



U.S. Engagement in Libya: Diplomacy in a Protracted Conflict

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PREFACE AND ACKNOWLEDGEMENTS

This is the final report of a 2018 Policy Workshop, the capstone project of the Master in Public Affairs program at Princeton University's Woodrow Wilson School of Public and International Affairs, produced by 10 graduate students under the direction of Daniel Kurtzer, former U.S. Ambassador to Egypt and Israel.

This report is based on nearly 50 interviews conducted with Libyan and international diplomats, policymakers, UN personnel, researchers, NGO staff, Libyan civil society leaders, and journalists in the United States, Tunisia, and Egypt. All interviews, both in English and Arabic, were conducted off-the-record to ensure interlocutors' maximum candor. Desk review of primary documents (Arabic and English) and secondary literature related to Libya also informs this report. As a collaborative project, the report does not represent the views of Princeton University,

Ambassador Kurtzer, anyone interviewed for this workshop, or any individual student.

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¹ Cover Image: “*Libyan Rebels Fighting Forces of Gadhafi: Libyan Conflict*”, courtesy of Global Military Review. Web, <http://globalmilitaryreview.blogspot.com/2011/06/libyan-rebels-fighting-forces-of.html>

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LIST OF ACRONYMS

AFRICOM	Africa Command, U.S. Military
AQIM	Al-Qaeda in the Islamic Maghreb
CBL	Central Bank of Libya
CdA	Chargé d’Affaires, U.S.
CDA	Constitutional Drafting Assembly, Libya
CT	Counterterrorism
EU	European Union
GMR	Great Man-Made River Project, Libya
GNA	Government of National Accord, Libya
ISIS	Islamic State of Iraq and Syria
LAB	Libyan Audit Bureau
LAG	Libyan Attorney General's Office
LEO	Libya External Office, U.S. Department of State
LNA	Libyan National Army
LPA	Libyan Political Agreement
NGO	Non-Government Organization
NOC	National Oil Corporation
SFL	Stabilization Fund for Libya, UN
SRSG	Special Representative of the Secretary General, UN
UN	United Nations
UNSC	Security Council, UN
UNSMIL	United Nations Support Mission in Libya
U.S.	United States
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

This report offers recommendations for strengthening U.S. strategy in Libya based on primary research carried out in Princeton, Tunis, and Cairo in late 2018. Our assessment is that the situation in Libya is extremely fragile. The country faces significant risks of further deteriorating into widespread violence and further contributing to regional instability. As a result, we advocate for a limited increase in U.S. engagement and resources, particularly focused on building up U.S. presence in-country to support the UN-led effort, more actively corral international actors, and advance governance and economic priorities in line with U.S. interests:

Increase U.S. Diplomatic Presence and Engagement

- Expedite the process to appoint a senior professional U.S. Ambassador to Libya and reopen the U.S. Embassy in Tripoli.
- Empower the new Ambassador to engage in proactive diplomatic efforts to generate international consensus behind the UN strategy.
- Use increased U.S. diplomatic presence to strengthen UNSMIL's engagement with the international community.

Prioritize Actions to Strengthen Governance and Institutions

- Lobby UNSMIL to ensure that the Constitutional Referendum takes place before any national parliamentary or presidential elections.
- Signal willingness to impose sanctions on political figures obstructing the constitutional referendum or electoral process.
- Support signs of top-level moves toward Central Bank of Libya (CBL) reunification through diplomatic pressure and incentives, conditional on further progress on surmounting key divisions, including the eastern CBL debt burden.
- Expand sanctions to challenge activities which undermine central institutions, particularly the NOC's unitary control of oil revenues.
- Lobby the UN to improve coordination of international support to municipal authorities.
- Prioritize technical and financial support to central ministries within existing U.S. decentralization programs.

Deepen U.S. Leadership in Reforming the Libyan War Economy

- Prioritize support to the Libyan Audit Bureau and Libyan Attorney General's office as a means of adding weight to the World Bank efforts.
- Provide diplomatic and technical support to efforts to prevent the manipulation of "service fee" exemptions.
- Use convening power of the economic track to prioritize fuel subsidy reform while oil prices are low.

INTRODUCTION

In mid-2011, the United States and its European partners supported an international military effort to protect civilians in Benghazi and, ultimately, topple the regime of Mu'ammar al-Qadhafi. For Libyans, the path to a new, democratic era— an opportunity to build “Norway on the Mediterranean” — beckoned.ⁱ However, Qadhafi's rule had left the country bereft of governance institutions or any experience with representative democracy. Qadhafi ruled through a closely-managed security state, fueled by deep oil and gas reserves, often pitting local rivals against each other while fostering a deep suspicion of outside interests.

Libyan hopes evaporated between 2012 and 2014, as the murder of Ambassador Christopher Stevens in Benghazi presaged Libya's descent into grinding civil war. As the country fell into protracted conflict, it also became toxic in U.S. domestic politics, and U.S. engagement waned. By his second term, President Obama saw in the aftermath of U.S. involvement in Libya one of the most serious mistakes of his presidency. Despite this, the rise of the Islamic State of Iraq and Syria (ISIS) in Libya since 2015 ensured that the United States could not fully disengage. Too many core U.S. interests — counterterrorism, security, and regional stability — were

implicated in ongoing Libyan instability. Instead, U.S. policy has existed in a liminal state, combining aggressive defense of counterterrorism (CT) interests with relatively limited diplomatic engagement, especially after the Libyan Political Agreement was signed in December 2015. **(See Figure 1, p. 37)**

Superficially, these efforts appear appropriately calibrated to the relative importance of U.S. interests in Libya. Yet Libya's political dysfunction and latent instability have not remained static, they have continued to deepen. Although the country does not represent an urgent crisis today, Libya's geographic position — astride key migration channels to Europe and sharing a 2,000 km border with Egypt, as well as porous borders with Chad, Niger, and Sudan — and role as a major oil producer make Libya's failure a major setback to U.S. interests. Above all, a long-term view of U.S. counterterrorism interests recognizes that failures of governance and service provision drive the terrorist threat in ways that must be addressed through non-military means.

This analysis aims to review U.S. strategy in Libya on the basis of U.S. interests. It seeks to judiciously calibrate the benefits of U.S. engagement in the country with the realities of

regional prioritization. To do so, we offer specific, concrete, and actionable recommendations to advance U.S. policy objectives in Libya. The recommendations below do not constitute a plan for resolving Libya's many challenges, but rather focus on strategies that the United States might realistically pursue in Libya according to the hierarchy of interests identified below.

Libya represents a particularly intractable case of sustained low-level conflict and could

return to the intensity of violence that enabled the rise of ISIS; a failed state in Libya could spread instability beyond its borders and undermine U.S. allies in the region. Overall, we assess that the U.S. could do more to improve Libya's prospects for stability, mitigate the risk of future conflict, and thereby advance its long-term security interests. Our recommendations offer options to enhance U.S. engagement by focusing on areas of comparative advantage, should the United States choose to step up its engagement.

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² Libyan desert south of Ghat. Libya's porous borders enable criminal activity. ID 98735713 © | Dreamstime.com
<https://www.dreamstime.com/stock-photo-desert-libya-libyan-south-city-ghat-image98735713>

U.S. INTERESTS

A stable, secure, and prosperous Libya serves U.S. interests:

i) The United States has a *critical* interest in addressing terror threats emanating from Libya to U.S. citizens and property, and in preventing regional allies (Egypt and Tunisia, in particular) from descending into conflict as a result of Libya's instability (**see insert**). Preventing Libya from becoming an ungoverned space and safe haven for extremist groups such as Al-Qaeda in the Islamic Maghreb (AQIM) and ISIS is central to this. Despite ISIS' defeat in several Libyan cities, many parts of the country remain functionally ungoverned, leaving extremist groups space to regroup and cement connections with allied groups across the Sahel.

ii) The United States also has a *strong* interest in stemming the flow of migrants to Europe and preventing the situation in Libya from destabilizing European allies. Although migration flows through Libya do not pose an imminent threat to European countries' fundamental stability, the Mediterranean crisis has created major challenges for European states on the frontline of migrant flows and for EU cohesion more broadly. These migration challenges have threatened to fracture the

European Union, which could lessen EU capability to partner with the United States.

Tunisian Stability

The resumption of widespread hostilities in Libya would almost certainly harm Tunisian stability -- in which the United States has important practical and symbolic interests. These refugees would further burden Tunisia's heavily strained economy, possibly pushing state resources to a breaking point. Such an influx, combined with prevailing worsening economic conditions, could fray the unsteady agreement between Ennahda and its secular opponents or even spark widespread citizen protests. Before taking actions that might spark major unrest in Tunisia, or standing by during a Haftar push on the west, the United States must carefully weigh the impact of those actions on Tunisia.

iii) The United States has *important, though not critical*, interests in maintaining global oil supplies as well as protecting and expanding opportunities for U.S. commercial activity and investment in Libya. Maintaining Libyan supplies also potentially reduces European demand for Iranian energy.

