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Escaping the cycle of conflict in Libya

Why an enhanced 'economic
track' must be integrated into
political negotiations

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Summary

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- With the political situation in Libya remaining precarious, there is a critical need to make economic reform an integral part of any national settlement. Yet despite broad acceptance among analysts that economic drivers of conflict play a significant role in Libya's state dysfunction, international policy interventions have insufficiently addressed this dimension of the country's problems. This paper makes the case for a change in approach.
 - At the heart of the challenge is the fact that political contestation – including between parallel governments operating in the west and east of the country respectively – is all but indivisible from competition for control of economic resources and rents. Policymakers have at times reached ad hoc agreements on discrete aspects of economic governance, but these have never been integrated into an organized, internationally mediated 'economic track' within broader peace negotiations.
 - Political mediation to date has been tacitly predicated on dividing resources among rival domestic parties to avoid outbreaks of violent conflict. But this merely entrenches clientelism, further undermining economic governance. Compounding domestic drivers of instability, international engagement with Libya's state has degenerated in recent years into a competition between foreign patrons and other external actors over spheres of influence and access to territory and resources. As a result, any previous multilateral consensus on the need to secure unified and stable governance has been lost.
 - State capture by elite networks has fuelled corruption and caused public spending to soar. (If expenditures unrecorded in official data are accounted for, the author estimates that Libya's true fiscal deficit in 2024 may have exceeded US\$10.4 billion – which would equate to more than 22 per cent of GDP.) This is manifestly unsustainable. With government revenues acutely vulnerable to fluctuations in oil and gas prices, any significant market shock could disastrously impact the state's ability to pay public sector salaries, let alone fund economic development. Just as fiscal pressures are rising, moreover, the appetite of Libya's elites to access more state funds is growing – a trend illustrated by the increasingly active role of private companies in previously state-dominated sectors such as oil.

- For Libyan citizens, the practical impact of such failings is that the state's ability to deliver public goods is declining. With consumer prices rising, the country's huge public sector workforce – historically dependent on government salaries – is struggling to survive financially. Subsidized medicines and other essentials are increasingly unavailable, while liquidity problems in the banking sector mean that some public servants have been unable to withdraw salaries from their bank accounts.
- Drawing upon lessons from Libya and comparable countries, this paper argues that breaking the country's cycle of violence and instability requires political negotiations to formally integrate measures to address the economic drivers of conflict. An enhanced approach will need to focus on five areas:
 - 1) **Immediate stabilization of economic governance via international mediation.** The UN, its international partners and international financial institutions must coordinate to identify technical solutions for improving economic governance. A focus must be on (a) bolstering transparency and accountability, particularly in relation to state expenditure, revenue collection and the financial declarations of state institutions; and (b) formulating a unified state budget.
 - 2) **Structural economic governance reform pursued through a consultative process.** The new, formalized 'economic track' must be situated within the broader, internationally mediated political process. The focus of this track must be to reform Libya's rentier system of government; this will mean finding alternatives to the use of power-sharing (and wealth-sharing) among competing factions and local elites. What is needed is a strategic, structured programme of reforms within a clear accountability structure.
 - 3) **Capacity-building.** Libyan officials and institutions lack sufficient capacity to implement these 'programmatic' reforms. The provision of targeted institutional support by international financial institutions should be aligned with the delivery of governance reform.
 - 4) **Anti-corruption enforcement.** International policymakers and donors should develop partnerships with Libyan anti-corruption agencies and related bodies. The aim of such partnerships should be not only to support better governance, but also to combat the growing transnational illicit financing mechanisms that are underwriting the activities of rival powerbrokers and undermining the foundations of the Libyan state.
 - 5) **Public diplomacy.** The Libyan public must be meaningfully included in internationally led efforts to negotiate the formation of a unified national government. Existing conflict resolution has focused on achieving agreement among a familiar set of elites who are profiting extensively from the country's instability (and who consequently have little interest in ceding power). The UN and its international partners can capitalize on previous efforts such as the socio-economic dialogue led by the UN Economic and Social Commission for Western Asia (ESCWA). Work could also build on the efforts of the Libyan Peace Makers group, a dialogue programme that brings together Libyans from across the country and with different perspectives to inform international mediation.

01

Introduction: Libya's conflict and its intersection with economic governance

Negotiations to resolve Libya's political and security crisis, and to end the disruptive co-existence of parallel governments, have largely separated political issues from economic ones. That approach is not working.

Libya's ongoing political and security crisis is exacerbating – and exacerbated by – weak economic governance. A stable peace remains elusive. Following the civil war in 2011, two further outbreaks of nationwide violence occurred in 2014 and 2019, while concentrated local fighting took place in Benghazi between 2013 and 2019. A number of local conflicts have also continued sporadically. Although a nationwide ceasefire has been in place since October 2020, and a unified government – the Tripoli-based Government of National Unity (GNU) –

was appointed in March 2021,¹ attempts to hold national elections in December 2021 fell through.² Libya's governance split re-emerged in February 2022 when a new, rival entity – the Government of National Stability (GNS) – was set up in Benghazi. As such, Libya's conflict cannot be said to have been resolved.

Libya remains in a state of 'no war, no peace', with a fragile status quo supported by a fundamentally flawed system of mediation among an increasingly limited set of elites.

The result is that Libya remains in a state of 'no war, no peace', with a fragile status quo supported by a fundamentally flawed system of mediation among an increasingly limited set of elites. Real power increasingly resides with these elites rather than with institutions of the state, whose legitimacy and effectiveness are undermined by (among other factors) the division of administrative powers between the west and east of the country.

In this context, describing Libya as in a state of conflict remains apt, even if large-scale armed violence is not currently taking place. The fact that no formal agreement underpins the country's political governance was illustrated in May 2025, when the killing in Tripoli of Abdelghani al-Kikli – a prominent armed group commander known popularly as 'Ghneiwa' – triggered a violent reordering of the capital's security sector. The fallout from the killing heightened tensions between the GNU and the Special Deterrence Forces (known locally as 'al-Radaa'),³ and drew in forces from outside Tripoli, threatening to drive an expansion of conflict. The essential feature of the incident was that both armed groups involved in the dispute were affiliated in one way or another with the state – which in effect was thus fighting itself.

