

Chapter Two

Libya Deserves Better

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The Libyan Constitution aimed at democracy and the respect for human liberties. Some might object that it contains articles more suitable for the highly developed democratic countries. Therefore, they argue, this Constitution does not suit the Libyan people at this stage of their development. I do not share this opinion. For, when the newly independent people are governed under a constitution, it is wise to widen the scope of their political activities and not to restrict it.

Adrian Pelt, UN Commissioner for Libya, in an article that appeared in the newspaper *Barqa Algadida*, December 25, 1953

Undertaking such wide ranging reforms is primarily the responsibility of the countries themselves. It will require difficult choices and trade offs often for new government keen to deliver on past promises, but faced with limited resources. But given the magnitude of the problems, domestic efforts and resources alone are not sufficient. Therefore, it is very important that the region and the international community at large rally to support domestic efforts.

Nemat Shafik, Deputy Managing Director, IMF, May 10, 2012

Libya is on the brink of a precipice. Its politicians and both the Interim Parliament and the Acting Government have failed: They have talked the talk but not walked the walk and have been guided by narrow self-interest rather than national interest.

Gross mismanagement and incompetence in dealing with the security and economic challenges have now combined in a perfect storm, causing the country to face for the first time severe liquidity problems compounded by armed militias controlling the economic pulse of the country. Nothing better illustrates this point than the recent debacle over the North Korean ship loading illegally the country's only national liquid asset and sailing into international waters amidst feeble excuses by the Government blaming adverse weather conditions! The Libyan population has been patiently observing this façade, but is now angry and clamoring for action: security in its cities, empowerment of the army and police and an economic policy to tackle both the short term and long term challenges of daily life in Libya from electricity

black-outs, shortages of fuel to basic needs for infrastructure, housing, health and education.

In the absence of a unifying vision, Libya is heading into a zero-sum battle for oil wealth among militias, with a very high risk of negative spillovers to the region via renewed conflict and smuggling, and to the world via disruption of hydrocarbon production, massive migration and terrorism.

A deadlock situation needs decisive action and bold initiatives to build modern institutions, repair infrastructure, and diversify the economy.

The Need for an Honest Broker for the Resolution of the Political and Security Impasse

Rationale for UN Mediation

The Libyan people want revolutionary change that requires dramatic reforms in order to break the zero-sum politics of factions fighting for national resources. Success depends on leadership and consensus building. The Tunisian model may not apply in the Libyan case, but doing nothing is not a solution and at least Libya can learn from the Tunisian experience.

Tunisia also faced the precipice, but unlike Libya, where the previous regime made it a state policy of not building institutions, Tunisia did have state institutions: a functioning state bureaucracy, a functioning judicial system, powerful trade unions and a relatively educated population with professional confederations. When it was clear that the Tunisian politicians, whether Islamists or liberals, would face the wrath of the people and an economic meltdown, both competing parties were guided both by self-preservation and national interest. In this process they were actively assisted by a coalition of the trade unions and representatives of civil society that knocked politicians' heads together and brought up a consensus for the way forward, namely the establishment of a government of competences.

In the Libyan case, a neutral and trusted leadership is needed to tackle the short-term challenges of managing the political transition, normalizing the security situation, and addressing the severe institu-

tional capacity constraints. A possible solution would be a coalition headed by the United Nations, a solution that was already tested successfully more than 60 years ago. The UN mission in 1950 headed by the Dutch diplomat and Assistant Secretary-General of the United Nations Adrian Pelt supervised the formulation of the constitution. On December 24, 1951, Libya was proclaimed an independent and sovereign state with King Idris as the first monarch of a unified and federal Libya. Adrian Pelt became very popular in Libya because of his success in bringing together the peoples and tribes from Tripolitania and Cyrenaica, administered by the British, and the French-administered territory of Fezzan to form a new state and to draw up a constitution with his help.

The UN High Commissioner for Libya would be helped by selected representatives of Libyan civil society and professional associations who must be mandated and empowered by the Parliament for the selection of an emergency government of national competence. A working committee of representatives from the Islamic, liberal and independent parties together with Libyan civil society and professional associations under the chairmanship of the UN and endorsement by the Parliament would then need to be urgently constituted. The committee would be given a deadline for the appointment of a new government and the criteria would be independent Libyan technocrats not belonging to any political party and with proven technical competences, and the key prioritization would be security and the economy.

The success of the Tunisian model and the processes used would serve as a model, although there are obviously specificities for the Libyan case. The Tunisian political precedent of involving the civil society and the population at large in the debate on the nature of the country and the constitution was the right priority. This model needs to be followed in Libya and this kind of popular and engaging debate on the nature of the country and constitution is a much more effective national strategy than superficial popular elections for a President, which are scheduled in Libya for the summer of 2014.

