



**INSIDE
LIBYA**

January 2021

No°6

FOREWORD

The Regional Program Political Dialogue South Mediterranean (PoDiMed) of the Konrad-Adenauer-Stiftung (KAS) in cooperation with LIBYA DESK™ is delighted to continue our monthly reports on Libya for 2021. This format examines the most important political, economic and social developments of the previous month, which are of central importance for understanding the situation in Libya. The report is based on reliable Libyan sources and provides a summary and a contextualisation of developments in the wider Libyan context. The report is usually being published every first week of each month, with the exception of this January.

While much attention has been paid to the external and geopolitical dimensions of the situation in Libya, voices from within Libya are central to understanding local developments and the evolution of the Libyan conflict as well as its impact on the wider Mediterranean region. As an inclusive Libyan-led and Libyan-owned mediation with regards to the political, economic and military tracks are without alternative, these monthly reports emphasise the most important events within Libya and aim to give a better picture of what happens “Inside Libya”.

Based on existing KAS-PoDiMed formats such as the Libya Brief and the Libya Task Force, we consider it necessary to shed light on the dynamics within Libya and to emphasise the importance of continuing and facilitating a national dialogue process in the spirit of the UN-led Berlin process.

We hope that these monthly reports will give our readers a better picture of the dynamics of the ongoing Libyan conflict, its actors and multiple dimensions.

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EXECUTIVE SUMMARY

- 1.** In December, the UN-mediated military and political tracks were slowed down by internal disputes and backroom politicking, despite progress on the economic track.
- 2.** Faced with a divided caucus, Acting SRSG Stephanie Williams introduced two new sub-committees in the Libyan Political Dialogue Forum (LPDF) to pave the way for a political breakthrough in 2021.
- 3.** The stalemate in the LPDF is largely caused by friction within the Government of National Accord (GNA), pitting Prime Minister Fayez al-Sarraj against Interior Minister Fathi Bashagha.
- 4.** The LPDF's stalemate gives foreign powers an opportunity to reach out to competing Libyan factions and attempt to hijack Libya's political dialogue.
- 5.** As the House of Representatives (HOR) takes steps toward unification, Agila Saleh has lost ground within his own institution but sets his sights on the Presidency of the Presidential Council.
- 6.** The security and public outreach campaigns launched by the Libyan National Army (LNA) have not been able to offset dwindling levels of public support for Khalifa Haftar in eastern Libya.
- 7.** Both sides have engaged in increasingly belligerent rhetoric and continuing military buildup, but no clashes were recorded.
- 8.** The Board of Directors of the Central Bank of Libya (CBL) met for the first time in six years and voted to unify the exchange rate. This is a double-edged sword policy that could create widespread dissent.
- 9.** Since 2011, Libya's economy has suffered from a fluctuating effect linked to instability and uneven oil exports. The new decade brings hope that Libya could finally stabilise and open for business once more.
- 10.** Libya's current peace process is slow and arduous but it has made progress nonetheless and has yet to meet a dealbreaker. With important deadlines next month, January might prove to be a landmark or bring an irremediable deadlock.

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LIBYAN POLITICAL DIALOGUE FORUM (LPDF) REACHES A STALEMATE

Faced with a divided caucus, Acting SRSG Stephanie Williams introduces two new committees to create a political breakthrough in 2021.

The month started with a sense of urgency echoed by Acting SRSG Stephanie Williams in her remarks during the third virtual meeting of the LPDF's second round, held on 2 December. Concerned with the slow implementation of key tenets of the ceasefire signed in October 2020 between the GNA and the LNA – mainly the requisite to remove all foreign forces from Libya – Williams reminded LPDF participants that their country was prey to 20,000 foreign fighters serving the interests of other countries. Her warning in the form of “Dirou Balkom” (lit. “Take care” in Libyan dialect) did not, however, inspire LPDF participants to reach a consensus on a particular mechanism to select the new government of national unity. With one absentee and three abstaining participants, the consultation process running 3-4 December led 39 voters to select Proposal 2, which sets up the 75 participants as a single college; 24 voters to pick Proposal 3, which arranges for Libya's three regions to vote for their own representative within the Presidential Council; and 8 voters to choose Proposal 10, which brings forward ready-made electoral lists, each with candidates for the Presidential Council's (PC) three positions and the post of Prime Minister.