At the forefront of mediating the Libyan conflict has been the UN Support Mission in Libya (UNSMIL), particularly following the breakdown of Libya's post-Gaddafi political transition in 2014. UNSMIL's mandate requires it not only to mediate among rival parties via an inclusive political process, but also to support the provision

¹ In November 2020, the UN-appointed Libyan Political Dialogue Forum selected a list of candidates headed by Abdulhamid al-Dabaiba as the prime minister-designate. Dabaiba subsequently formed his government, which was ratified in March 2021. Known as the Government of National Unity (GNU), it became the first government recognized nationwide since 2014. However, in February 2022 the House of Representatives (HoR) withdrew its recognition and supported the formation of a new government, known as the Government of National Stability (GNS). Ever since, the GNU has governed in Tripoli but has co-existed with the now Benghazi-based GNS.

² A series of challenges undermined efforts to hold national elections in December 2021. Among these were the fact that negotiations over the legal framework for the elections were shaped by the eastern-based HoR to protect the interests of its leaders. This led to a series of disputes over the elections law, and over the subsequent powers of the prime minister and president who would ultimately be elected. Meanwhile, the GNU's Abdulhamid al-Dabaiba abandoned a pledge – made when he presented his candidacy to be interim prime minister at the Libyan Political Dialogue Forum – that he would only serve until elections were held and that he would not run in the elections himself. A further set of issues arose from the announcement of the candidacy of Saif al-Islam Gaddafi, the son of Libya's late former dictator, Muammar Gaddafi. Reuters (2021), 'Libya's Dbeibah says election law flawed', *Arab News*, 15 November 2021, <https://www.arabnews.com/node/1968606/middle-east>.

³ Lacher, W. and Badi, E. (2025), 'A Power Grab Backfires in Tripoli', *New Lines Magazine*, 28 May 2025, <https://newlinesmag.com/argument/a-power-grab-backfires-in-tripoli>.

of humanitarian aid and public services.⁴ This means that UNSMIL is simultaneously tasked with brokering a sustainable settlement among rival parties and supporting day-to-day governance. At times, these responsibilities conflict with each other: on the one hand, UNSMIL is engaging with competing political actors in a way that challenges their hold on state power; on the other, it is responsible for supporting their administration of the state. This duality runs through debates over what could and should be done in the UNSMIL-led political process. A similar conflict between short-term imperatives and structural reform is reflected in the challenges of economic governance.

How short- and long-term imperatives collide

At the heart of the economic governance debate is the question of whether a so-called 'economic track' in negotiations between Libya's factions should (a) principally serve efforts to reach a formal political settlement, (b) should address management of the economy on an ongoing basis, or (c) ideally combine the two. Consequently, while there is a broad consensus among Libyan experts and international policymakers that structural failings in economic governance in Libya contribute to ongoing conflict, opinions diverge on how best to address this issue.

It is no surprise, therefore, that the policy approaches adopted to date have been in tension with one another. International mediation has largely focused on resolving immediate security crises or settling disputes among rival factions, with the primary objective of achieving sufficient consensus to facilitate the restoration of unified government. This type of approach assumes, in effect, that political stabilization necessarily precedes economic governance reforms, and that implementation of the latter must therefore be left to a future government.

However, crisis-driven interventions have often been poorly aligned with broader international assistance aimed at supporting development programming and state-building. For instance, significant international support has been provided for reconstruction and development in Libya, yet development spending through formal state processes has remained in gridlock since 2011. Similar outcomes have been observed in other countries and contexts, where elites have effectively 'bought the peace' by capturing foreign aid and development assistance (see Chapter 5), resulting in a deterioration in state capacity as a result.⁵

Conversely, many Libyan experts have argued instead that reform of economic governance must be a key element of any political settlement – and built into negotiations from the outset – to prevent a relapse into conflict.⁶ They contend

⁴ UNSMIL's mandate is to provide mediation and, through its 'good offices', to: further an inclusive political process; facilitate dialogue and reconciliation between armed actors; monitor and report abuses and violations of human rights; coordinate and work with Libyan authorities and international partners to support the provision of essential services and delivery of humanitarian assistance; and support recovery and reconstruction. UNSMIL's mandate also covers supporting reunification of Libya's political, economic and security institutions; and promoting good governance, transparency and anti-corruption efforts. See UNSMIL (2025), 'Mandate', <https://unsmil.unmissions.org/mandate>.

⁵ For example, Phillipe le Billon argues that 'buying peace' via payments and the distribution of rents can produce short-term stability, but that this institutionalizes corruption and patronage, undermines long-term state capacity and may even fuel future conflict. Le Billon, P. (2003), 'Buying peace or fuelling war: the role of corruption in armed conflicts', *Journal of International Development*, 15(4), pp. 413–26, <https://doi.org/10.1002/jid.993>.

⁶ Author's interviews with Libyan economic experts, Tunis, February 2025.

that any political agreement that leaves the current economic governance system intact will simply enable the 'victors' in a post-conflict settlement to distribute resources through patron–client networks, perpetuating instability and economic decline.⁷

While this logic is widely held to be sound in principle, many policymakers still consider integration of an economic track into political negotiations to be unrealistic. As such, the need for pragmatism often leads to more limited approaches – the argument being that no critical mass of Libyans exists to call for systemic economic reform in the face of elite intransigence. The author's discussions with Western policymakers underline the prevalence of this thinking.

Striking limited economic deals among elites to achieve short-term economic and political progress risks further undermining the administration of the state and weakening its institutions.

The above differences in perspectives have created a significant gap in understanding of the economic track and its potential scope, and this presents a policy dilemma: on the one hand, striking limited economic deals among elites to achieve short-term economic and political progress risks further undermining the administration of the state and weakening its institutions, thereby limiting accountability and transparency; on the other, if discussions around ambitious reforms that could entirely restructure the state take place purely among technocrats – without sufficient regard for the agendas and capacities of those wielding political and military power, and without adequate public buy-in – there is little chance of the status quo changing.

About this paper

In response to the reform dilemmas outlined above, this paper makes the case for an enhanced, internationally mediated 'economic track' within political negotiations on stabilizing Libya. The paper draws together the findings of a three-year, UK government-funded project that has sought to identify and address drivers of conflict as they manifest in the economic and financial institutions of the Libyan state. As part of these efforts, Chatham House has sought to identify means of strengthening accountability and transparency in the management of Libyan resources, including via internationally mediated processes.