BACKGROUND

Libya's interlinked political, security, and economic crises originate in forces unleashed by the fall of Mu'ammar al-Qadhafi that have since acquired a powerful sustaining logic of their own. Contestation over Libya's oil and gas rents and smuggling networks has fractured the country's security sector, undermined its fragile economic and financial institutions, and produced deep-seated political dysfunction. In the west — home to the majority of Libyans — a fragmented militia-state prevails in which the internationally-backed Government of National Accord (GNA) depends on an array of feuding armed factions. In Libya's east, a would-be strongman, Khalifa Haftar, aspires to impose a new security state modeled after Egypt. However, he sits atop a fractious coalition of *ancien-régime* military figures and Salafists. Exploiting these circumstances are a multitude of extremists, profiteers, smugglers, and other spoilers. (See Figure 2, p. 38)

International efforts to mitigate Libya's ongoing crisis have been undermined by a combination of competitive proxy interventions and international inattention. There is wide acknowledgement that European powers did not uphold their commitment to support state-building efforts in the aftermath of the 2011 intervention.

Without the emergence of a clear leader among European states willing to champion a unified approach, each took action to protect and advance its own interests. For example, Italy has prioritized addressing migration issues, leading it to target support to the western part of the country due to the presence of many migrant routes there. Disunity among the European powers has allowed Libyan actors to find sympathetic international sponsors who provide international legitimacy and diplomatic cover; one example is French support for Khalifa Haftar. Competitive intra-European political dynamics have exacerbated this problem, with Italy and France both seeking to take a leadership role on Libya to demonstrate primacy on EU-Mediterranean issues.

In this context, Libya's internal dynamics rapidly became dominated by the conflict between Gulf powers, with Qatar and Turkey supporting militia groups in the west while the United Arab Emirates and Egypt have provided funding, arms, and personnel to support Haftar in the east. Egypt's imperative to protect its border and prevent the emergence of an Islamist regime means they will not accept a solution that fails to protect their core interests.

In the long term, the country's unstable status quo poorly serves U.S. interests by allowing extremist groups and organized crime networks to flourish while constraining growth in Africa's richest oil state. Clashes in Tripoli over the summer of 2018 — stemming from the ongoing struggle for power and spoils — and the increasingly tense situation in Libya's south suggest that there is a serious risk of further deterioration of the security situation; escalating conflict could threaten core U.S. interests, particularly on counter-terrorism, and undermine the stability of key regional allies.

Key Challenges in Libya

Libya's instability, which generates serious counter-terror challenges and security threats for the United States and its allies, stems fundamentally from governance failures. This section outlines the key challenges facing Libya:

Political dysfunction and militia fragmentation prevent the emergence of central state authority. Absent a national-level political settlement, local militia and political factions will continue to control increasingly fragmented parts of the country. No single actor has been able to generate enough military or political power to seize the whole country: the GNA is beholden to a shifting

network of Tripoli militia and remains unrecognized by the official parliament in the east, while Libya analysts and foreign government officials overwhelmingly assert that Haftar's Libyan National Army is fragmented and too weak to extend its authority beyond the east of the country. (See **Figure 3, p. 39**)

However, partition would likely entrench conditions for future conflict, given that resources and populations are not split evenly between the country's regions.

The UN-led political process has struggled to remedy the deeper drivers of conflict. With no single actor able to tip the scales militarily, international parties have focused their efforts on promoting a negotiated political solution. The UN Special Representative of the Secretary General (SRSG), Ghassan Salamé, is struggling to generate a path forward that can unite Libya's institutions, address security issues, and create the foundations for a more equitable division of Libya's resource wealth. The Libyan Political Agreement (LPA) has, by the SRSG's admission, run its course and can no longer serve as the sole basis for a settlement to the conflict.ⁱⁱ Yet proposed replacements — including elections and other international mediation efforts — suffer from a

failure to address the crisis of legitimacy any political compact would face.

U.S. disengagement has hindered mediation efforts. While the United States has supported the SRSg's mediation efforts, in recent years the United States has done relatively little to corral international actors behind the UN SRSg's Roadmap for Libya or to resolve conflicting views among European, Gulf, and North African powers over the path to stability in Libya. This stands in contrast to the significant political capital and diplomatic resources deployed by the United States to drive forwards the 2015 negotiations and eventual LPA. As a result, many of the key Libyan players feel empowered by their international backers to continue acting as spoilers.

Absent a political solution, Libya's war economy has become a key sustaining force of the conflict. Libya's war economy further sustains the political gridlock. Militia groups and political factions profit from the status quo through an array of criminal rackets and outright theft, including through contesting oil sources, profiting from migrant and fuel smuggling networks, and manipulating currency markets. Billions of dollars have been stolen, while income disparities have widened and nearly a third of Libyans live below the poverty line.ⁱⁱⁱ



³ Image: Barricaded road in front of a Tripoli compound, 2016. ID 96394550 © Trentinness | Dreamstime.com
<https://www.dreamstime.com/stock-photo-visit-to-tripoli-libya-field-image96394550>

Lack of progress on security sector reform allows those profiting from the status quo to continue to act as spoilers. An empowered, unitary Libyan government would exercise a near monopoly on the use of force within its territory, but this ideal remains unattainable. It has remained stubbornly difficult to make progress on the security front without concomitant progress on the political and economic tracks.

Municipalities and other local actors may offer opportunities for real progress in the short-term, but such efforts also risk exacerbating Libya's fragmentation and empowering militia groups. In the absence of progress at the national level, many Libyan actors, international organizations, and donors are focusing on making local gains in governance and security. In some areas, agreements between community militias and municipal authorities support service provision and localized security arrangements; some municipalities are levying their own taxes, going beyond their legally-mandated role. Despite the reality that local institution-building cannot be a substitute for national-level political compromise, functional municipalities that provide key services could help reduce the kinds of frustrations and governance vacuums that ISIS so skillfully exploits (**see insert**); in the short term, these localized solutions help

build stability and improve daily life for some Libyans. In the long term, however, local arrangements will need to be incorporated into a consistent legal framework governing the roles of central and municipal authorities. Without a central authority to protect key national institutions, incentives for fragmentation, competition and violence will remain entrenched.

Anticipating the Unexpected

ISIS reemerges as a serious threat

While ISIS is unlikely to govern swaths of land in Libya in the near future, there is a risk that the group will reemerge in the mostly ungoverned south of Libya and carry out attacks against vulnerable oil fields and pipelines in the Sirte Basin, or the Man-Made River (GMR) that is a strategic lifeline for Libya. ISIS may also use Libya as a base to escalate high-profile, 'shock-and-awe' attacks in North Africa and in Europe. The United States would need to act quickly to prevent ISIS from destabilizing broader political dynamics in Libya, including through military action.

CALIBRATING U.S. EFFORTS

It is easy to conclude from the conditions outlined above that Libya's conflict has, in the short term, reached a sustainable equilibrium. No single actor appears able to tip the balance. In reality, the status quo is unstable and does not serve U.S. long-term interests; localized fighting between militia groups often threatens the security of Libyan government institutions (as in Tripoli in summer 2018) and vulnerable oil infrastructure, while also allowing extremists space to operate. This section outlines current U.S. policy toward Libya, considers two often-debated alternative strategies, and proposes a third, more effective approach to advancing core U.S. objectives in Libya:

- i) further deprioritizing political engagement on Libya while maintaining focus on protecting critical security interests;
- ii) supporting (overtly or tacitly) Egyptian and Emirati efforts to achieve a military solution via Khalifa Haftar; or,
- iii) a limited increase in U.S. engagement to “move the dial” towards a negotiated political settlement and longer-term stability.

Below are the advantages and disadvantages of each approach, concluding that the **third option offers the most realistic chance of advancing U.S. interests in both the short- and long-term.**

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⁴ North African Refugees Flee to Lampedusa / Italy (2014) ID 53678048 © Roger Schaub | Dreamstime.com
<https://www.dreamstime.com/stock-photo-refugees-north-african-flee-to-lampedusa-italy-image53678048#>

Where are we now: current U.S. approach

The United States currently appears focused on containing security threats via AFRICOM (which maintains relationships with a range of Libyan actors to help implement CT operations), and supporting multilateral efforts to promote a political settlement through the State Department's Libya External Office (LEO) in Tunis. USAID has consistently been one of the largest donors to Libya, funding projects including technical assistance to election bodies and ministries, municipal service provision, private sector development, and civil society empowerment. The United States also leads the UN-backed economic dialogue, which has brought key Libyan actors together to negotiate positive steps toward economic reforms at the national level.