Far from being simply procedural, the selection of mechanisms to nominate a new executive has been highly political and divisive as each mechanism gives certain politicians a headstart to get elected. Proposal 3 is generally supported by eastern notables who prefer to have an exclusive vote on their representative and lead House of Representatives' (HOR) Speaker Agila Saleh to become head of the Presidential Council. By contrast, Proposal 2 does not give equivalent weight to each region and is thus favoured by actors from Libya's most populous region, namely Tripolitania. This option gained 55% of the total votes cast in the early December vote, putting forth Misratan businessman Ali Dabaiba or Fathi Bashagha as Prime Minister and Abdel-Jawad al-Abidi as head of the Presidential Council. Accordingly, each of the proposals were met with opposition from different Libyan camps. On the one hand, LNA hardliners reiterated their criticisms against the United Nations Support Mission in Libya (UNSMIL) for allegedly favouring Muslim Brotherhood (MB) figures in the LPDF. On the other hand, GNA hardliners criticised Williams for creating a “false equivalence” between Turkish intervention in Libya and the LNA's foreign supporters. They have also implied that UNSMIL is seeking to push forward its allegedly preferred candidates, namely Saleh and Bashagha.

The LPDF hit another obstacle when UNSMIL held another consultation process on 14 December. This was an attempt to overcome the impasse surrounding the 75% majority rule, a quota that had proven too difficult to attain within the LPDF. Two proposals were presented, one lowering the figure to roughly 66% and the other to 61%. Both proposals also upheld that each region should have 50% of its delegates plus one vote agree with the majority vote. Nonetheless, the proposals were generally not well received as the number of abstaining participants jumped to 21 and 30 LPDF members, ten of which affiliated with Prime Minister al-Sarraj, accused UNSMIL of seeking to influence the outcome of the process through new voting rules. Meanwhile, the unexpected announcement by Nikolai Mladenov – who had been approved by the UN Security Council (UNSC) as Special Envoy to Libya – that he would not be able to replace Ghassan Salamé as SRSG further complicated the role of UNSMIL for Libya’s political transition in 2021.

Nonetheless, the Acting SRSG reiterated UNSMIL’s commitment to finalise elections by 24 December 2021 and showed perseverance by introducing two new sub-committees within the LPDF meant to quickly reach a consensus between the participants. Unveiled on 17 December, the Legal Committee is a group of 18 LPDF members who have been assigned to work alongside the HOR and the High Council of State (HCS) to provide a legal and constitutional basis for the upcoming poll. On 31 December, the Advisory Committee was also announced, grouping 15 LPDF members (later amended to 18) to help UNSMIL reach a consensus on the nomination mechanism to select the executive. The Legal Committee was particularly helpful in liaising with the High National Electoral Commission (HNEC) and ensuring its technical preparedness to hold elections on the agreed upon date. HNEC announced it had received 50 million LYD (€9.3 mln) for that purpose but urged relevant institutions to approve electoral laws by July 2021 at the latest so as to hold elections on time and with a constitutional basis. The Civil Registry Authority also informed the public that it needed five months to finish the audit of its databases to minimise the risk of election fraud and increase public confidence in the viability of its systems.

DIVISIONS AND INSECURITY PERSIST IN WESTERN LIBYA

The stalemate in the LPDF is largely caused by friction within the Government of National Accord (GNA), pitting Prime Minister Fayez al-Sarraj against Interior Minister Fathi Bashagha.

The indecisive outcome of the LPDF in December is in large part the result of Prime Minister Fayez al-Sarraj seeking to remain at the helm of the Presidential Council until the end of 2021. After announcing his resignation in September 2020, Libya's current premier seems to have garnered the support of both Turkey and Russia to remain in politics. This has been particularly bad news for Interior Minister Fathi Bashagha, as the two officials have competed over power for some time and would be unlikely to get along as President and Prime Minister. In fact, December was rife with instances in which the two officials sought to out-manoeuvre each other. For instance, al-Sarraj facilitated the return to Libya of the former Tripoli Revolutionary Brigade (TRB) head, Haitham al-Tajouri, to reinforce Tripoli's position of power in western Libya against Bashagha's hometown of Misrata. The former militiaman met with heads of major militias from Tripoli, Tarhuna, Zawiyah and the Western Mountains. Al-Sarraj also delivered a major blow to Bashagha by issuing orders to reorganise the Special Deterrence Force (SDF). The SDF has been a major security partner of the Interior Ministry but is now ordered to report directly to the Presidential Council.