National Reconciliation Conference

Simultaneously and also under the auspices of the UN and representatives of Libyan civil society and professional associations, there

needs to be convened a National Reconciliation Conference for the settlement of all outstanding matters including displaced people inside and abroad. For example, the dispute between the people of Misrata and the people of Tawergha needs to be resolved. The main goals of the conference would be to agree on the basic principles of citizenship and equality, which can be done with the help of the UN, and other countries that have experienced change through armed conflict and succeeded in reaching political stability by use of a national reconciliation plan.

There are many country precedents for national reconciliation processes, and perhaps the South African model can be an appropriate one to which Libyans can relate. However the critical point is the need for an honest broker, as otherwise the exercise is academic and will lead nowhere. The UN can provide a multilateral and historical legitimacy for the exercise.

Security and Disarmament

The need for security is paramount in stabilizing the country and is a *sine qua non* for any economic resurgence. All the governments since the revolution have postponed taking decisive action to disarm the militias and the public at large, and to empower the Army, which has been neglected as a working force for mostly political reasons. This is a national priority, which has public endorsement; and the “carrot,” in spite of any inflationary effects, needs to be financial.

Libya needs to have a special tribunal (criminal court) to judge any violation of the basic human rights, similar to the one formed in the Hague for the former Yugoslavia.

There have been numerous road maps setting out in details the steps that need to be taken but again this seems to be highly unlikely to be achieved without international support and without the UN auspices. In relation to the proposed government of competences, the posts for the Ministers of Defense and Interior should be strictly based on technical merit and credibility.

Economic Vision for a United Libya

Over the medium term, and once the country is stabilized, the authorities will have to address issues including the capacity to build institutions, improving the quality of education, rebuilding infrastructure, putting in place an efficient social safety net, financial market development, and reducing hydrocarbon dependency through private sector-led growth.

Libya is dependent on hydrocarbons, which account for over 65 percent of GDP and 96 percent of revenue. To quell discontent, the Gaddafi regime used oil revenues to provide grants and expand subsidies. This policy has been continued and expanded since the Revolution with a common mantra by the politicians in charge being “let’s pay to solve problems.” The total wage bill for the 2013 fiscal year is around LD 22 billion and with the decrease of the daily oil production to less than 200,000 barrels from a high of 1.6 million barrels after the Revolution, Libya is facing an acute liquidity problem which needs immediate fixes as the security and economic problems have become interlinked and this is a combustible combination. Again the mantra that Libya is rich needs to be adjusted to say Libya is asset rich but cash poor!

As of year-end 2010, unemployment was 13.5 percent with youth unemployment estimated at 25 to 30 percent, according to the 2013 IMF Article IV Consultation Concluding Statement. It further indicates that the lack of employment opportunities for nationals can be traced back to a mismatch between the skills of workers and the demands of the private sector, as well as insufficient labor productivity, which limits demand for Libyan workers. In this connection, the authorities agreed with the mission that private sector investment is necessary to sustainably create employment opportunities.

Against this backdrop, Libya needs an economic vision that calls for economic diversification to create employment opportunities in the private sector and reduce hydrocarbon dependency. This economic vision that will bring sustainable and inclusive growth should not be implemented by politicians but by a technocratic and apolitical team comprising the Ministries of Economy, Finance and the Chairman of the Central Bank of Libya. The economy of a country like Libya is not difficult to fix, but needs a clear strategy and prioritization.

Several factors could provide the necessary means to dynamically improve the economy. For instance, the banks in Libya have enormous liquidity and the deposits of the commercial banks with the Central Bank of Libya amount to a total of LD 35.6 billion as of March 31, 2013. The cost of capital to the banks is virtually nil, but there is a clear problem in the banking intermediation process in Libya, which has been inherited from the Gaddafi era. The country has one of the lowest loan deposit ratios in the MENA area and this liquidity has not been channeled into lending, which would be a huge boost to the economy and be the beginning of a public-private partnership. However, before this can take place, the impediments that are preventing the Libyan banks from playing the role of financial intermediation need to be fixed, such as:

- The closure of the Property Registry and the urgent need for structural reform of the whole property ownership in Libya. As during Gaddafi's time, the property land registry was burnt, and there were laws that banned renting and gave legal rights to squatters and only permitted one home for each family, i.e., fairly draconian property laws. In addition, mass nationalization of property assets took place; and therefore, given this state of affairs, banks are very reluctant to lend, as title deeds are often forged and the real ownership of property assets is difficult to ascertain;
- The need to establish a centralized Credit Bureau;
- The need for a government guarantee to the banks for local SME lending;
- The rush to Islamic banking curtailing the lending appetite of the banks with the process being politically rather than economically driven. This "rush" follows a move of the Parliament, which passed a law effective next year banning all banking not in accordance to Islamic law;
- The lack of an interbank market and the nonexistence of capital markets, which could also channel the liquidity into productive sectors of the economy, as there is no interbank lending in Libyan dinars between the banks.