The United States does not, however, have political representation in Libya, nor are senior members of the administration engaged at key Libya-related conferences, such as the November 2018 Palermo Conference on Libya. While its support for UN-led negotiation efforts has had a positive impact, the United States has not supported these efforts with the extensive diplomatic engagement necessary to build consensus among external interests or generate international support for the UN approach. The LEO's location in Tunis limits its ability to address the fast-moving situation on

the ground, and the absence of an Ambassadorial representative significantly hinders the United States' ability to influence Libyan and international partners at senior levels.

Although AFRICOM is working to eliminate immediate security threats, depending on military capabilities alone fails to recognize that, left unaddressed, continued state failure in Libya is likely to generate more serious security threats and regional spillover in the future.⁵ In addition, a short-term view of the CT challenge may have unintended negative effects. Drone warfare alone is both costly and, ultimately, unlikely to succeed in sustainably mitigating the terrorist threat from Libya.

This view reflects the growing consensus that the failure of the Libyan state and lack of governance have been primary drivers of the metastasizing terrorist threat. A longer-term view of the CT challenge recognizes that there is an urgent need to make progress on the political, governance, and economic tracks in Libya to mitigate the risk of conflict escalation and future threats.

⁵ Libyan instability has previously driven dangerous trends including the destabilization of Mali in 2013 and the unregulated flow of sophisticated weaponry to battlefields across the region— Syria above all.

Although one can debate the inevitability of extremists' rise in Libya, many analysts view the international community's political disengagement and failures of 2013 and 2014 as contributing factors in ISIS' subsequent expansion in the country.^{iv}

Current levels of U.S. engagement are therefore insufficient to create a more stable, secure Libya that would best serve U.S. interests in the long term. Without additional muscle, UNSMIL's prospects for success are currently low; a sustainable political solution remains distant (**see insert**). International actors continue to provide resources and political cover to their clients, reducing the incentives for Libyan actors to come to the negotiating table or compromise.

The United States should therefore consider an alternative approach to Libya that would strike a better balance between costs and effectiveness. The current strategy is relatively costly (including significant U.S. funding: over \$78 million across all U.S. government agencies in 2017)^{v,6} but is not likely to achieve success. We discuss alternative approaches below:

UNSMIL Mandate

We do not recommend that the United States lead an effort to change UNSMIL's mandate. At its establishment, UNSMIL was assigned an ambitious set of objectives and yet provided with only light footprint resourcing. Today, perceptions of UNSMIL's efficacy vary and its authority is often circumvented. Yet changing its mandate could undercut the standing of the current mission and the SRSG. It might also distract from recent positive steps and stoke divisions among stakeholders. Based on a review of other UN missions and discussion with experts, we conclude that changing UNSMIL's mandate would not meaningfully change realities on the ground; instead, it could counterproductively raise expectations or frustrate Libyans who tend to be wary of international interference.

i) De-prioritize U.S. engagement

A minimalist option would further reduce U.S. engagement in Libya to the bare minimum necessary to protect core, short-term U.S. counterterrorism interests. This approach assumes that political progress in Libya is unlikely. In practice, this option would keep the LEO in Tunis but de-prioritize efforts to open an Embassy in Tripoli or appoint an empowered Ambassador. The bulk of current USAID funding in the country would be withdrawn and reallocated to other U.S. priority issues or countries.

⁶ Figure for 2017 based on partial reporting.

The arguments for this approach are threefold. First, as American attempts at state-building in Iraq and Afghanistan show, it is extremely difficult for external actors to build functioning states in countries where the internal conditions for a political settlement are absent. Second, even if the United States were to focus solely on basic stability (leaving aside the national-level political settlement), the literature⁷ suggests that effective stabilization programs require a long-term, significant commitment of funding, staff resources, and political will. The level of resources it would likely take to deliver stabilization in Libya is not within the U.S. appetite for involvement; Libya is not enough of a priority to warrant this level of financial or political expenditure. Third, the United States is able to adequately protect its core interests — CT, security, prevent regional instability — with fairly limited engagement. A subsidiary consideration is that such a course would make good on the original plan for the 2011 intervention, in which the Europeans should lead on state-building and stabilization.

As noted above, however, this limited view of the CT challenge is likely to prove counterproductive in the long-term. It is a gamble to assume that executing a continuous

game of “whack-a-mole” across Libya’s many ungoverned spaces will effectively deliver on U.S. interests. Even as drone warfare remains a potent tactical tool, it has done little to sustainably address the terrorist threat in the Middle East and North Africa and has, in many cases, bred resentment and further radicalization and extremism among local populations. There is little reason to think that drone warfare stands a better chance of success in Libya than in Yemen, Iraq, or elsewhere.

ii) Promote a military resolution by supporting Khalifa Haftar

There are multiple possible forms a “maximalist” U.S. policy toward Libya could take, but the most important and commonly discussed involves backing Khalifa Haftar to victory. Such a posture could involve providing tacit or open support for ongoing Egyptian and Emirati efforts to train, fund, and equip Haftar’s forces to a preponderance of power across Libya. This would require relaxing the enforcement of UN Security Council arms embargoes and turning a blind eye to human rights violations.

⁷ See, for example, the reports of the Special Inspector General for Afghanistan Reconstruction.

A more extreme version of this approach would also involve direct U.S. military support to Haftar. The argument for backing Haftar to victory would depend on an assessment that further political progress in Libya is unlikely and the United States is expending resources on an unworkable UN-led process, while Haftar has delivered some measure of security and governance in eastern Libya. Even in the west, some polling suggests that Haftar is becoming increasingly popular as Libyan demands for stability grow. What is more, allowing Haftar to militarily and politically control Libya would recognize the country's secondary importance in the hierarchy of U.S. regional interests and placate key U.S. allies such as Egypt, the UAE, and France, whose support the United States needs for other important priorities.

Nonetheless, this option involves many risks. Above all, Haftar's shaky coalition is based more on alliances of convenience and opportunism than on durable institutions or shared interests. It is unlikely that such a coalition — regardless of equipment and training — could sustain the kind of high-intensity combat required to conquer western Libya. Haftar's purported military strength has, in fact, rested on heavy Emirati and Egyptian support and airstrikes. There is little evidence that Haftar's LNA would be able to make

inroads against well-armed and motivated western militias fighting in their hometowns.

Anticipating the Unexpected

Khalifa Haftar dies

Persistent rumors about Khalifa Haftar's health surged in April 2018, including reports of his death. Although the rumors were quickly dispelled, Haftar's health, and the lack of a clear successor, remains a significant variable in Libya's stability. Haftar's sons would likely try to step in, but neither they nor others have sufficient legitimacy to hold together the current coalition. The possible collapse of Haftar's LNA coalition in the wake of his incapacitation or death would leave room for the resurgence of ISIS and other groups currently held down by Haftar. To prepare for this, the United States should develop broad relationships within the LNA coalition to improve its understanding of possible successors, dynamics, and future partnerships.

Given the limited nature of U.S. interests in Libya, the civilian and political costs of a Haftar-led military option would likely outweigh any notional imposition of a "solution." Even if Haftar were to succeed in conquering all of Libya militarily, his forces would likely confront a sustained insurgency that would open more operating space for extremist groups.

iii) Limited increase in U.S. engagement to create the conditions for progress

Our recommended option is to build on areas of existing U.S. involvement and comparative strength. As outlined above, current levels of U.S. engagement are not having much impact, but a *significant* increase in U.S. leadership, resources, or political capital on this issue is unlikely to greatly increase chances of success either. Major external intervention (such as the imposition of a political settlement with military intervention to enforce it, or a massive influx in aid funding and program resources) is unlikely to be effective in resolving Libya's internal conflict dynamics, and could backfire; U.S. interventions in Afghanistan and Iraq have demonstrated how difficult it is for outside actors to impose a sustainable political settlement in the midst of ongoing conflict and political divisions. Nonetheless, there is more the United States could do to enhance the effectiveness of its strategy in Libya.

Such a "middle" option realistically calibrates U.S. objectives and level of ambition. Above all, it holds the possibility of mitigating future threats without investing too heavily politically or militarily. The policy tracks engaged in this

approach — diplomatic, governance, and economic — are relatively efficient means of advancing the U.S. interest in reducing the risk that Libya collapses into another round of unrestrained civil war, in which extremist groups would thrive. While we do not advocate increasing U.S. funding for humanitarian assistance or development programs, this approach will require more political capital and some upfront expense. We assess that a limited increase in U.S. resources is justified to mitigate the risk of further deterioration in Libya.

