

between host governments – like Libya – and a multistakeholder group consisting of foreign governments, companies and civil society, on issues like the reform and capacity building of public security forces. The international community is in a unique position to take advantage of this window of opportunity to engage the Libyan government, and in turn provide technical assistance to pursue the objective of security sector reform and capacity building in the “New Libya.”



The New Libya

Libya Situation Report

Background

After four decades of military rule under the leadership of Colonel Muammar al-Qadhafi, “New” Libya has begun to move quickly towards a more free and prosperous future.

Libya experienced significant instability during the previous year and is considered to be a pivotal part of the so-called “Arab Spring,” the pro-democracy movement that began in late 2010 in Tunisia and spread throughout much of the Arab world. As the

Arab Spring took hold in other parts of the region in February 2011, violence erupted in Libya, leading to a brutal crack-down by security forces. As the cycle of violence worsened, the country entered a level of civil conflict that over the course of several months saw the opposition grow in strength and eventually repel Qadhafi’s forces. This was accomplished with widespread popular support, defections from within the government and security forces, and diplomatic and military support from the

United Nations and much of the international community. By August, Tripoli fell to rebel forces and by October, Qadhafi was dead.

The National Transitional Council (NTC), led by former Qadhafi-era Justice Minister, Mustafa Abdul Jalil, has set about rebuilding the state institutions that can then form the basis for elections to establish a transitional government that can draft a new constitution and further rebuild the state.

Libya is an upper middle income economy, with one of the highest GDPs per capita in Africa. Libyans are well educated, with an 82% literacy rate, the highest in North Africa, meaning that its workforce is highly capable and competent. But much of this talent is focused on a narrow and largely undiversified economy.

Libya's economy is heavily dominated by oil, gas and hydrocarbons, which account for 97.5% of the nation's exports. Libya has the largest proven oil reserves in Africa – ahead of continental cohorts Angola and Nigeria – and the 9th-largest proven oil reserves worldwide. Though it could be argued that Libya's singular economic focus on the natural resources sector places its economy at serious risk of overdependence on a single commodity, its oil wealth has nevertheless endowed it with significant wealth.

The business climate under Qadhafi was both complex and challenging – allegations of rampant corruption were rife and investment decisions by the government tended to be

made in the narrow interests of the regime and to profit the ruling elites. The situation was made even more complex by years of international sanctions that were imposed on Libya in response to the regime's role in various international incidents, the most notorious of which being the bombing of Pan Am flight 103 above Lockerbie, Scotland, in 1988. The sanctions thus heavily restricted international investment in Libya.

From an international perspective, the business climate in Libya has improved in a number of ways since the fall of the Qadhafi regime. Besides the lifting of remaining sanctions, the United Nations has unfrozen US\$168 billion, providing the country with valuable financial resources with which to finance reconstruction projects.

Though some low-level conflict still remains in Libya, the end of serious conflict has enabled existing operations, such as oil exploration and production, to resume. Communications and transportation links have been restored domestically and

Business Climate

internationally. The NTC is also understood to have begun issuing tenders for reconstruction projects. As existing investment returns to the country, there has also been a simultaneous push for new investment. For example, within the months following the fall of the Qadhafi regime, trade and other official delegations have visited Libya from Canada, France, Greece, Ireland, Italy, Jordan, Qatar, Tunisia, Turkey, the United Arab Emirates, United States, and United Kingdom.

Ultimately, the message from Libya – both its transitional government and from its people – is that foreign investment is very welcome. However, it comes with one caveat: a long-term and sustainable commitment to the country. It has been made clear to current and potential foreign investors that those wishing to "make a quick buck" will not be welcome. This attitude is also paired with a very public commitment to transparency in the New Libya, doing away with the decades of corruption experienced under the Qadhafi regime.

Continuing Challenges

Complex and challenging environments bring unique challenges for business operations. Though Libya has begun a trajectory that will hopefully lead to sustained freedom and prosperity, the country nevertheless faces serious challenges in the short- and medium-term. These challenges fall into four broad categories: security, social unrest, political uncertainty, and legal uncertainty. Many of these challenges can be ascribed to nearly any country that has experienced a revolution and is at this stage of the post-conflict cycle. Nevertheless, it will be important for all to be aware of these challenges moving forward in “New Libya.”

Security Situation

- As with the conclusion of many conflicts, there is now a proliferation of weapons throughout Libya. Particularly during the early stages of the conflict, the rebel forces were in desperate need for materiel support, which was provided either by allies in the international community or attained by overrunning Qaddafi’s military and raiding their arms stockpiles. There is thus a severe need for arms decommissioning.
- Similarly, there is now a proliferation of tens of thousands of armed young Libyans who find themselves with a victory, but as yet, few spoils. The rebels have experienced the collective euphoria that comes with revolution. However, that euphoria will soon fade as yesterday’s revolutionary freedom fighters become today’s unemployed. The reintegration of former combatants and the provision of economic opportunity will be desperately needed in order to forestall the negative consequences that could otherwise result from

this situation.