Bashagha, likewise, has not been passive in December. He has sought to garner the support of those who back Saif al-Islam Gaddafi (so-called "Greens") by leveraging his central position in the prisoners' file. Indeed, as Interior Minister, Bashagha is key for the release of "Green" figures like Saadi Gaddafi, Ahmed Ibrahim, and Mansour Daw. There have been talks between Gaddafi's spokesman Moussa Ibrahim and representatives from the city of Misrata to forge some kind of alliance with Sirte, which remains a stronghold of the Qadadfa tribe. Albeit hypothetical, such an alliance would help Bashagha regain relevance in Libya's political chess game by giving him access to resources that none of his rivals in the Tripoli and Zawiyah militias have. For the Greens, an alliance with Misrata would reinforce efforts to create a third powerbroker away from the GNA and the LNA. In fact, Saif al-Islam Gaddafi and his supporters are gradually becoming more vocal and visible. Their goal is to set in motion their movement between Sirte, Bani Walid and the rest of Central Libya.

LIBYAN ACTORS ENGAGE IN POLITICKING AS STALEMATE PERSISTS

The LPDF's stalemate gives foreign powers an opportunity to reach out to competing Libyan factions and attempt to hijack Libya's political dialogue.

The political stalemate of the LPDF has comforted Russia and Turkey in their belief that UNSMIL's intermediation is bound to fail and that Fayez al-Sarraj may very well remain in power until the end of 2021 as a convenient guarantor of the status quo between the two countries. Although details are sparse, some indicators suggest that Moscow might be waiting for the LPDF to derail before unveiling its plans to organise its own intra-Libyan dialogue, one which would specifically focus on influential powerbrokers. One such indicator can be seen in Russia's recent activity, with Moscow highlighting its role in the Libyan file in a more outspoken way and reaching out to Libya's different camps. In late December, Foreign Minister Sergey Lavrov hosted his GNA counterpart Mohamed Siala and pledged maximum assistance, while also discussing the renewal of a Gaddafi-era economic cooperation agreement. This outreach to Libyan actors has however not been well-received by Khalifa Haftar, who senses that each foreign actor has manoeuvred on its own accord to get on top of the current stalemate. As a result, several lesser known LNA officers have been arrested on charges of espionage for failing to inform the LNA's Command of their communication channels with Moscow. These channels have proliferated as Russia is seeking to create alternative partners to Haftar within the LNA. So far, key senior officers have all informed the LNA of such manoeuvres and voiced their growing distrust of Russia with the rest of the Joint Military Commission (JMC).

Egypt, another traditional ally of the LNA, has also recalibrated its approach to Libya by sending a delegation to Tripoli – a first since 2014, when its Embassy was stormed by militiamen and several diplomats were kidnapped. On 27 December, Egypt's Deputy Foreign Minister, Deputy Defence Minister and Deputy Head of Intelligence met GNA officials so as to reset relations and more importantly act as a counterweight to Turkish influence in western Libya. In a sense, Cairo is mimicking the logic of other North African countries that have decided to talk to all sides of the Libyan conflict. The Egyptians seem to have arrived at the conclusion that siding unilaterally with Haftar has accelerated the GNA's alliance with Turkey. However, this does not mean that either Egypt or Russia are siding with the GNA, or even that they are gaining a semblance of neutrality. Egypt sent its delegation

to Tripoli to specifically ask for a stop to the inflow of Turkish weapons, the dismantling of militias, as well as a U-turn on the topic of long-term Turkish military bases in Libya. Yet, Egypt's move is likely to be seen as far too little, far too late as Cairo will need to offer the GNA much more for it to reconsider its security alliances.