By stepping up its engagement, the United States may risk creating the perception that it has taken ownership of the problem. This, however, can be mitigated by ensuring that U.S. efforts, described below, are well integrated into broader, multilateral frameworks. There is no guarantee that these measures will "fix" Libya, but, given the still neuralgic view of Libya in U.S. politics and the constraints posed by the conflict itself, a strategy of maximizing the effectiveness of realistic steps forward holds the best hope for progress.

RECOMMENDATIONS



1. STEP UP U.S. DIPLOMATIC PRESENCE AND ENGAGEMENT

1. i: Expedite the process to appoint a senior professional U.S. Ambassador to Libya and reopen the Tripoli Embassy

The current level of public U.S. political engagement on Libya is relatively low. Without an Embassy or Ambassador in Tripoli, the United States is limited in its ability to develop a deep understanding of the political and security landscape inside Libya, build relationships with key Libyan actors, and exert meaningful influence of parties to the conflict — internal or external. Reopening the Embassy in Tripoli will improve U.S. information-gathering capabilities and build a stronger understanding of the fluid situation on the

ground. While the current presence of a Chargé d’Affaires is welcome, reopening the Embassy and appointing an experienced Ambassador-level diplomat with knowledge of the region will also send an important signal to other members of the international community that the United States is renewing its focus on Libya.⁸

The State Department has the authority to reopen the Tripoli Embassy using the funds

⁸ UN plane visits Tripoli, 2016. ID 96393720 © Trentinness | Dreamstime.com
<https://www.dreamstime.com/editorial-image-visit-to-tripoli-libya-field-image96393720>

appropriated in the Embassy security, construction, and maintenance section of the FY19 State and Foreign Operations Bill. Such a move will undoubtedly be met with skepticism in Washington — both on Capitol Hill and in the White House. Given the security concerns stemming from the Benghazi attack in 2012, it is likely that U.S. presence in Tripoli will begin as a well-protected 'fortress embassy.' This will in turn limit the Ambassador's movements and ability to engage with stakeholders. However, even with these limitations, there is a powerful case to be made that the United States cannot exert meaningful influence in Libya without a presence on the ground. The kind of granular, personal diplomacy that U.S. diplomats are known for globally should be re-established as a key instrument of U.S. policy towards Libya, ideally by appointing as Ambassador a senior official with deep experience in the region. In tandem, there is growing momentum among EU states to reopen their embassies in Tripoli; the newly-credentialed French ambassador to Libya, for instance, stated that France would soon be returning its embassy permanently to Tripoli. The British have recently re-established a presence, and the Italians have maintained a diplomatic presence in Libya throughout the conflict.^{vi} Failing to move in this direction may also carry the downside risk of being

diplomatically outmatched in Libya by near-peer nations. Moreover, UNSMIL's continued presence in Tripoli, even through the spike in violence during the summer of 2018, sends a powerful signal of commitment to finding a solution for Libya's crisis.

1. ii: Empower the new Ambassador to engage in proactive diplomatic efforts to generate international consensus behind the UN strategy

The United States is a firm backer of UN leadership in Libya via UNSMIL and the SRSG. However, UNSMIL is currently struggling to deliver on its challenging mandate. While the SRSG is making little headway in political negotiations, international actors — frustrated at the UN's slow progress — are hosting parallel dialogues and proposing alternative strategies for moving forward. There is more that the United States could do to support UNSMIL, re-energize the UN-led negotiation process, and renew unified international support for the multilateral approach. In the past the United States has successfully wielded its diplomatic influence in support of the UN process. For example, in 2015 the United States put significant pressure on the United Arab Emirates to accept the LPA and prevent its Libyan clients from immediately acting as spoilers; after the Secretary of Defense visited Egypt in December 2017,

Egypt-backed armed groups in eastern Libya began to engage with UN-led negotiations.

The United States is uniquely placed to corral international players behind UNSMIL. U.S. diplomatic support carries weight in the UN Security Council, as well as bilaterally in the region and among European allies; using its bilateral and multilateral influence, the United States should rally support for UNSMIL and press international actors to play a more constructive role. This, for example, should include shuttle diplomacy among regional allies to convene discussions between key players on different sides of the Libyan conflict. The U.S. Ambassador should convene international meetings to generate consensus behind the UN Roadmap and prevent international actors from supporting Libyan spoilers. The Ambassador should also negotiate bilaterally with key international actors to build support for a unified, UN-led approach.

The Ambassador's ability to wield U.S. influence will be heavily constrained by the reality of the fractured international landscape. Many of the foreign players in Libya's conflict will be unwilling to abandon proxies they have now spent years funding; Egypt's existential concerns about border security and Islamist parties leave little room

for flexibility. Libya will not be the arena in which the Gulf countries suddenly achieve reconciliation, nor will progress in Libya solve the intra-European jostling which drives Italy and France's competitive dynamic. Even an Ambassador who is empowered to take a more proactive role in lobbying international actors will be constrained by other regional considerations, such as the wider importance of U.S. alliances with the UAE and Egypt. Nonetheless, the comparison between energized U.S. efforts during the 2015 LPA negotiations and today's approach shows that active U.S. engagement can play a significant role in generating international consensus.

1.iii: Use increased U.S. diplomatic presence to strengthen UNSMIL's engagement with the international community

As the U.S. renews its support for UNSMIL and takes proactive steps to build international consensus behind UNSMIL's leadership, it should also look for opportunities to strengthen UNSMIL's capacity to deliver. A number of interlocutors interviewed for this report expressed concerns that UNSMIL was stretched thin across a range of challenging portfolios, and that channels of communication between UNSMIL and the international community were steadily unraveling.

The United States should look to facilitate closer engagement between UNSMIL and the international community, acting as a convener and coordinator to reestablish regular “contact group” meetings with the SRSG (or his deputies) and the international community. The U.S. should play a key role here given its ability to convene other international actors and close links with senior UNSMIL personnel. These meetings would offer an opportunity for UNSMIL to share

information about its plans and improve the international community’s understanding of its approach. We heard that uncertainty among international actors over the SRSG’s long-term vision is one of the factors contributing to international disunity; increasing opportunities for information-sharing, discussion and engagement could be an effective tool in building international consensus around UNSMIL’s strategy.

2. STRENGTHEN GOVERNANCE AND INSTITUTIONS

2. i: Lobby UNSMIL to ensure that the constitutional referendum takes place before any national elections.

The United States supports the UN Roadmap; however, the revised plan presented by the SRSG to the Security Council on Nov 8 (and the renewed commitment agreed at Palermo) does not set out the sequencing of the electoral process. The United States should continue to support the SRSG’s National Dialogue process while encouraging the SRSG to clarify how the outcomes will be integrated into the electoral process. The National Dialogue offers an opportunity for Libyans to voice their opinions on how a future Libyan state will function, and the SRSG should ensure that concrete recommendations are incorporated into plans for elections.

UNSMIL’s priority should be to ensure that the constitutional referendum takes place before any parliamentary or presidential elections. The SRSG has stated that elections should be held in spring 2019 but has refrained from explicitly asserting the role of the constitution in underpinning such elections. The constitution as currently drafted is an imperfect document and leaves key questions of representation and power distribution ill-defined. Nonetheless, these flaws could be remedied through eventual amendments rather than by further delaying the referendum. By giving Libyans a voice in how power structures are crafted, a constitution could offer a useful pivot toward democratically endorsed legitimacy for Libya.

The recent announcement by Libya's election commission of a planned referendum by February 2019 should therefore be welcomed, though the timeline should not be accelerated beyond what can be executed in a transparent, legitimate manner. Although the UN recognizes that future elections must have a "constitutional basis," recent statements by the SRSB have stopped short of committing to finalizing the constitution as a precondition for elections. This approach risks exacerbating Libya's crisis of legitimacy and exposing any future agreement to legal challenge, possibly leading to a repeat of the confusion and procedural wrangling that followed the 2014 elections. Holding the constitutional referendum may offer some assurance that the outcome of future elections will be perceived as legitimate (although, of course, this is by no means guaranteed) (**see insert**).

2.ii: Signal willingness to impose sanctions on political figures obstructing the constitutional referendum or electoral process.

Although the United States has already imposed sanctions on militia leaders, the United States has not yet made extensive use of sanctions to pressure Libyan political figures. This is an important tool that the United States should consider deploying more widely.

Anticipating the Unexpected

Libyans reject the Constitution

If the constitutional referendum ends in a rejection, there is a risk that this will be interpreted as a rejection of democracy; some actors may seek to use the rejection of the constitution to promote a non-democratic political settlement. Some may therefore advocate that Libya move forward with elections as quickly as possible, either without a constitutional basis or on the basis of a previous constitution (i.e. the Libya Interim Constitutional Declaration or the 1951 Libyan Constitution). In this scenario, the United States should advocate for the Constitutional Drafting Assembly (CDA) to immediately announce plans to revise the draft constitution to better reflect the popular will; the United States should strongly back the CDA to signal the international community's commitment to the political process in Libya.