- As the ranks of the security forces of the Qadhafi regime are purged and new security forces take over, there is a distinct risk that the new forces will lack basic training and professionalism. Businesses especially could be affected by this, where those security forces either provide site security or operate near business operations.

Social Unrest

- It has been argued by some that friction and tensions within and between Libya’s complex patchwork of tribes and clans, previously contained under the Qadhafi regime, has the potential to boil-over and undermine the transition to representative government. With more than 140 tribes and clans, Libya is considered one of the most tribally diverse nations in the Arab world. It is unclear, however, as to how significant a role tribalism will play in the New Libya, as Qadhafi went to great lengths to strip tribes of their political power and dilute their importance.
- There is a significant risk that revenge killings of Qadhafi loyalists will continue and could lead to a risk of insurgency if left unaddressed. A recent report by the UN High Commissioner for Human Rights, Navi Pillay, alleged widespread torture and human rights abuses inflicted upon captured Qadhafi loyalists. These claims have been echoed by organizations such as Medecins sans Frontieres.

Political Uncertainty

- There are many unknowns in anticipating

Libya’s short- and medium-term political future. Elections are scheduled for later in the year, and at this point, it is intended that the members of the NTC will not return in the representative government that succeeds them. The temporary nature of the current administration has created an uncertain environment for Libyans and foreign investors alike.

- The NTC is failing to gain the trust of the Libyan people, highlighted by recent protests in Benghazi, an NTC stronghold. A recent survey by Megan Doherty at the National Democratic Institute (NDI) found that Libyans largely appreciate the role the National Transitional Council played in managing the country during the revolutionary crisis. However, the shortcomings in the council’s level of transparency and its ability to communicate information on its activities or the transition to representative government is creating a disconnect between the NTC and the public. It is clear that greater attention to open communication and transparent decision-making by the NTC are critical prerequisites for Libyans to believe that the transition is progressing.
- The central government lacks control over the entire country. Even though the situation is stabilizing, local collectives and militias maintain a degree of control at the town and street level, as witnessed recently by clashes in towns such as Bani Walid. There may also be a risk of regional authorities becoming more assertive, threatening national cohesion and undermining unified, nation-wide reconstruction.

- Even if elections go forward without significant problems, there is a fundamental lack of understanding and clarity as to how the next government will be established. Another recent survey by NDI found that although most Libyans are eager to exercise their newfound political freedoms and participate in shaping their country's future, they feel disadvantaged by their lack of exposure to democratic practices and have concerns about security and their economy.
- Ultimately, there will be significant pressure on the new administration to demonstrate progress and provide opportunities fast for Libyans. Though a reasonable timeline for the new government to execute such programs might be 3 to 6 years, many of the youth on the streets, for example, will expect results in 3 to 6 months. Underscoring again the previous observation on the reintegration of former combatants, the failure to reconcile the timelines on progress and opportunity could lead to widespread disenchantment and thus unrest.

Legal Uncertainty

- The temporary nature of the administration also means that Libya faces continued legal uncertainty. For any actor engaged with the current administration, the ability

of the government to make significant commitments is uncertain. The political figures in place today may or (more likely) may not be fulfilling the same function in the coming weeks or months.

- There is a strong push from within the NTC to review – and if necessary renege upon – contracts executed by the Qadhafi regime that were believed to have been corrupt. Though it currently appears that many existing contracts with Western companies and nations will continue to be honored, there has been anecdotal indications that some companies (including some from China and Russia) have seen their Qadhafi-era contracts torn-up.
- There continues to be an absence of a clear regulatory framework. At a regulatory and procedural level, the state is, in many ways, in limbo, as it tackles the core issues such as the constitution and electoral laws. Due to the current political priorities being the reconstruction effort, holding elections and drafting a new constitution, it is unlikely that lower-level priorities, such as sub-standard labor regulations, will be addressed soon.

* * *

Increased investment in Libya will be critical for creating the necessary economic opportu-

nities that can help not only rebuild the country, but also address underlying drivers of conflict. These conflict drivers are illustrated clearly by two key issues. Firstly, the revolution was as much about a lack of economic opportunity as it was about deposing a tyrant and thus economic opportunity is a key expectation of the Libyan people. Secondly, there are now thousands of armed, young unemployed youth who expect economic "reward" for their part in the revolution — economic opportunity that provides gainful employment and reintegration of former combatants will be critically important in ensuring security and stability.