Finally, December saw several attempts from GNA officials to win over support in the south of the country. This outreach can help explain some of the difficulties faced by the LNA in terms of guaranteeing calm and security in the territories under its control. In fact, several disgruntled southern groups have the potential to create problems for the LNA in a bid to get financial support from the GNA – a move unlikely to bear fruits considering the state of finances in Libya. For instance, southern mayors, including those of Sebha and Ubari, held a virtual meeting with Deputy Prime Minister Ahmed Maiteeq in late November so as to get emergency budgets. Albeit under de facto control by the LNA, southern municipalities have traditionally looked to Tripoli for their budgets to be provided. This has often allowed southern groups to play the eastern and western camps against each other in order to get tributes from both sides.

AGILA SALEH LOSING GROUND WITHIN HOUSE OF REPRESENTATIVES

As the House of Representatives (HOR) takes steps toward unification, HOR Speaker Agila Saleh has lost ground within his own institution but sets his sights on the Presidency of the Presidential Council.

Seen as part and parcel of the politicking surrounding the LPDF, Agila Saleh has been increasingly challenged by Members of Parliament (MPs) throughout December. Since the Bouznika talks in September and the resulting rapprochement between the HOR and HCS, the HOR has moved toward the unification of its two branches divided between Tripoli and Benghazi. The Tangier talks in late November accelerated this trend, with MPs agreeing to hold a plenary session within Libya in early December, something unforeseen since 2018.

The first attempt to meet in Ghadames was postponed to the 21-22 December as eastern-based MPs threatened to boycott the session due to several MPs wanting to unseat Agila Saleh. The boycotting party said it would refuse to hold any session outside Libya's constitutional seat, namely Benghazi, and chose to convene there with only 20 MPs on 15 December. The

rest of MPs were unable to meet in person in Ghadames following the leadership dispute and convened instead virtually to discuss issues such as the duration of the Speaker's term. Although the exact number of participants is unclear, the session dwarfed the one held earlier by Saleh and prompted him to reconfirm his 2019 decision to discharge 35 MPs and refer them to the Attorney General — a move that failed to garner enough support in the HOR.

Calls to unify the HOR and upend its leadership have been particularly strong in western Libya, be it from the HCS or the umbrella of militias known as the Tripoli Protection Force (TPF). There is hope within these forces that a unified HOR under a new Speaker could act as a counterweight to the LPDF and provide renewed legitimacy to the legislative body for it to propose constitutional arrangements that would benefit forces within the GNA. This is particularly important at a time when progress with the LPDF has slowed down and MPs feel the need to regain centre stage as being part of what they present as Libya's "last elected legitimate institution". By contrast, the LNA has been particularly fearful of legitimising Tripoli-based MPs, as we examine in the [2020 Annual Review](#). Despite his recurrent rivalry with Saleh, Haftar praised the HOR Speaker and his tribe, the Obeidat, in early December to maintain that relationship and project a facade of unity in eastern Libya during the current political chess game. Saleh's future at the helm of the HOR seems to be lastingly compromised but he is likely to remain an important actor for eastern Libya and continues to show interest for the position of President of the Presidential Council.

LNA'S SECURITY CAMPAIGN PRONE TO WEAKNESS

The security and public outreach campaigns launched by the Libyan National Army (LNA) have not been able to offset dwindling levels of public support for Khalifa Haftar in eastern Libya.

The [Inside Libya November 2020](#) issue highlighted the growing difficulties faced by Khalifa Haftar in maintaining popular support through security reforms and campaigns. So far, these efforts have taken the form of new appointments, steps to increase accountability, anti-smuggling and anti-terror activities. For instance, the newly-formed Benghazi Joint Security Room launched the Ballagh Report, a new service for filing reports and complaints to improve accountability within LNA ranks. A senior tribal delegation from Sirte also met with Haftar to express their support for his self-styled "war on terror" and led the LNA's Field Marshal to send medical, food, and energy supplies to Sirte, a city which remains crucial for the LNA due to its position but whose tribal elements are not wholeheartedly supportive of Haftar.