Specifically, the United States could impose (or threaten to impose) sanctions on key Libyan political figures who seek to derail the SRSB's attempts to move forward with the constitutional referendum and electoral process.⁹

⁹ The U.S. Treasury Department sanctioned Aguilu Saleh in 2016 for "stalling progress" and obstructing the implementation of the LPA.

The Executive Order granting the U.S. Treasury authority to sanction Libyan individuals (EO 13726) allows imposition of sanctions for “actions or policies that obstruct or undermine the adoption of or political transition to a Government of National Accord or a successor government.” This is in line with UN Security Council Resolution 2175, which expands the range of activities attracting sanctions to “acts that threaten the peace, stability or security of Libya, or obstruct or undermine the successful completion of its political transition.”

Overall, sanctions are a key tool available to the United States and should continue to be a major component of U.S. strategy in Libya. However, while we recommend that the United States expand its use of sanctions, we recognize the risks of doing so too rapidly or broadly. As far as possible, the United States should identify and take steps to mitigate the unintended consequences of increasing sanctions (for example, driving militia groups toward more harmful criminal activities to generate alternative sources of revenue). Sanctions will also lose their power if they are not enforced; the United States should carefully consider what types of sanctions it imposes, and how they will be enforced, to ensure that Libyan actors continue to perceive sanctions as a genuine punishment.

Anticipating the Unexpected

Saif al-Islam reemerges to compete in presidential elections

In the absence of a clear political leader, Saif al-Islam Qadhafi, son of Mu’ammar al-Qadhafi, has been increasingly mentioned as a potential player in Libya following his release from prison in 2017. Saif al-Islam is still under U.S. and UN sanctions, so if he were to join a future Libyan government in any role, international aid to the Libyan government would be problematic. Despite sanctions, Saif al-Islam is reportedly polling at remarkably high numbers, even with his whereabouts unknown. In March 2018, he announced through a spokesperson his intention to run for president; in November 2018, the Russian Contact Group on Intra-Libyan Settlement said that it is in “regular” contact with Saif al-Islam, who “will be a political process participant.”¹ The U.S. should carefully monitor Saif’s activities.

For example, Aguila Saleh has continued to travel freely, despite a formal travel ban, undermining the efficacy both of sanctions and the threat of their imposition. Instead, alternatives to travel bans should be sought for individuals who frequently need exemptions to attend international meetings as part of the mediation process, and attention should be carefully paid to not undermine enforcement of sanctions in place. The United

States could also create more powerful incentives for behavior change by clearly setting out the conditions under which sanctions might be lifted.

Recognizing that U.S. sanctions will be most effective when imposed alongside UN and EU sanctions, we emphasize that this approach depends on the United States stepping up its diplomatic presence, activity, and multilateral lobbying efforts as outlined in section 5.1 above.

2.iii: Support signs of top-level moves toward Central Bank of Libya (CBL) reunification through diplomatic pressure and incentives, conditional on further progress on surmounting key divisions, including the eastern CBL debt burden.

A key priority for the U.S. strategy in Libya must be to continue to protect central institutions. The continued functioning of central economic institutions such as the National Oil Corporation (NOC) and the Central Bank of Libya (CBL) is absolutely critical for maintaining the current uneasy stalemate; unitary control of oil flows and the continued (albeit limited) distribution of revenues have helped to stave off total state fracture and a severe humanitarian crisis. Preserving the unity of Libya's central economic institutions also protects the building blocks of a future unitary state; allowing them to fracture along

the same lines as Libya's political institutions would further entrench the east-west divide.

The de facto division of the CBL between its Tripoli headquarters and its eastern branch continues to drive fiscal dysfunction and political corruption, despite ongoing efforts to reach an agreement between the two. While intimately linked to broader east-west political divides, the central bank split has had particularly pernicious effects by preventing fair distribution of the country's oil wealth while incentivizing warlordism and the further fragmentation of the country. Above all, the prospect of independent, multiple revenue streams has incentivized militia leaders to pursue their own narrow interest and avoid political compromise at all costs. **(See Figure 4, p. 40).**

The eastern CBL branch has been particularly aggressive in deepening the schism. From 2016 to the present, the CBL's eastern branch ordered nearly 10 billion Libyan dinars printed in Russia as a means of asserting its control over liquidity.^{vii} In June 2018, as part of an attempt to seize control of eastern Libya's oil production and sale, Haftar and eastern CBL officials stated that they would distribute revenues independently through the eastern branch. U.S. pressure was largely responsible for forcing Haftar to abandon this position and

accept the distribution of revenues through the Bank's Tripoli headquarters.^{viii} The United States is a key international backer of the World Bank-led process that is attempting to forge both working-level integration of the bank branches as well as a top-level reunification between Sadiq al-Kabir, the head of the western CBL, and his counterpart, Ali al-Hibri, in the east. There have been signs of slow progress on both fronts; knowledgeable officials state that operational contacts between the two continue to progress and were never fully severed.

In August 2018, al-Kabir met al-Hibri for the first time since 2014 to discuss reunification efforts. Despite mutual acknowledgement that some level of reunification is necessary and desirable, the eastern branch's significant debt burden remains a key stumbling block in the talks; the west is reluctant to take on liabilities its officials view as having been intended to subvert their authority.

The United States' success in thwarting the eastern CBL's June gambit suggests that the United States has a crucial role to play in continuing to support both working-level efforts at integration and, more importantly, top-level reunification. At the top level, the United States should maintain the momentum of renewed contacts between western and

eastern CBL officials through diplomatic pressure and an international spotlight. Renewed diplomatic pressure on the eastern bank's backers — Egypt, in particular — to induce constructive engagement on reunification talks will be key (**see insert**). If possible, international financial incentives should be conditioned on further progress towards increased contact and reunification.

Anticipating the Unexpected

An external actor intervenes militarily to tip the balance

Russia, Egypt, and other external actors have critical interests in Libya which they may unexpectedly act to protect by deploying military force in support of an actor such as Haftar. With enough external military force behind him, a Haftar-led push to take Tripoli could lead to a new military dictatorship, but only after a country-wide bloodbath dwarfing that seen in 2014. In the event of an external military intervention, the United States should act swiftly to halt Haftar's advance via sanctions and international pressure.

2.iv: Expand sanctions to challenge activities that undermine central institutions, particularly the NOC's unitary control of oil revenues.

Efforts by political and security actors to interfere with the operations of central institutions — particularly those involved with

collecting or distributing revenues — represent a firm limit that should attract immediate punitive action by the United States. As with challenges to the unity of the CBL, allowing the NOC to split would undermine any future efforts to unify the country under a fair resource distribution system, and would reward efforts to capture resource wealth by military means.

We have seen that U.S. intervention to protect Libyan institutions can be particularly effective. For example, although a number of international actors brought significant pressure to bear on Haftar during his summer 2018 attempt to assert control over eastern oil revenues, the threat of U.S. sanctions is rumored to have been decisive. In 2014, the U.S. State Department played an important role in emphasizing that the only legal route to oil concessions and exports was through Tripoli. Commodities traders, important potential buyers of Libyan crude, have also refused to deal with the eastern NOC for fear of sanctions from U.S. authorities or penalties from their correspondent banks.

The United States should also use the threat of U.S. financial punishment to ensure that international oil companies in Libya continue to reject eastern NOC payment and shipment requests, since companies' concessions are

tied to contracts with the original (Tripoli-based) NOC. In particular, the United States should continue to interdict non-NOC approved oil shipments, continue to enforce UN resolution 2146, banning the sale of Libyan crude by parties other than the NOC, and impose sanctions on oil smugglers (following the precedent set by OFAC sanctions in February 2018).^{ix}

2.v: Lobby the UN to improve coordination of international support to municipal authorities

Libyans strongly favor some form of decentralization, with empowered municipal authorities seen as a bulwark against a return to Qadhafi-style centralized authoritarianism.^x “De facto” decentralization is already underway in the absence of a national-level political settlement; in many areas, municipal authorities continue to deliver public services (often with support from international donors and NGOs, and in some cases by collecting their own local taxes) and municipal council elections have, in some instances, been successful and popular. Improving the management of “de facto” decentralization and continuing to strengthen local capacities to manage devolved responsibilities is a sensible long-term investment.

Balancing centralized authority with some localized decision-making through decentralized institutions also offers an

opportunity to reduce the “winner takes all” nature of Libyan politics. Further devolving decision-making power (and, potentially, some revenue-raising abilities) to local authorities would help to diffuse some aspects of political competition away from the center. Local actors may be more responsive to their communities than national-level political factions and may therefore be able to win greater legitimacy among Libyans. This legitimacy, however, will be contingent on the municipalities’ maintaining some degree of transparency and popular consent. Municipal councils that practice relatively good governance should be given incentives to continue their progress.