The project has sought to understand how Libyan policymakers can improve state performance despite ongoing political disputes among rival authorities; the project has also explored how the state could better expose and clamp down on corruption

⁷ Ibid.

in relation to the management of financial and physical resources. The paper seeks to draw these themes together by presenting a series of options that Libyan and international policymakers can consider in order to achieve both objectives.

The paper reflects conversations with Libyan and international experts over a number of years. It builds on a body of work, published by the author, that has assessed the nature of Libya's conflict economy,⁸ how state institutions have found themselves at the heart of conflict,⁹ how networks of elites have sought to control institutions,¹⁰ and how armed groups¹¹ have controlled economic and financial interests.¹²

8 Eaton, T. (2018), *Libya's War Economy: Predation, Profiteering and State Weakness*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/sites/default/files/publications/research/2018-04-12-libyas-war-economy-eaton-final.pdf>; Eaton, T. et al. (2019), *Conflict Economies in the Middle East and North Africa*, Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2019/06/conflict-economies-middle-east-and-north-africa>.

9 Eaton, T. (2023), 'The Post-revolutionary Struggle for Economic and Financial Institutions', in Lacher, W. and Collombier, V. (eds) (2023), *Violence and Social Transformation in Libya*, Oxford University Press, <https://doi.org/10.1093/oso/9780197756492.003.0008>.

10 Eaton, T. (2025), 'The consolidation of elite network control over Libyan state institutions', in Lacher, W. and Said, S. (2025), *Coercion, predation and state formation in Libya and Iraq: Parallel perspectives*, Friedrich Ebert Stiftung, March 2025, <https://library.fes.de/pdf-files/bueros/libyen/21921.pdf>.

11 The overwhelming majority of armed groups in Libya have some form of affiliation to the state, be it via the Ministry of Interior, Ministry of Defence or Ministry of Justice. Yet, while these armed groups are formally affiliated to the state, they act with a significant degree of autonomy. The most powerful armed groups, such as Khalifa Haftar's Libyan Arab Armed Forces (LAAF) in the east of the country, do not subject themselves to any civilian oversight, while groups operating in Tripoli and the wider western region bargain with the civilian authorities rather than simply implementing their commands.

12 Eaton, T. et al. (2020), *The Development of Libyan Armed Groups Since 2014: Community Dynamics and Economic Interests*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2020/03/development-libyan-armed-groups-2014>; Eaton, T. (2021), 'Inside the LAAF's armed networks', in *The Libyan Arab Armed Forces: A network analysis of Haftar's military alliance*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2021/06/libyan-arab-armed-forces/02-inside-laafs-armed-networks>.

02

Economic drivers of conflict, past, present and future

Libya's centralized economic model and huge public sector – both Gaddafi-era relics – create fiscal vulnerabilities, incentivize state capture and corruption by elites, and greatly complicate prospects for economic governance reform.

Libya's economic reform challenges reflect its curious combination of centralized state power and fragmented on-the-ground governance. In *de jure* terms, the economy is by design highly centralized in key respects – partly a legacy of Gaddafi-era top-down control. But in a practical, operational sense, cohesive policymaking is often impossible because of the current administrative split between competing power centres in the west and east of the country, a problem epitomized by the lack of a unified national government.

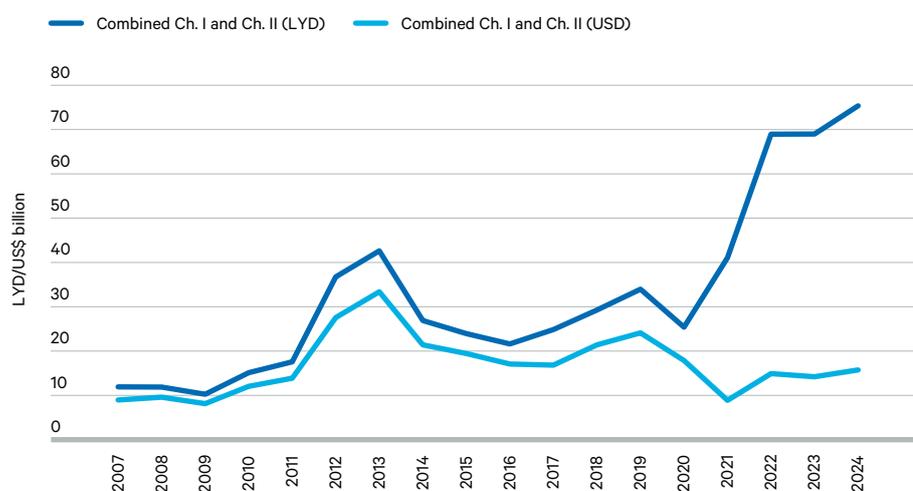
Control of the state in Libya implies control of economic resources. Many Libyan experts have argued that this dynamic is inherently unhealthy, and that competition over resources and rents is a structural driver of conflict.¹³ Certainly, economic drivers of conflict in Libya are intertwined with conflicts over state authority, as different social constituencies and political factions vie for control of public institutions. This has implications both for the day-to-day management of the state and its resources and for the structural underpinnings of the state, making it impossible to address problems in one area without reforms in the other.

¹³ Discussions with Libyan economic experts, Tunis, February 2025.

The period since the 2011 overthrow of Muammar Gaddafi has featured a complex bargaining process among Libya’s social constituencies over control of the state. The lack of formal, organized representations for these constituencies means that these diverse interest groups are represented largely by informal social networks encompassing neighbourhood-, town- and city-based identities, tribal and familial loyalties, and religious, political and ethnic identities. Given the fragmented nature of this social fabric, the contest for power and access to economic rents has resulted in the division of the state (and of control of its institutions and resources) among multiple actors. The dominant logic of this trend – explicitly reinforced by internationally supported efforts to secure political consensus – has been predicated on power-sharing.¹⁴

Libya’s post-2011 power-sharing system initially included a wider array of elite interests than are influential today. However, since 2021 – following the consolidation by Khalifa Haftar of control in eastern Libya and the appointment of the Government of National Unity (GNU) in Tripoli – this circle of elites has narrowed. People in positions of authority have become increasingly distant from the social constituencies they claim to represent, as elite consolidation has accelerated.¹⁵

Figure 1. Libya’s administrative expenditure, 2007–24



Note: Chapter I of the budget corresponds to spending on salaries, Chapter II to operating expenses. Sources: Central Bank of Libya; Chatham House calculations.