Anti-terror and security campaigns taking place in Ubari and Sebha in late November are notable in counteracting the LNA's narrative of effectiveness and showing that media wars are still ongoing within Libya. In Ubari, the LNA managed to capture seven members of Al Qaeda in the Islamic Maghreb but killed two civilians in the process by razing their home in search of the terrorists. In Sebha, clashes between two armed groups of the Awlad Suleiman tribe led to two deaths before LNA forces could stop the fighting. On 19 December, Tobruk became the theatre of similar tribal clashes, this time between the Qatan tribe and the Obeidat tribe, leading to four casualties. This case erupted as a result of the Qatan losing control over the Tobruk-based Social Security Fund that has historically been under their control per an informal agreement dividing responsibilities and senior management positions between the city's three key tribes. In Houn, acts of civil disobedience and demonstrations were recorded against the LNA following the killing of yet another civilian by the infamous Janjaweed, a Sudanese militia that participated in the Darfur war and whose members now fight on behalf of the LNA. The demonstrators have been vocal in their demands for justice and have requested that the LNA expel not only Janjaweed fighters but also Russian private military contractors (PMCs).

These incidents were well-reported and sometimes blown out of proportion by media outlets supportive of the GNA. Nonetheless, they still show important developments. First, Libya's south continues to be a safe-haven for transnational terror groups that benefit from continuing regional instability and the evolving dynamics inside Libya. Second, tribal dynamics in LNA territory remain fluid and might become more tense as the unifying momentum of war no longer exists. This is especially true for broader popular sentiment as shown in the case of Houn. The LNA is struggling to deal with these issues despite relying on its usual tactics of tribal intermediation and 'Urf (Customary Law). Unlike this summer, when the LNA managed to steer clear of protesters' ire, in the coming months, it might prove harder for Khalifa Haftar to deflect criticism as the October ceasefire has put him back at the centre of attention and expectations run high for him to comply with its key tenets.

GNA-LNA TENSIONS INCREASE WITHOUT DIRECT CLASHES

Both sides have engaged in increasingly belligerent rhetoric and continuing military buildup, but no clashes were recorded.

Akin to the lack of progress on the political track, the military track did not bring any major breakthrough in Libya throughout December.

On the contrary, the month was characterised by additional military buildup, dangerous rhetoric and incidents that could have ignited wider clashes. Surprisingly, Italy signed a military agreement with the GNA on 4 December, raising questions about the extent of Rome's support for the ceasefire agreement.

Despite its predictability, the most notable event of the month was the Turkish Parliament's decision on 21 December to extend the presence of Turkish-backed troops by another 18-months. Now poised to stay until mid-2022, Turkey has signalled its intentions to have a prolonged military presence in Libya. The country has so far trained 2,300 GNA soldiers and is poised to deepen its training and logistical support with Tripoli, regardless of the ceasefire's obligation to suspend military training and defence agreements with foreign countries. As a result, rhetoric reached its paroxysm between the LNA and Ankara as Khalifa Haftar blamed Turkey, in a speech on Libya's Independence Day [24 December], for spoiling peace efforts and seeking to advance its interests in Libya. The Field Marshal specifically said that Libya's independence meant nothing as long as Turkish forces were present on the territory and threatened to boot the Turks out by force. On 8 December, the LNA intercepted a Turkish ship named "Mabrouka" that had passed near a prohibited zone. While the ship was released shortly after paying a hefty fine, the incident led Turkey to threaten the LNA should they continue to interfere with Turkish interests in Libya. While peace remains preferable for all sides, Turkey has also ramped up its military capabilities inside Libya by procuring more advanced air defence systems, rehabilitating Al-Watiya airbase for larger cargo planes and continuing air and maritime deliveries of military supplies to the GNA.