However, the “de facto” decentralization process has been haphazard and lacks an overall strategy. A legal framework for decentralization was passed in 2012 (Law 59), creating elected, autonomous municipal institutions with a mandate to provide public services, but it has not been fully implemented; local authorities are therefore in the uncomfortable position of having *de jure* status but lacking the tools to fulfil their mandates. UNDP notes that “the legal framework remains incomplete, unclear and the regulatory tools to support [Law 59’s] full implementation are lacking,” and there remains significant uncertainty over how

municipalities’ roles overlap with other branches of government such as line ministries.^{xi} There is significant divergence in quality, responsiveness, and legitimacy among Libya’s many municipal authorities. Some areas have succeeded in creating local security agreements — for example, the Misrata municipality maintains oversight of different militia groups, and Zliten has created a security coordination center^{xii}. In others, however, residents report feeling unsafe under the control of predatory armed groups. Service delivery quality varies enormously, with some municipalities successfully finding alternative revenue sources to finance services (via international organizations or by levying local taxes) while others remain starved of funding. The organic, inconsistent evolution of decentralization in Libya risks contributing to instability by exacerbating regional disparities and inadvertently empowering predatory actors. The international community has contributed to this situation by funding a number of different locally-focused projects without clear central coordination.

Some form of decentralization will undoubtedly be a key feature of Libya’s eventual political settlement. Investing in improving implementation — promoting a form of “organized” or “strong” decentralization — will help to mitigate the risk

of further fragmentation and lay the foundation for the development both of strong central and local institutions in the future.^{xiii} As a major donor to existing stabilization efforts, the United States has an important role to play in shaping the international community's approach. The United States should lobby the UN to articulate a clearer medium-term strategy for decentralization and support to municipal authorities, under which the various international efforts can align.

2.vi: Prioritize technical and financial support to central Ministries within existing U.S. decentralization programs

The UN's Stabilization Fund for Libya (SFL) has provided material and technical assistance to municipalities attempting to restore public services; however, building the capacity of the central Ministry of Planning to manage municipality priorities has proved more challenging, with corruption and capacity issues hindering attempts to disburse funds to municipal levels or to enhance central oversight of service delivery. In addition to the SFL, a number of countries (including the United States) run concurrent local stabilization programs, many of which focus on working with municipal authorities in an ad hoc way. Without concurrent support to

strengthen the capacity of central Ministries, these efforts risk undermining prospects for a well-functioning, unitary state.

The United States should consider prioritizing U.S. technical and financial support to the Ministries of Planning and Local Government, within existing decentralization programs, to strengthen their capacity to oversee decentralized service delivery and distribute municipal revenues.

3. LIBYAN ECONOMY

There is growing Libyan acknowledgment that the persistent “economy of theft” is the most significant obstacle to state functioning.^{xiv} However, there is also increasing international recognition that economic issues, including Libya’s “war economy,” represent a potential area for incremental progress. The United States has already taken a leadership role in convening economic dialogues aimed at making progress on economic reform; our recommendations below are aimed at strengthening the effectiveness of U.S. intervention in this area.

The struggle for access to money, liquidity, and oil revenues is also a major contributor to Libya’s security sector challenges. Steps to improve the management of this sector would render it more difficult for militia actors to pillage state coffers, thereby reducing the returns to military contestation. Above all, policies aimed at improving financial management and centralized control of oil revenues have potential to meaningfully reduce the returns to subversion of key Libyan institutions such as the Central Bank and Libyan Investment Authority.

10



¹⁰ Sidra oil field, Libya ID 51721780 © muhammad uzair | Dreamstime.com
<https://www.dreamstime.com/stock-photo-libyan-sidra-oil-field-place-name-side-libya-image51721780>

The United States is already leading the economic track, in coordination with UNSMIL, and has a comparative advantage in supporting Libyans' efforts to combat the war economy through its international economic influence and ability to enact biting, targeted sanctions and asset freezes. As a deterrent to those who would circumvent monetary and subsidy reforms, the United States should consider aggressive sanctions on profiteers' gains. Many engaged in smuggling and extortion launder their foreign currency overseas, and the United States has unique capabilities in targeting these funds. The United States should seek to ensure that UNSC sanctions — impelling all member states to enforce compliance — complement any unilateral efforts to sanction Libyan profiteers.^{xv} Ultimately, individual war profiteers are disproportionately invested in the status quo, and hitting spoilers in the pocket book could produce network effects by raising the cost of obstructing political and economic reform. **(See insert)**

These measures are necessary stopgaps while top-level CBL talks continue. In isolation, they have little chance of transforming Libya's war economy, but — if fully supported and implemented — could, in the near term, disincentivize spoilers from using violence to

impede both the ongoing CBL talks, as well as any emergent national-level political process.

Anticipating the Unexpected

Oil prices spike

An increase in oil prices could mean a significant financial boon for the Libyan government. This would have the dual impact of increasing the state budget (allowing for greater investments in repairing damaged oil infrastructure and spending on social welfare) while also increasing the gains from corruption and cronyism. Audit and transparency measures should be put in place swiftly to ensure that a spike in oil prices does not increase opportunities for predatory behavior. A spike in oil prices would also make fuel subsidy reform costly. In the event of an oil price spike, the government should continue to prioritize subsidy reform but focus instead on food subsidies.

3.i: Prioritize support to the Libyan Audit Bureau and Libyan Attorney General's office as a means of adding weight to World Bank efforts.

In addition to continuing its support for World Bank technical capacity-building efforts, the United States should prioritize efforts to hold CBL branches' personnel to the same standards of transparency and efficiency. This would support integration efforts while helping combat many of the most pernicious

rackets exploited by various factions. At the working level, the United States should strongly support the UN's response to GNA Prime Minister Farez al-Serraj's request for a review of the "revenues, expenditures and transactions" of both the CBL in Tripoli and in the east, including providing financial and technical assistance for the audit if necessary.

The United States can be of particular assistance by providing political support and training to the Libyan Audit Bureau and the Attorney General's office. The former, the source of a 2017 report detailing corruption in the CBL and, more generally, across the Libyan economy is well-placed to hold both CBL branches to account by publicizing breaches of public trust. Efforts to enhance the competence of Audit Bureau personnel will be particularly important. The LAG's office, currently of still marginal authority, could provide crucial muscle to efforts to target overseas assets to limit capital flight and lower the margins of the illicit economy.

3.ii: Provide diplomatic and technical support to efforts to prevent the manipulation of "service fee" exemptions.

Reducing the economic returns to the monopolization and exploitation of Libyan institutions is a prerequisite for significant progress on security-sector reform and political reconciliation. Predation on

institutions such as the NOC and CBL has remained persistently lucrative, incentivizing those benefiting to block reforms. Militiamen, smugglers, and political figures (sometimes a three-in-one package) have all participated in a variety of rackets over the years that have enriched a predatory elite while impoverishing Libya's middle class. These include the sale of subsidized goods (particularly fuel) at higher prices outside of Libya and playing on currency arbitrage opportunities produced by the discrepancy between official and black market exchange rates for the Libyan dinar.^{xvi}

After years without meaningful progress, the CBL in Tripoli announced in June 2018 its intention to pursue economic reforms that marked an important first step toward combating the economic and financial basis for many of the most lucrative black-market rackets.^{xvii} A major reform put forward by GNA PM al-Serraj in September 2018 was to add a surcharge to foreign currency transactions, bringing the official rate closer to the black market and reducing opportunities for profiteering through letters of credit or other schemes. To date, there has been progress in closing the exchange rate gap.

Previous attempts at economic reform have foundered due to incompetent execution and insufficient political will. The recently enacted

reforms may be the best PM al-Serraj can do in the short-term, but there remains significant potential for the creation of new rent-seeking opportunities. In particular, the CBL is allowed to set exceptions to the currency surcharge, opening the possibility that militias will threaten bank officials or use existing leverage to secure access to preferential rates. What is more, the reforms do not get at deeper needs to devalue the currency and ensure country-wide implementation. Nonetheless, the reforms offer a first step to build on pending further progress on CBL unification efforts. Given its leadership on the economic track, the United States should closely monitor exemptions and use diplomatic pressure to ensure that exemptions are not given to support military or criminal activity by militias.

3.iii: Use convening power of the economic track to prioritize fuel subsidy reform while oil prices are low.