This pattern has corresponded with a reduction in the delivery of public goods by the state, as governance and public sector performance have been undermined by corruption, a lack of capacity, internal disputes and inefficiency. State largesse has remained visible in persistent public sector salary increases, as shown in Figure 1. However, the salary bill is divided among an increasing number of state employees on modest salaries, while other channels of spending show lavish

¹⁴ Interview with economic and political commentator, Tripoli, November 2021.
¹⁵ The analyst Wolfram Lacher has described this as ‘disembedding’. See Lacher, W. (2020), *Libya’s Fragmentation: Structure and Process in Violent Conflict*, Bloomsbury Publishing, <https://www.bloomsbury.com/uk/libyas-fragmentation-9780755600830>.

payments to supporters of well-connected elite interests. (In just one example, videos emerged on social media in September 2025 depicting a games lounge kitted out with luxury computer gaming stations and a café for members of the state-affiliated 111 Brigade, which is closely aligned with the GNU in Tripoli.¹⁶) The result is that reported spending on 'Chapter I' of the state budget (salaries) and Chapter II (operating expenses, including state officials' salaries and other procurements) has grown from 11 per cent of GDP in 2008 to 34 per cent of GDP in 2024.

Economic and political marginalization – real and perceived – has played a potent role in Libya's conflict and continues to present significant questions about the future of the Libyan state with regard to the locus of authority between the country's western and eastern regions. Groups that clearly have been marginalized – such as the Tebu and Tuareg communities, based predominantly in the country's south – have fought to improve their status, but have had relatively little impact over national-level governance.¹⁷ Yet, in recent years such problems have become increasingly subordinate to the governance challenges associated with state capture.

The state as a resource

Libya's economy is dominated by the state at all levels. To the extent that hyper-centralized, Gaddafi-era structures remain in place, economic governance has, formally at least, changed little since 2011. Gaddafi's regime had accelerated 'Libyanization' reforms – whereby internationally owned commercial enterprises were nationalized by the state – following his ascent to power in 1969. This resulted in all oil companies and banks being under state ownership by the end of the 1970s. In the 1980s, the regime went further as political institutions were reformed to deliver 'direct democracy'. In the economic realm this translated into the partial abolition of the private sector in favour of state-run enterprises, and in the nationalization of most remaining foreign-owned companies and assets. This state dominance created a complex web of committees, agencies and monopolies.¹⁸ If anything, the situation has become even more complicated in the post-2011 period, as more institutions have been formed while existing institutions have remained in place.

This legacy means that state institutions and state-owned enterprises effectively have dominion over the sectors in which they operate. For example, the Central Bank of Libya (CBL) not only is responsible for monetary policy and financial regulation, but also has ownership stakes across most of the banking sector. Consequently, the CBL has over the last 10 years been able to influence appointments at commercial

¹⁶ Tailamun, M. (2025), post on X, 4 August 2025, <https://x.com/i/status/1969827904826802639>.

¹⁷ The Fezzan Anger Movement is the most prominent effort to protest against the south's marginalization. Consisting largely of young people, the movement emerged in October 2018, articulating the collective grievances of Fezzan-based actors over a lack of economic inclusion in the oil sector and over the failings of the state. See Eaton et al. (2020), *The Development of Libyan Armed Groups Since 2014*.

¹⁸ Pack, J. (2021), *Libya and the Global Enduring Disorder*, Hurst, <https://www.hurstpublishers.com/book/libya-and-the-global-enduring-disorder>.

banks which the CBL owns.¹⁹ In the post-2011 period, a number of CBL employees accepted board roles at these commercial banks, creating potential conflicts of interest.²⁰ Moreover, the CBL maintains a monopoly on the distribution of foreign currency and must authorize all documentary letters of credit for the import of goods. These extensive powers place the CBL in a dominant position in the banking sector.

The situation is mirrored elsewhere in the state system, notably in relation to the National Oil Corporation (NOC). The NOC owns 15 subsidiaries and is part owner of nine joint ventures.²¹ International companies operating in the Libyan oil sector can only hold minority shares in these joint ventures.

Private companies operate as contractors to the state in areas ranging from construction to catering to oil services. In recent years, companies associated with armed groups have expanded in these areas.

The dominance of state institutions and state-owned enterprises leaves little room for development of the private sector based on fair competition. Indeed, the principal customer of Libya's private sector is very often the state itself, rendering private companies reliant on cultivating relationships with state entities and officials.²² Private companies operate as contractors to the state in areas ranging from construction to catering to oil services. In recent years, companies associated with armed groups have expanded in these areas.²³ Because state institutions are the customers, control of these institutions in turn assures control over the distribution of contracts. Private companies also complain that state-owned enterprises enjoy market-distorting advantages.²⁴ In some instances, procurement rules explicitly stipulate that state-owned entities should be given preferential treatment. State-owned enterprises are also often shielded from considerations of profit and loss, meaning that works can be subcontracted to the private sector at inflated prices, sustaining corrupt practices.

¹⁹ The CBL fully owns three commercial banks (Jumhuriya Bank, National Commercial Bank and Libyan Foreign Bank) and part-owns a further three (Sahara Bank, Wahda Bank, North Africa Bank). The CBL also possesses shares in Libyan state funds such as the Economic and Social Development Fund.

²⁰ Interview with Libyan banker, Tunis, February 2025.

²¹ The 15 fully owned subsidiaries are: National Petroleum Construction Company; Arabian Gulf Oil Company; Sirte Oil Company; Zawia Oil Refining Company; Ras Lanuf Oil and Gas Processing Company; Brega Petroleum Marketing; Jawfe Oil Technology; Taknia Libya Engineering; National Drilling and Workover Company; North African Geophysical; Murzuq Oil Services Ltd; Libyan Fertilizer Company; Zallaf Libya Company; National Catering Company for Oil Fields and Terminals; and Petro Air Company. NOC is a joint owner of nine joint ventures: Nafusah Oil Operations Company; Waha Oil Company; Harouge Oil Operations; Mellitah Oil and Gas B.V. Libya; Akakus Oil Operations; Zuetina Oil Company; Mabrouk Oil Company; Sarir Oil Operations Company; and Libyan Emirates Refining Company – though this latter joint venture has been terminated (see The Libya Update (2023), 'NOC wins arbitration against UAE's Trasta on Ras Lanuf refinery', 4 June 2023, <https://libyaupdate.com/noc-wins-arbitration-against-uaes-trasta-on-ras-lanuf-refinery>).