Naturally, from a business point of view, the opening up of the Libyan economy, like the liberalization of any country's economy, will provide significant commercial opportunities to foreign investors. However, investment in complex and challenging environments is not without risks, aside from the obvious uncertainty and security issues that face businesses operating in such situations.

As large-scale investment returns to Libya, it will be necessary for businesses to operate in a responsible manner: to engage with local communities, to be transparent about business operations and to focus on a long-term commitment. Responsible business practices can go a long way to ensuring that business operations provide a net benefit to local communities.



The New Libya Recommendations

Given the challenges facing Libya and the eagerness of much of the international community to assist with the reconstruction, it will be necessary for foreign governments to understand what opportunities exist to assist the rebuilding effort.

The reconstruction in Libya will be unlike many recent post-conflict reconstruction efforts. In Iraq, for example, the post-war reconstruction was led by the United States and was largely funded by the United States. In Afghanistan, the post-war reconstruction has again been an internationally led, internationally funded exercise. However, Libya will almost certainly be different. Libyans have signaled their intention for the reconstruction to be Libyan led – and given the comparative wealth of Libya, somewhat unique for a post-conflict country – the reconstruction should be largely internally funded. Thus, the standard model of foreign aid based reconstruction efforts is unlikely to apply in Libya.

The international community will therefore need to seek other opportunities for support, and these opportunities are likely to be centered on capacity building and technical assistance.

One of the most significant challenges facing Libya is the vast cadre of young, well-armed, unemployed revolutionary combatants. In any complex environment, widespread youth unemployment is a serious challenge. This is compounded when those youths are armed. This is compounded even further when those well-armed youth have expectations of “reward” – i.e., economic opportunity as a reward for having fought in the revolution, which itself was as much based on a lack of

economic opportunity as it was the overthrow of a tyrant. This problem is compounded further still by conflicting timelines – as the youth expect to reap the rewards of revolution within 3 to 6 months, the ability of the government to provide such opportunity is probably closer to 3 to 6 years. This is a serious social and security problem moving forward.

In order to more rapidly facilitate the creation of economic opportunity, Libya will be reliant on foreign investment. Though some firms are more risk tolerant than others, there will only be a limited cohort of foreign companies that will be willing to invest unless the security situation improves. However, a further security challenge is the nature of the security forces themselves. Much of the Qadhafi era security apparatus has been disbanded, and what remains as “state security” now is largely a hodgepodge of militias, many of them now rivals. The state security apparatus could evolve through a formalization of various militia brigades that will likely lack professionalism and basic training. This is not only a problem for Libya, but for investment also. Given the restrictions on the use of private security in Libya, security for assets such as oil drilling sites will fall to state security. This will pose a challenge not only for the security of the investments, but the manner in which non-professionalized security forces interact with local communities, leading to serious potential for human rights abuses.

Thus, security sector reform, through training and professionalization of the security forces, will be necessary to provide the conditions not only for a safe and secure environment, but for an environment that is permissive for the level of local and foreign investment

necessary for the creation of economic opportunity.

Corporate social responsibility frameworks, such as the Voluntary Principles on Security and Human Rights, will be a critical tool in promoting security sector reform in Libya. Though the Voluntary Principles is very much a human rights framework, it is equally a security framework, and provides a robust platform upon which to facilitate dialogue between host governments – like Libya – and a multistakeholder group consisting of foreign governments, companies and civil society, on issues like the reform and capacity building of public security forces.

Discussions in Tripoli demonstrated the willingness of the National Oil Company and potentially the Oil Ministry to engage in corporate social responsibility, which appears to be a priority for the “New Libya” as it seeks to free itself from the legacy of corruption of the Qadhafi era.

Only the rapid and urgent creation of economic opportunity carries the power to prevent the worsening of a multitude of potential conflict drivers. Increased investment will be a key catalyst for these economic opportunities and such investment will require a more secure and stable operating environment. This security and stability will be reliant on professional and adequately trained state security forces. The international community is uniquely positioned to take advantage of this window of opportunity to engage the Libyan government, and in turn provide technical assistance to pursue the objective of security sector reform and capacity building in the “New Libya.”



About The Fund for Peace



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The Fund for Peace adopts a holistic approach to the issues stemming from weak and failing states. We work at both the grassroots level with civil society actors and at policy levels with key decision makers. We have worked in over 50 countries with a wide range of partners in all sectors: governments,

international organizations, the military, nongovernmental organizations, academics, journalists, civil society networks, and the private sector.

The Fund for Peace offers a wide range of initiatives focused on our central objective: to promote sustainable security and the ability of a state to solve its own problems peacefully without an external military or administrative presence. Our programs fall into three primary thematic areas:

- Conflict Early Warning and Assessment;
- Transnational Threats; and
- Sustainable Development, Sustainable Security.

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