Subsidy reforms — particularly fuel — were also put forward by PM al-Serraj during his September 2018 announcement. Reduction of subsidies on commonly-smuggled goods represents a key tool for reducing the incentives for theft. As subsidies are phased out, however, cash payments must be offered to needy families that stand to suffer disproportionately from cuts to staple goods.

On fuel subsidies, the United States should push Central Bank governors to seize the window of opportunity presented by relatively low oil prices to enact systematic reform. Even under the best circumstances, subsidy reform is politically challenging, yet the reforms are essential for Libya's fiscal sustainability and to combat the war economy's arbitrage opportunities. Attempting such reform when oil prices are high would only make an already-difficult task nearly impossible; the United States should push the Libyan government to act quickly to take advantage of relatively low oil prices.¹¹

¹¹ There is some debate over the efficacy and political implications of means-tested compared to universal cash payments. Universal payments are likely to be quicker to implement and should reach more vulnerable people (avoiding the problems of low take-up often associated with means-tested payments). However, this decision would need to be made by the Libyan government and taking into account political dynamics, implementation challenges and funding realities.

APPENDIX

A. *List of interviewee affiliations*

American Bar Association, Rule of Law Initiative (ABA)	Libya, Embassy to Tunisia
American University of Cairo (AUC)	Libya, Foreign Service
Arab League	Libya, Government of
Carnegie Endowment for International Peace	Libya, Ministry of Foreign Affairs
Centre for Humanitarian Dialogue	Mercy Corps
CIVICUS	News (International news organizations)
Egypt, Civil Society & NGO Community	Program on Middle East Democracy (POMED)
Egypt, Ministry of Foreign Affairs	Tunisia, Civil Society & NGO Community
European Council on Foreign Relations (ECFR)	United Nations Development Programme (UNDP)
European Union, Embassies to Tunisia	United Nations High Commissioner on Refugees (UNHCR)
International Crisis Group (ICG)	United Nations Support Mission in Libya (UNSMIL)
International Foundation for Electoral Systems (IFES)	U.S. Department of State, Libya External Office (LEO)
International Institute for Democracy and Electoral Assistance (IDEA)	U.S. Institute of Peace (USIP)
International Organization for Migration (IOM)	World Bank
Libya, Civil Society & NGO Community	World Food Program (WFP)
Libya, Embassy to Egypt	

B. Supplementary Figures

Figure 1.

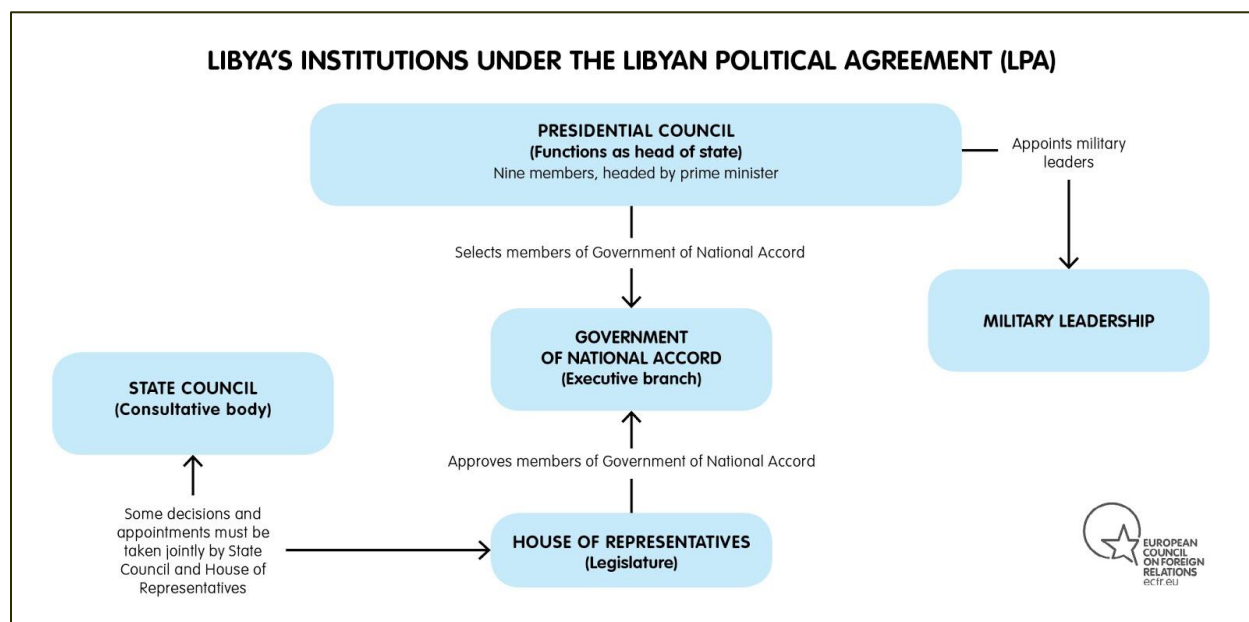


Image: Toaldo, Mattia. "A Quick Guide to Libya's Main Players." *European Council on Foreign Affairs*, EU, 2018.

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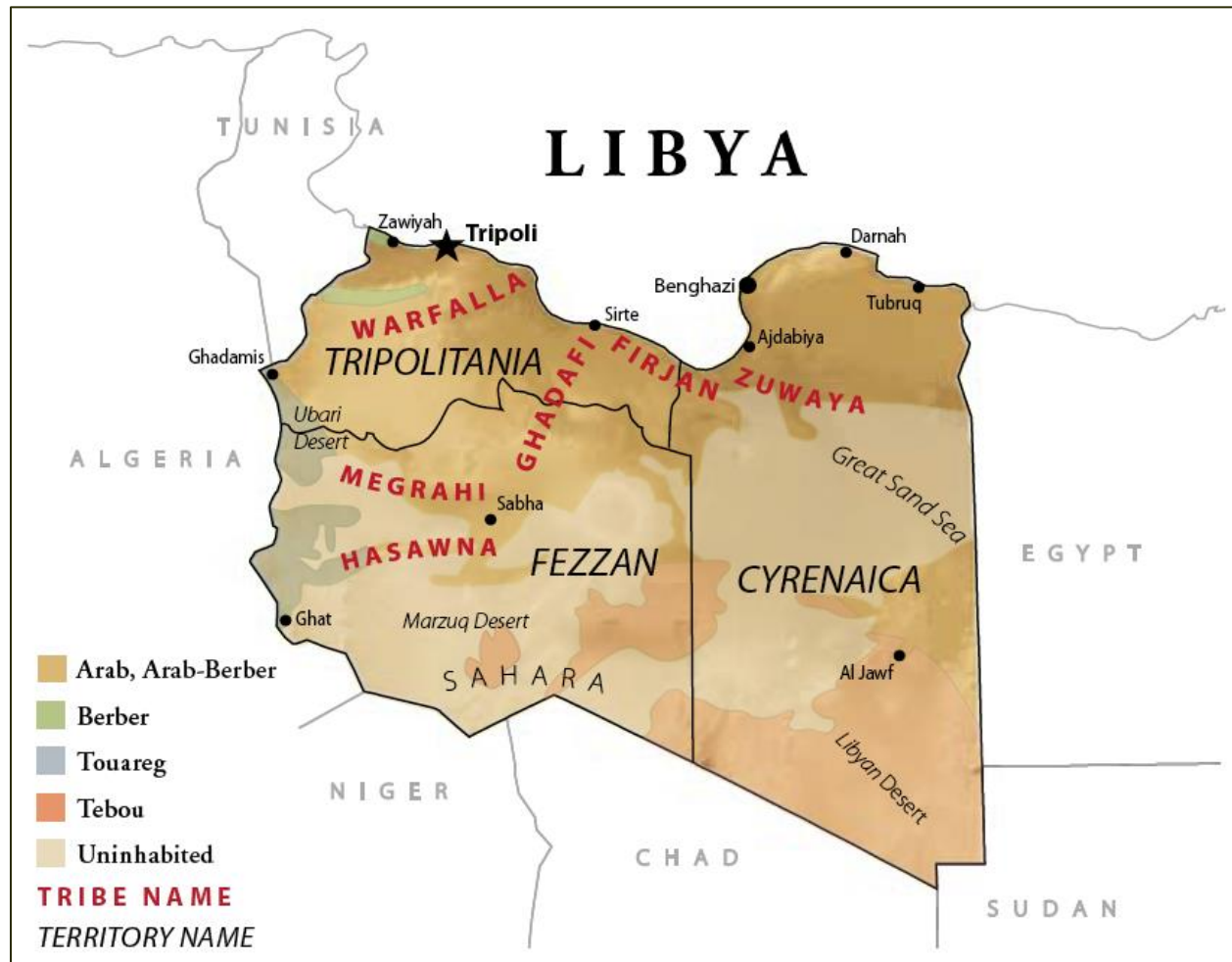
Figure 2.**Historical regions and ethnic areas of Libya.**

Image: Kaplan, Seth. "Reversing Course in Libya: Starting From Where the Real Power Lies." *Fragile States.org*, featured in *Foreign Policy*, USA. 26 June 2016. Web, accessed 14 Jan. 2018. <https://www.fragilestates.org/2016/06/26/reversing-course-libya-starting-real-power-lies/>

Figure 3.