²² Interview with Libyan economic commentator, Tunis, December 2019.

²³ One such example was the business empire amassed by Abdelghani al-Kikli, known popularly as 'Ghneiwa' prior to his death in May 2025.

²⁴ Interviews with Libyan entrepreneurs and private sector development specialists, Tunis, February 2025.

These factors have facilitated the expansion of patronage networks and the rise of vested interests. Officials in control of state institutions are often able to use their positions to sign contracts with companies in which they may hold a beneficial interest. Where this happens, the state entity loses money and the official gains private profits. This pattern has become particularly notable in sectors such as healthcare, where procurement is strongly impacted.²⁵

Elite capture and shifts in economic governance

More widely, these dynamics reflect the fact that the Libyan state is increasingly being captured by elite networks associated with a handful of leaders. It appears that some of these leaders have overseen a massive expansion of corruption that has been dubbed a 'kleptocratic boom'.²⁶

The ever closer links between elite networks and the state have been particularly noticeable in the oil sector, where private Libyan and foreign companies alike have received significant contracts to sell oil on behalf of the Libyan state. On the domestic side, one example is the emergence of Arkenu, a private Libyan firm believed to be controlled by vested interests connected to prominent political families, and noted by the UN Panel of Experts to be 'indirectly controlled by Saddam Haftar'.²⁷ On the international front, meanwhile, Turkish and Emirati political influence appears relevant to the growing role of BGN in Libya's oil sector.²⁸

Such developments suggest that the consolidation of commercial influence also has an international dimension. Indeed, the nature of international engagement with Libya's state has shifted in recent years: where once there was multilateral consensus on the need for unified and stable governance, this shared understanding has given way to competition between foreign actors over spheres of influence and access to Libyan territory and resources.

Similar dynamics are visible in other sectors. In telecommunications, a new company, O3, has emerged with close links to Libya's rulers. In the infrastructure sector, al-Aamar Holding Company offers a further such example. These trends appear to indicate that where the private sector is replacing public companies, it may be doing so in concert with vested interests.

In short, a predatory political economy dominates Libya's state landscape, with a number of vested interests extracting increasingly large amounts of funds from the state for little in return. Figure 2 illustrates how this trend has driven an expansion of state spending, albeit one that has been masked in the official figures because two major sources of spending are absent from the CBL's figures. The first

²⁵ For example, in March 2019 the Libyan health minister had acknowledged that systemic corruption and mismanagement within Tripoli's Medical Supply Authority were causing significant harm to the public. See Libya Al Hadath (2023), 'Minister of Health: 7 billion dinars were spent on the medical supply system, and hospitals still lack the most basic needs' (Arabic), 19 March 2023, <https://libyaalhadath.net/?p=156090>.

²⁶ The Sentry (2021), *Libya's Kleptocratic Boom*, Washington, DC: The Sentry, <https://thesentry.org/reports/libyas-kleptocratic-boom>.

²⁷ United Nations Security Council (2024), *Final report of the Panel of Experts established pursuant to resolution 1973 (2011) concerning Libya*, 13 December 2024, p. 34, <https://docs.un.org/en/S/2024/914>.

²⁸ Tani, S. and Saleh, H. (2025), 'The illicit oil trade that is keeping Libya divided', *Financial Times*, 21 March 2025, <https://www.ft.com/content/aabcfb72-a606-498d-a35d-c6e667cd19f3>.

is the massive increases in fuel subsidies, data for which were removed from the CBL's disclosures in November 2021. If the CBL and Libyan Audit Bureau's own estimates of fuel subsidy expenditure are factored in, an additional US\$50 billion was spent between 2022 and 2024.²⁹ Figure 2 includes these expenditures.

A predatory political economy dominates Libya's state landscape, with a number of vested interests extracting increasingly large amounts of funds from the state for little in return.

The second reason for the discrepancy between official data and actual fiscal outlays is that expenditures by the eastern-based authorities, made via their own financing mechanisms, are also excluded from the CBL's figures. The World Bank estimates that the government debt owed by the eastern authorities totalled LYD 71 billion (approximately US\$65 billion) in 2014–20.³⁰ In 2023, the eastern branch of the CBL engaged in monetary financing of around LYD 7.2 billion (US\$1.5 billion) in support of the GNS.³¹ Also in 2023, capital expenditure escalated significantly through the Haftar family-controlled Libyan Development and Reconstruction Fund; such spending reached LYD 59.1 billion (approximately US\$12.3 billion) in 2024.³² Figure 2 also includes these expenditures.