Likewise, the LNA has also ramped up its influx of weapons from Russia and the UAE through the airports of Benina, Jufra and Qardabiya. New recruits and weapons were dispatched to the sensitive frontline of Sirte-Al Jufra as well as deeper into Libya's south. Sirte remains Libya's most volatile spot and any mobilisation on either side is often seen as a preliminary step to either attack or defend the city, with the LNA being accused of digging trenches and deploying more fighters there. Libya's south has also been twice a point of friction in December with the LNA seeking to gain control of the Tendi and Al Maghawir military camps near Ubari, a city which is fairly close to the Sharara oil field. None of these incidents led to armed clashes as local dignitaries managed to diffuse the tension and LNA officials sought to paint the events as simple misunderstandings. However, it is notable that these localised incidents were quickly blown out of proportion and were presented by the GNA as proof of the LNA's ceasefire breaches. The GNA's

Defence Minister Salah al-Din al-Namroush continued on this streak by saying that Sirte should not have been liberated from the Islamic State for it to be handed to “criminals”, in reference to the LNA. On 16 December, he created a committee to monitor war crimes committed by the LNA, a move that was welcomed by GNA hardliners who still refuse to reach an agreement with Haftar.

Nonetheless, hardliners on both sides have not managed to tip the balance on their side to reignite the conflict. Undoubtedly, December brought meagre progress as foreign mercenaries remain deeply entrenched in Libya and risk remaining in the country well after the 21 January 2021 deadline set as the final date for their removal. However, as the oil blockade’s suspension shows, deadlines remain flexible as long as the overall situation improves. In fact, progress may be slow on the ground but gridlocks are eventually broken and advances made towards the key demands of the ceasefire. For instance, the GNA and the LNA continued to exchange prisoners throughout the month of December, with most of the exchanges happening in the southern town of Shwerif. Despite breaches, both sides have ensured that their spokesmen reiterate their commitment to the ceasefire and the JMC eventually announced the opening of the coastal road on 21 December, following several calls from Ahmed Maiteeq as well as the TPF to accelerate the implementation of the ceasefire. There is a chance that the truce approved by the LNA and the resilience of GNA moderates in maintaining it might bring positive developments in the first months of 2021 – granted that hardline militias within the GNA will delay their role in opening the coastal road. Finally, December ended with a proposal from the UN Secretary General to form an international group to monitor the Libyan ceasefire on the ground.

PRESSURES FORCE SADIQ AL-KABIR TO INITIATE UNCERTAIN ECONOMIC POLICY

The Board of Directors of the Central Bank of Libya (CBL) met for the first time in six years and voted to unify the exchange rate. This is a double-edged sword policy that could create widespread dissent.

The [Inside Libya November 2020](#) issue laid out the growing divisions between the Governor of the Central Bank of Libya, Sadiq al-Kabir, and the rest of influential actors in Libya’s political-economy. The dispute, centred around control of Libyan oil funds within the Libyan Foreign Bank (LFB), has given the opportunity to a wide range of GNA figures to pin al-Kabir down and divert all economic grievances toward the CBL. Reflecting potential political ambitions,

the Chairman of the National Oil Corporation (NOC) Mustafa Sanallah, lambasted al-Kabir for squandering billions of oil revenues since the start of his tenure at the CBL. In the current climate, al-Kabir is isolated and suffers from low popular support. The Governor has faced continuous pressure in the form of a travel ban issued by Bashagha and an ultimatum launched by the Libyan Chambers of Commerce, Industry, and Agriculture for him to consider CBL reforms or face demonstrations, civil disobedience or even a general strike.

This pressure led to a milestone being achieved in the form of the CBL's board of directors holding unified meetings for the first time since 2014. The board first met on 7 December for a preliminary meeting to discuss general price levels, the banking system's health, and most importantly adjusting the exchange rate. The latter point was further elaborated during an official meeting on 16 December, when the board of directors decided to devalue the LYD by 220% from 1.4 to 4.4 LYD/USD, effective by the 3rd January 2021. The CBL also decided to resume the reopening of letters of credits for exports and the sale of hard currency to citizens at the new official rate.

There is a clear rationale behind the CBL's decision to unify the exchange rate and this policy will have wide-ranging implications on Libyan society. Since most Libyans have had to access foreign currency on the black market, where rates are many times the official rate, the CBL has devalued the LYD in the hope of cracking down on the black market and attracting LYD back into the banking system to mitigate the liquidity crisis as well as remove the unofficial premium charged on Libyans removing cash from banks. The unification of the exchange rate for governmental, commercial and personal purposes is also meant to remove the possibility of arbitration, smuggling and corruption by those having access to cheap foreign currency and who then sell those on the black market for a hefty premium. Overall, because of Libya's peculiar monetary situation, the CBL's board of directors believes that the reduction of the foreign exchange black market will improve Libyans' purchasing power and eventually drop overall prices by a maximum of 45%.