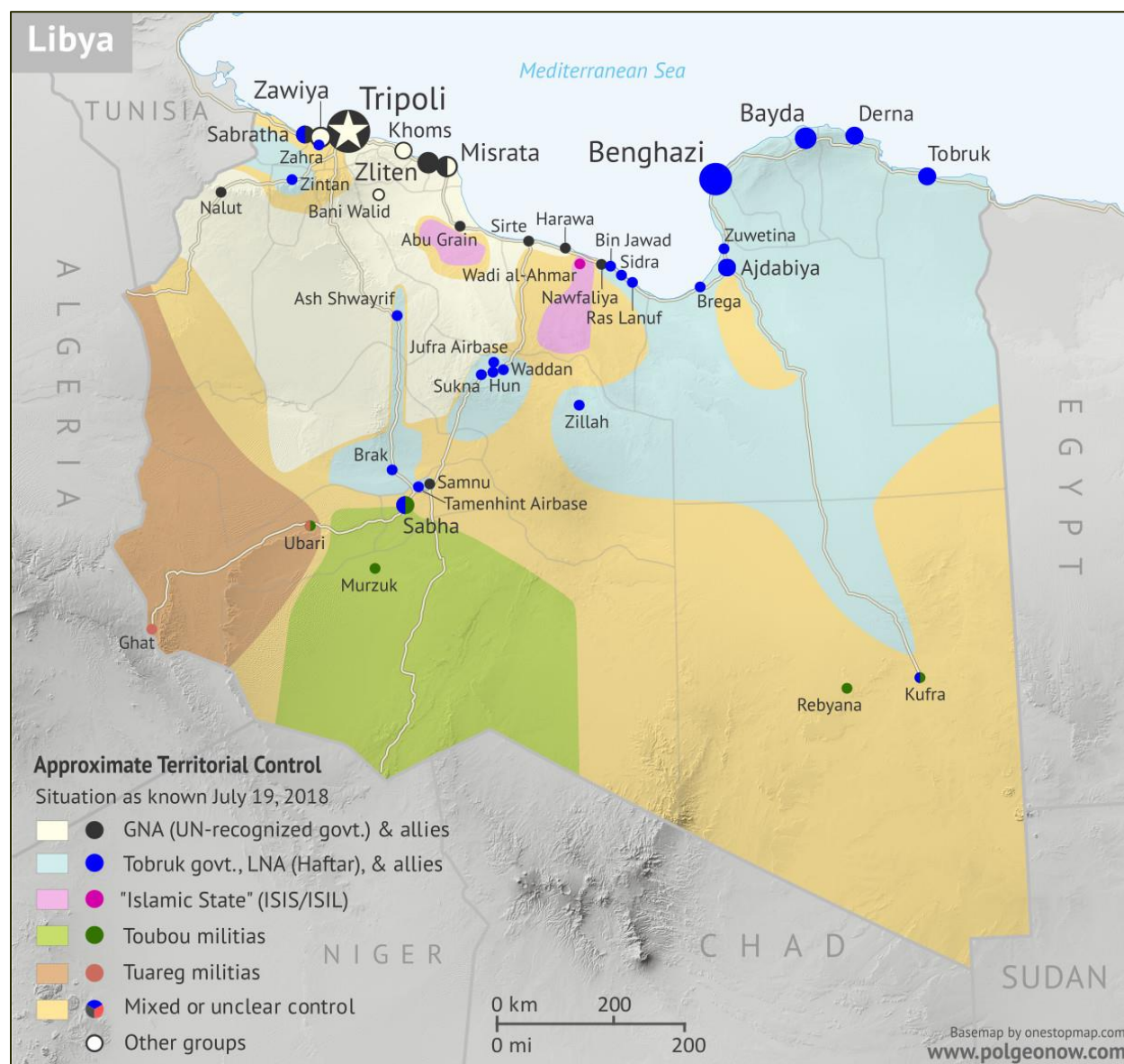
Approximate Territorial Control of Libya in July 2018.

Image: Adams, Koen, modified by Centanni, Evan. "Libyan Civil War Map & Timeline - July 2018." PolGeoNow, 20 July 2018. Web, accessed 14 Jan. 2019. <https://www.polgeonow.com/search/label/libya>

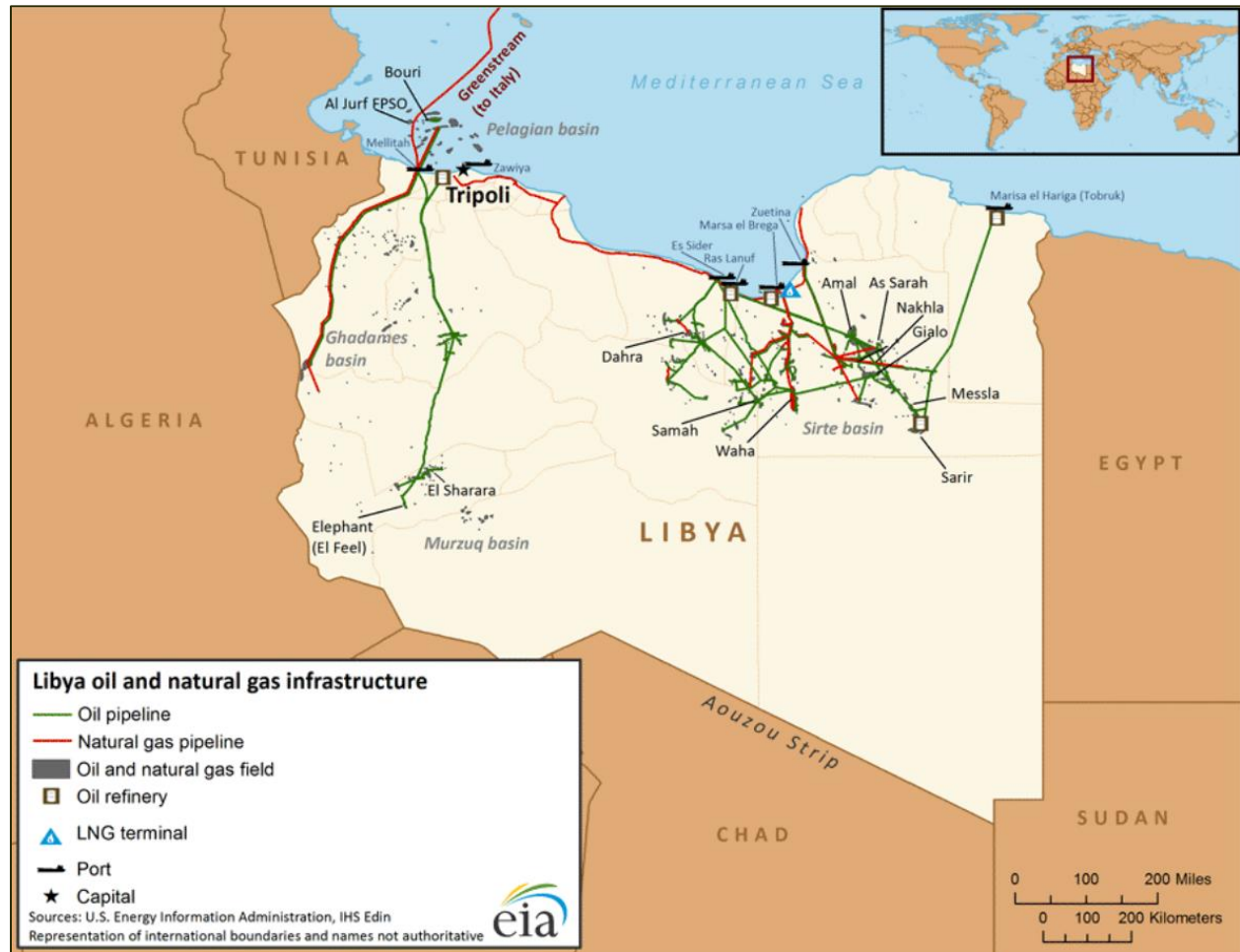
Figure 4.**Oil and Natural Gas Pipelines in Libya**

Image: “Libya – International – Analysis – U.S. Energy Information Administration (EIA).” *Energy Information Administration*, USA. Not dated. Web, accessed 14 Jan. 2019. <https://www.eia.gov/beta/international/analysis.php?iso=LBY>

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