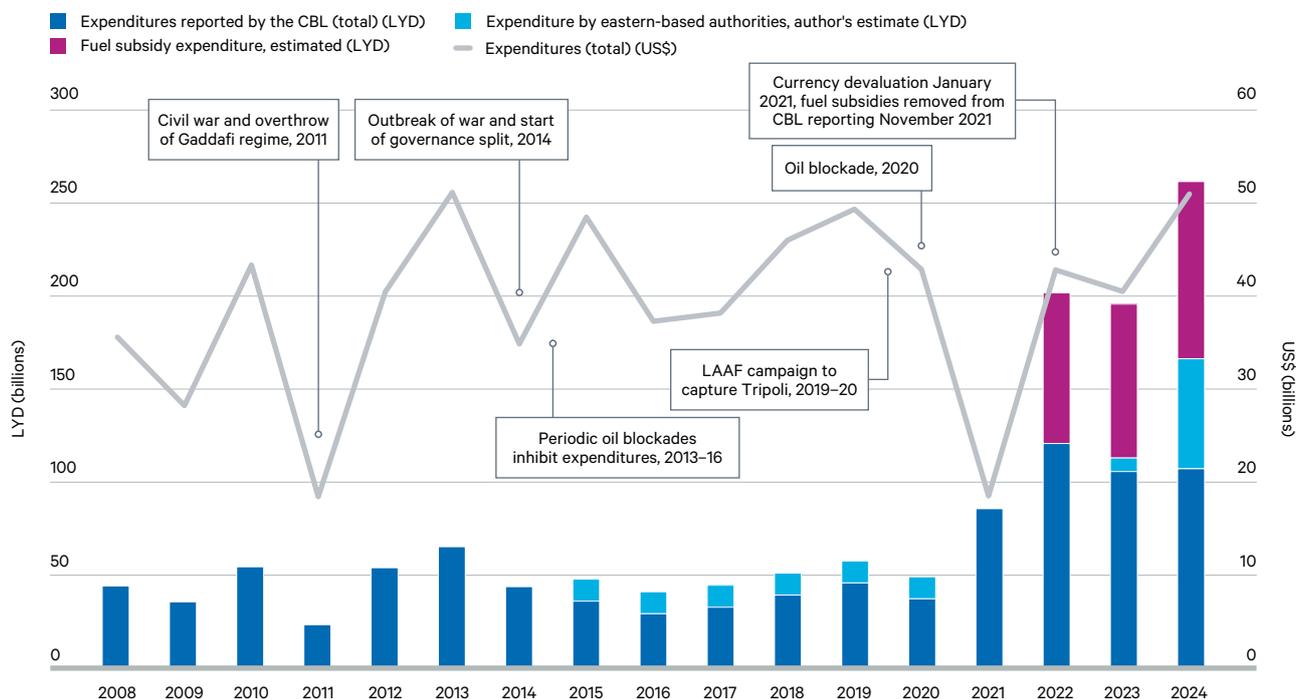
²⁹ The figures listed must be seen as estimates. Libya's ongoing governance divide and the absence of a budget law mean that attempts to calculate the expenditure and revenue of the Libyan state in the period 2015–24 are challenging. In truth, it is likely that no one Libyan state institution has presented holistic data. Disclosures from the CBL's Tripoli headquarters offer the most detailed insight into expenditure and revenues, but do not contain data on expenditures by the eastern-based authorities (the GNS and the LAAF). Estimating eastern expenditure is highly challenging given that eastern-based authorities have printed their own currency and also taken on debt from eastern-based commercial banks to fund their activities. For the purposes of this estimate, the accumulated debts of LYD 71 billion from 2015 to 2020 are divided evenly over the six fiscal years, averaging LYD 11.8 billion a year in implied expenditure. In 2023, monetary financing of around LYD 7.2 billion (US\$1.5 billion) took place by the eastern branch of the CBL to finance the GNS, while simultaneously capital expenditure escalated significantly through the Haftar family-controlled Libyan Development and Reconstruction Fund, reaching LYD 59.1 billion in 2024 (approximately US\$12.3 billion). This figure of LYD 59 billion matches the figure reported by the CBL for 2024 expenditures by the GNS. Fuel subsidies were removed from the budget in November 2021, and a growing amount of expenditure began to take place prior to the point at which the CBL received oil and gas revenues from the international markets. The author has used figures disclosed by the Libyan Audit Bureau to provide an estimate for fuel subsidies. These include expenditures on imported fuels, domestically refined fuels and gas for electricity production. In terms of the figures above, in December 2020 the CBL devalued the dinar for the first time in four years, adjusting the rate of exchange from ~LYD 1.4=US\$1 to LYD 4.48=US\$1.

³⁰ World Bank (2021), *Libya Economic Monitor*, Spring 2021, <https://thedocs.worldbank.org/en/doc/3d3cd163628175d3add84db3c707eaa5-0280012021/original/ENG-Libya-Economic-Monitor.pdf>.

³¹ IMF (2023), 'Libya: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Libya', 8 June 2023, <https://www.imf.org/en/publications/cr/issues/2023/06/07/libya-2023-article-iv-consultation-press-release-staff-report-and-statement-by-the-534434>.

³² World Bank (2025), *Libya Economic Monitor: Redefining the Role of State-Owned Enterprises in Libya*, Spring 2025, <https://documents1.worldbank.org/curated/en/099412506262520171/pdf/IDU-68205dd8-a622-4c0e-b903-193df914abe2.pdf>.

Figure 2. Libyan state expenditure and key political and economic events, 2008–24



Sources: Central Bank of Libya, World Bank, Libyan Audit Bureau and author's calculations (US\$ exchange rate conversions based on Oanda.com, reflecting exchange rate on 1 January of each year).

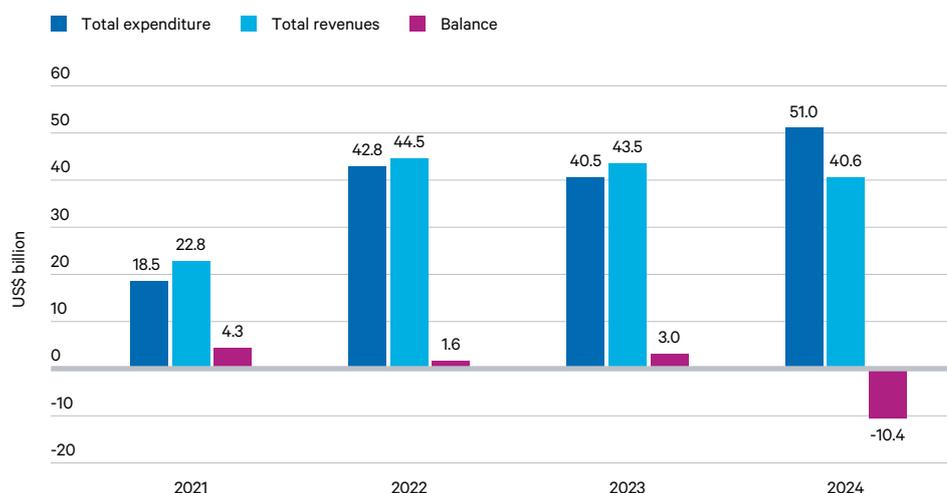
While these figures remain estimates, they provide a sense of the extent to which official figures under-report total state expenditures, indicating that in reality such expenditures may have climbed from US\$18.5 billion in 2021 to an average of around US\$45 billion a year in 2022–24. In 2024, more funds appear to have been expended via the eastern authorities and fuel subsidies (LYD 154.5 billion) than outgoings reported via the CBL's official channels (LYD 107.1 billion).