However, the positive outcomes expected by the CBL are not assured and rely on other developments. For instance, Libya imports 90% of its agricultural goods. Any LYD devaluation has a direct impact on food prices as shown by the near tripling of flour prices following the CBL's announcements. The real value of Libyans' income has also considerably dropped and led to several demonstrations by people calling for the national currency to regain a value of around 1.30-1.80 LYD against the USD. The decision to reopen letters of credits also remains problematic so long as the gridlock surrounding the disbursement of oil revenues is not solved. With no inflow of foreign currency

into its coffers, the CBL will need to use its own strained reserves if it wants to deliver on its promises. However, the Economic Working Group (EWG) convening in Geneva between 14-15 December has already advised Libya to use such reserves for the 2021 budget's critical expenses. Even if a government of national unity is formed and allows oil revenues to be disbursed by the CBL, the issue of real income devaluation will remain a key topic through 2021 as the government will be hard pressed to offer more subsidies to mitigate the currency devaluation's effects on the poorest. In December, public sector employees saw their salaries increase by 20%, which remains far below the currency devaluation rate. The more time goes without Libyans seeing the positive effects of the CBL's policies, the more likely demonstrations will become and the more pressure will amass on the CBL for it to reevaluate the LYD.

LIBYA ENTERS A NEW DECADE WITH HOPE FOR ECONOMIC CHANGE

Since 2011, Libya's economy has suffered from a fluctuating effect linked to instability and uneven oil exports. The new decade brings hope that Libya could finally stabilise and open for business once more.

After some lapse of time, the economic track seems to have taken the right turn in December with the CBL's unified meeting and the EWG's meeting meant to coordinate national economic policy between various institutions. Libya ends the first year of the new decade with the possibility of stability and economic reforms being implemented so as to preserve the country from further volatility. Considering Libya's extreme dependency on oil revenues and the impact of conflict on the oil sector, the country has experienced considerable economic compression when oil exports were curtailed and an unmanageable inflow of cash during growth years. In 2020, the country's economy shrunk by 66.7%, the steepest decline since 2011. With oil production on the rise and a potential agreement on revenue sharing for the early months of 2021, the IMF has also forecasted Libya's economy to grow by 76% during that year. These extreme numbers, respectively being the world's worst and best economic performance, reflect Libya's dire economic situation.

Nonetheless, as explained in [Inside Libya November 2020](#), there is cause for optimism considering the growing interest of multinationals and oil corporations for Libya. It is also important to mention that any improvement on the economic management and political situation of Libya would have a positive impact on how the country can access or at least manage its assets frozen abroad. In fact, the Libyan Investment Corporation (LIA) is seeking to

get up to speed with international standards and regulations. For instance, it signed an agreement in October with Ernst & Young for an audit and, in December, it managed to lift judicial guardianship over its funds which remain frozen in the UK. Whilst the LIA has made it clear it will not push for its funds to be unfrozen, the Authority is seeking to ensure it regains active management of its portfolio so as to avoid losses incurred since the freezing of its foreign assets by the UN in 2011. A report by Deloitte found that the Authority incurred losses of around €3.4bn as it can no longer sell depreciating stocks or bonds. Libya has tens of billions of euros frozen in mostly European countries. If 2021 initiates enough positive economic and political changes, there is a chance that the UN might review the asset freeze to allow the post-election government to access such foreign funds.

CONCLUSION & FORECASTS

The month of December did not lead to much progress on the political and military tracks. Libya is getting dangerously close to the 21 January deadline for the removal of foreign mercenaries among other demands stipulated by the 23 October ceasefire. Incidents on the ground continue to show that the situation remains volatile as hardliners on both sides continue to refuse accommodation and seek to entrench themselves. One such actor is Turkey, which has cast a shadow on a peaceful transition in 2021 as it becomes clear the country will continue to have a considerable military footprint in Libya. Likewise, the United Arab Emirates (UAE) has continued to provide covert military support to the LNA while also silently trying to foil the LPDF.