The economic legacy of the Gaddafi era will take time to unravel, but there needs to be a vision and a game plan. Ambitious plans for the free convertibility of the Libyan dinar should be an objective over the mid-term, but in the interim, concrete steps need to be taken to make the private sector a stakeholder in the development of the country with Libyan banks and capital markets playing a meaningful role in the process.

Regional Integration

The Maghreb Union is another example where the politicians have been unable to implement a clear popular clamor for closer regional integration. In the case of Libya, a step-by-step approach towards closer integration with neighboring Tunisia has obvious synergies for both countries.

Several elements are in favor of an enhanced relationship between Libya and Tunisia. A semi-skilled and skilled workforce, a cultural and historical affinity, two-way trade and investment flows, and most recently the revolutions of January 14 and February 17, 2011 and the post-revolutionary era.

Economic integration will widen the range of traded goods, enhance the local impact of trade and will affect positively employment, particularly among the youth, who are the most likely to take up the challenges if equipped with adequate skills. Trade expansion and diversification need to be accompanied by increased overall investment in the informal economy as well, and especially in the border regions. The informal economy engages a large portion of the working population in Libya and Tunisia, including unskilled and young people. The need to create productive employment throughout all sectors of the economy represents a real challenge but also an important opportunity if ways can be found for the young to contribute effectively to development.

Privileged economic integration between Libya and Tunisia will contribute to producing the desirable outcomes that are difficult for individual countries to achieve on their own. Enhanced competition, trade, and productivity can result from creating a rules-based preferential regional market conducive to export diversification, economies

of scale, greater specialization, productivity enhancement, attraction of foreign direct investment, and generation of national and regional investment. Most importantly, successful integration between Libya and Tunisia will pave the way for Maghreb regional integration, which would be an effective tool to deal with the vulnerabilities created by greater openness, such as the contagion of financial crises and large fluctuations in commodity prices. In addition, regional integration is increasingly perceived as part of the solution to long-standing development problems across a wide range of sectors, such as value-added upgrading, infrastructure and acquisition of skills for entrepreneurship and employment.

The weight of commercial exchange between Tunisia and Libya has been intensified during the political tensions in Libya and confirm once again how regional integration can play a leading role in increasing trade potential for the two countries. However, the increasing exports to Libya have not been only positive, as it has been a source of high inflation that may be increased with the expected flows of Tunisian workers to Libya. Given the high degree of linkages between the two economies, analyzing the impact of a Free Trade Agreement between Tunisia and Libya would be useful.

Safety and security of the borders between Tunisia and Libya are also important because these would facilitate investment and entrepreneurship on the border regions and beyond that the return of expatriate workers. Security of the borders may require the establishment of joint military task forces between Libya and Tunisia aided if necessary by multilateral specialists.

Sustainable growth requires a business environment that is conducive to private sector development and practical issues, which will further deepen the regional integration, such as the issuance of IDs for border crossings and easing the lengthy border crossings (to wit, security issues), bank convertibility of Tunisian and Libyan currency, ability and ease of citizens to invest and purchase property and to work freely in either country, and tariff-free borders for goods. On the investment side, the establishment in the border region of joint projects between the Libyan and Tunisian private sector has to be encouraged, such as a private hospital for instance. For example, given the acute shortage of hospitals in Libya, a state-of-the-art hospital man-

aged by a specialized hospital management company would be an excellent beginning of cooperation between the future generations of Libyans and Tunisians. The role of both governments in these kinds of projects should be minimized and should be limited to facilitation and providing the proper legal and fiscal environment.

Given its abundant resources, Libya does not need financial assistance, but rather technical assistance to build capacity and better manage its wealth. Initiatives such as Leaders Engaged in New Democracies (LEND) help address priorities identified by countries that are in the midst of promising transitions. Tunisia and Moldova were selected as the first two countries to participate in the initiative, but Libya could be invited as an observer and eventually become a member of the LEND network. The government has already requested assistance in reforming the system of untargeted subsidies.

Conclusion

Libya will need to build its institutions and respond to the demands and aspirations of its population. To achieve this, Libya needs to diversify its economy away from oil dependence and thus create an enabling business environment that will facilitate private sector-led growth and job creation.

Enhanced economic integration and cooperation with Tunisia could help unleash Libya's huge economic potential by promoting greater inclusiveness and transparency, as well as enhanced governance. Moreover, it could pave the way for Maghreb regional integration and leverage the region's inherent strengths: a dynamic and young population, abundant wealth (oil and gas and phosphates), as well as an attractive destination for eco-tourism.

The Libyan public has been incredibly patient suffering for 42 years under the dictatorship of Gadhafi and now enduring the instability of the post-revolutionary era. Let that patience not be tested to its breaking point. The Libyans deserve a much better future.