The impact of these shifts on Libya's fiscal dynamics is striking. Based on the same calculations for expenditures as above, Figure 3 indicates that Libya's true fiscal position – once off-book spending, etc. is accounted for – has moved from a surplus of around US\$4.3 billion in 2021 to a deficit of over US\$10.4 billion in 2024. (This would equate to more than 22 per cent of GDP – a high, and unsustainable, figure.) These problems are not just about unrecorded expenditure: deep concerns are also present on the revenue side. Between late 2021 and March 2025, the practice of fuel-for-crude swaps reshaped the flow of funds by removing the CBL from the financial process.³³ Previously, when crude oil had been sold internationally, the proceeds were routed first to the CBL and subsequently to the NOC to purchase fuel (via a budgetary process). But the scaling up of fuel swaps meant that the NOC obtained the fuel by directly swapping crude oil for it, leading to a significant

³³ ElShazly, M. (2025), *Energy Subsidy Reform in Libya*, IMF, IMF Selected Issues Paper, SIP/2025/094, July 2025, <https://www.imf.org/en/-/media/files/publications/selected-issues-papers/2025/english/sipea2025094-source-pdf.pdf>.

reduction in revenues being transferred to the CBL. The subsequent scaling up of fuel imports (as part of the fuel subsidy) by around 50 per cent³⁴ is reported to have been connected to a surge in fuel smuggling.³⁵

Figure 3. Estimate of Libya's true fiscal balance if off-book spending is included (US\$)



Sources: Central Bank of Libya, and author's calculations. Fuel subsidy figures are included in both the expenditures and revenues as they reflect payments in-kind. (US\$ exchange rate conversions based on Oanda.com, reflecting exchange rate on 1 January of each year.)

The rise in public debt associated with these developments is driving inflation. Notably, the CBL has been increasing money supply via the creation of digital money that is not offset by a decrease in physical paper currency, a process described by some as reliance on 'helicopter money'.³⁶ As a Libyan expert explains: 'This approach effectively enables elites to erode citizens' wealth through inflation, transferring economic costs to the public. If left unaddressed, this dynamic is likely to trigger serious social and political unrest in the future.'³⁷

Economists warn of a ticking timebomb over Libya's public finances as the Libyan dinar loses its value.

Against this backdrop, the Libyan public is bearing the cost of currency devaluation. Official rates of inflation as measured by international financial institutions remain low (2.1 per cent in 2024, down from 2.4 per cent in 2023). However, the margin between Libya's official rates of exchange for the dinar to the US dollar and the parallel rate on the black market presents a different picture. The black market is in fact a better indicator of prices paid by Libyans for everyday goods and services, and

³⁴ Ibid.

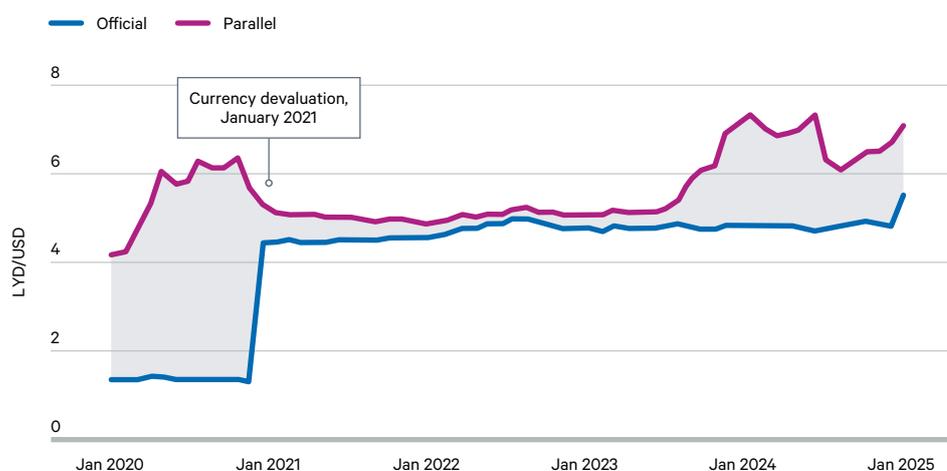
³⁵ The Sentry (2025), *Inside Job: Libya's Fuel Smuggling Escalation*, November 2025, <https://thesentry.org/reports/inside-job-libya-fuel-smuggling>.

³⁶ Sada (2025), 'Exclusive. "Al-Safi": Helicopter money. A one-way ticket to inflation' (Arabic), 25 March 2025, <https://sada.ly/خاص-الصافي-نقود-المروحية-تذكرة-بلاع>.

³⁷ Interview with Libyan economist.

thus a more reliable barometer of cost-of-living pressures. Figure 4 shows a pattern in which prices have continued to rise until the CBL has intervened with devaluations and new policies. Yet, the trend remains clearly inflationary. Economists warn of a ticking timebomb over Libya's public finances as the Libyan dinar loses its value. Libya devalued the dinar in both 2020 (though the decision took effect in January 2021) and 2025, taking the official rate of exchange from LYD 1.22=US\$1 in February 2011 to LYD 5.56=US\$1 in April 2025.³⁸ In the black market, a clear indicator of the true weakness of the currency, the exchange rate reached over LYD 7.5=US\$1 at the time of writing, in November 2025.³⁹

Figure 4. Official and parallel LYD/US\$ exchange rates



Source: World Bank (2025), *Libya Economic Monitor: Refining the Role of State-Owned Enterprises in Libya*, Spring 2025, Figure 10, <https://documents1.worldbank.org/curated/en/099412506262520171/pdf/IDU-68205dd8-a622-4c0e-b903-193df914abe2.pdf>.

Economic reliance on public sector

Libya's state has become increasingly bloated. Of the country's population of around 7 million, approximately 2.6 million people are employed by the state.⁴⁰ Expenditure on salaries through the state budget has skyrocketed since fall of the Gaddafi regime.⁴¹ A curious feature of conflicts in Libya since 2011 is that the opposing sides have almost always *both* been on the state payroll, meaning that – in a fiscal sense, at least – civil war has essentially consisted of the state fighting against itself.

³⁸ Reuters (2025), 'Libya Devalues Currency for First Time in Four Years', 6 April 2025, <https://www.reuters.com/markets/currencies/libya-devalues-currency-first-time-four-years-2025-04-06>.

³⁹ Libya Observer (2025), 'Exchange Rates', <https://libyaobserver.ly/exchange-rates> (accessed Nov. 2025).

⁴⁰ This estimate puts the number of employees of state-owned enterprises at around 500,000, a number not included in IMF and Libyan Ministry of Finance figures. See Harchaoui, J. and Powers, C. (2024), *Libya's Public Employment Crisis: The Critical Need to Shift from Patronage to Performance*, Friedrich-Ebert-Stiftung (Libya Office), <https://library.fes.de/pdf-files/bueros/libyen/21577.pdf>.