The 75% majority rule inside the LPDF has proven to be an obstacle for UNSMIL to reach a breakthrough on the political track. None of its proposals for a nomination mechanism were approved by LPDF participants as political blocs have formed within that caucus, thus making consensus a near-impossible task. Foreign powers like Russia and Turkey may very well be waiting for UNSMIL to throw in the towel so as to put forward their own dialogue that would strike an entente between the two and solidify the status-quo in Libya. Nonetheless, Stephanie Williams came up with an idea to fragment the LPDF into smaller committees, one focused on legal matters and the other focused on more political issues, so as to build consensus from the ground up. As Acting SRSG, she will need to remain in place until a new Special Envoy is appointed. She will however be seconded by Raisedon Zengenga, who will act as Assistant Secretary General and Mission Coordinator of UNSMIL.

The economic track pushed forward by the EWG and the milestone reached in the 16 December unified meeting of the CBL all create positive developments going forward as, arguably, the most important goal of the current peace process would be to reach an agreement on oil revenue sharing which would then enable the new government of national unity to operate, initiate important reforms and make progress in unifying all state institutions. Despite multiple dangers, the horizon is clear for Libya's economy should oil production continue unabated and economic arrangements reached. Further meetings between key Libyan institutions are scheduled for January 2021 and could potentially bring forward an economic resolution to the conflict. Libya could transition from its conflict-ridden economy toward more sustainable models whereby stable oil revenues create growth and allow the government to diversify the economy whilst providing safety nets to the most vulnerable. For this to happen, the government of national unity

must also be created and set aside personal or regional ambitions for national aspirations.

If this does not happen, Libya could enter another decade of volatility, conflict and fragmentation as current dynamics within the GNA and LNA do not bode well for the country. In western Libya, the competition between senior officials continues to hamper collaboration to take care of the problem of insecurity, smuggling and militias. In eastern Libya, the LNA is having an increasingly difficult task in recalibrating itself as a regional security provider and in keeping the image of a national army instead of a personal fiefdom. Many hardliners within the LNA believe that the current difficulties are a direct result of their concessions given the October ceasefire. For them, restarting the conflict and adopting a harder approach toward local dissent might become the solution to keep stability and save face. Equally, the unification of the LYD and its subsequent devaluation may have devastating effects on Libyans' livelihoods should it not be accompanied by more subsidies and better access to foreign currency by the CBL. Such economic grievances could be wide-ranging and have an important impact on the country's security and politics through the occurrence of bread riots.

How developments unfold in January 2021 will depend on the resilience and resourcefulness of various actors. Should the Legal and Advisory Committees created by Stephanie Williams manage to create consensus inside the LPDF, UNSMIL could counteract Turkish and Russian plans to benefit from its failures. Likewise, on the military track, slow but certain progress in terms of the coastal road's reopening might give enough credibility to GNA and LNA moderates to maintain the ceasefire and postpone the deadline by which foreign mercenaries should be removed from the country. Nevertheless, despite the LPDF representing the only viable forum for political dialogue in Libya, it must be noted that UNSMIL's decision to design the process around a piecemeal of Bashagha-Saleh scenario led to a weak process that was not fully able to capture Libyans' support. Further, lack of inclusiveness from UNSMIL's side led disgruntled and sidelined actors to flock towards an informal, parallel process that seems to be revolving around Moscow.

As a result, a political equivalence to the Russia-hosted Sochi track, which catalysed the economic agreement to reopen oil assets in September, is likely to emerge should UNSMIL fail to push through with the LPDF. This parallel track would include a wide array of political actors from across Libya and would likely have more chances of capturing the imagination and attention of Libyans. Russia seems to have already secured the buy-in of

so-called Greens, along with Prime Minister al-Sarraj, whose Foreign Minister recently visited Moscow. All that is left for Moscow is to secure Khalifa Haftar's buy-in. If the UN manages to undercut Moscow in that department, its process may very well still stand a chance to succeed. The likelihood that the first months of 2021 build up to a possible clash between the UN process and a potential Moscow-supported parallel process should not be discounted.

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