⁴¹ Central Bank of Libya (2024), 'Revenue and Expenditure Statement, December 2024', Tripoli: CBL, https://cbl.gov.ly/en/revenue_and_expendit/revenue-and-expenditure-statement-december-2024.

A key obstacle to progress on economic reform is the strong cultural conviction throughout Libyan society that a state position is the most reliable form of income (people widely see public sector jobs as necessary to safeguard their financial futures).⁴² Indeed, perhaps one of the most economically damaging legacies of the Gaddafi regime was the conflation of employment with welfare.⁴³ The irony is that today public sector employment in reality provides little in the way of a safety net: the broader failures of the state have meant that many Libyans are now unable to even withdraw their (public sector) salaries from their bank accounts; even where employees can still do so, the effects of inflation at ground level in the real economy (where the black-market exchange rate, rather than international statistics on Libyan inflation, is a more accurate indicator) mean those salaries pay for fewer goods. Governance dysfunction has progressively weakened the Libyan economy to the extent that, by 2025, some experts argued that revenues received by the CBL were insufficient to cover public sector salaries.⁴⁴

The effects of state centralization

There is a degree of consensus among economic experts that – regardless of the contest among elites for control of the state – the hyper-centralized underlying structure of Libya's system of governance prevents local communities from benefiting from state spending.⁴⁵ Local governments such as municipal councils have few powers and depend on central ministries for funding, while almost all procurement decisions run through Tripoli.⁴⁶

Almost all state institutions are headquartered in Tripoli, which means that personal or political connections and access in the Libyan capital are key to securing jobs and contracts. Tripoli's political and financial dominance over the rest of the country is a source of grievance for those in the east and south. A rebalancing of state power, involving the devolution of decision-making and institutional control to regions outside Tripoli, is a core demand of many people in the east in particular. (Indeed, national institutions such as the NOC and CBL were originally formed in Benghazi, while the parliament also used to meet there periodically prior to Gaddafi's rise to power.) Decentralizing the state would have significant implications for the distribution of power, and could play an important role in conflict mediation.

It can be argued that a *de facto* rebalancing of the system is already partially under way, as the Haftar family – politically dominant in the east of the country – has tried to ensure that its own networks and associates retain a controlling interest in key state companies in the oil and development sectors.⁴⁷ The Haftar family and

⁴² Most notably to secure a state pension.

⁴³ Author's interview with Libyan economic expert, Istanbul, September 2024.

⁴⁴ Author's interviews with Libyan economic governance experts, Tunis, February 2025.

⁴⁵ Author's interviews with Libyan economic governance experts, Tunis, December 2019.

⁴⁶ Author's interview with Libyan local governance practitioner, Montreux, November 2024.

⁴⁷ For example, in February 2024 Belgassim Haftar – a son of Khalifa Haftar – was appointed as the director general of the Libyan Development and Reconstruction Fund (LDRF) via Law 1 (2024) issued by the House of Representatives, which established the LDRF. The LDRF was established as 'a legal personality and independent financial status' with a far-reaching mandate ranging from developing strategies for reconstruction and development to 'coordinating and cooperating' with local and international firms, implementing development and reconstruction projects, and even establishing investment projects and companies. See Libyan Law Society (2024), 'Law No. 1 of 2024 Establishing the Libya Development and Reconstruction Fund' (Arabic), <https://lawsociety.ly/legislation/> (accessed 15 Oct. 2025).

its associates also have access to financing through control of locally headquartered state-owned commercial banks. However, these various mechanisms typically rely on personal or improvised connections; what is lacking is institutionalized agreement over how state funds should be managed across the country in a way that would be beyond factional interest.

Future vulnerabilities

There is widespread recognition that the Libyan state cannot continue down its current path. Around 96 per cent of state revenue is believed to come from fossil fuels.⁴⁸ This leaves the economy highly vulnerable to global oil and gas price fluctuations, and to market changes associated with the green energy transition. Moreover, little has been done to diversify Libya's economy or prepare it for future challenges.

There is an urgent need to support climate-resilient livelihood diversification. The 2023 Derna disaster underlined Libya's vulnerability to the impacts of climate change. Exposure to risks from rising temperatures, desertification and water scarcity is a major concern.

There is an urgent need to support climate-resilient livelihood diversification. The 2023 Derna disaster – when heavy rain caused two dams to burst, resulting in flooding that devastated the city of Derna and the surrounding areas – underlined Libya's vulnerability to the impacts of climate change. Exposure to risks from rising temperatures, desertification and water scarcity is a major concern. Despite signing the Paris Agreement on climate change in 2016 and ratifying it in 2021, Libya has yet to submit a nationally determined contribution (NDC) outlining its plans to reduce emissions and adapt to climate change; nor has the government published a national adaptation plan.⁴⁹ In addition to the direct risks, failure to address these clearly identifiable threats may exacerbate social conflict.

⁴⁸ International Monetary Fund (2013), *Libya: 2013 Article IV Consultation*, IMF Country Report No. 13/150, Washington, DC: International Monetary Fund, <https://www.elibrary.imf.org/view/journals/002/2013/150/002.2013.issue-150-en.xml>.

⁴⁹ Altaeb, M. (2021), 'Political and Economic Stability: All of Libya's Challenges', Italian Institute for International Political Studies (ISPI), 14 December 2021, <https://www.ispionline.it/en/publication/political-and-economic-stability-all-libyas-challenges-32655>.

03

The challenges of addressing structural economic drivers of conflict

The obstacles to improved economic governance are entrenched. They include vested interests, public suspicion of officialdom, and uncertainty about whether incremental or systemic reform is likely to work best.

The need for reform of the Libyan state has been a consensus opinion among experts for over 25 years.⁵⁰ Yet given widespread agreement that economic drivers of conflict cannot be addressed without structural change, why have so few reforms taken place? In reality, efforts to improve economic governance

⁵⁰ As in any state, a range of views exists over the extent and nature of the reforms required, but the general trend has been towards advocating liberalization of the economy. Following the lifting of international sanctions in 1999, Libya pursued market-based reforms. By 2003, 360 state-owned enterprises were targeted for privatization or liquidation, while a large-scale development strategy was launched in 2004 and major oil contracts with international oil companies were renegotiated. Major reform plans were developed by the Libyan state in partnership with international experts from the Monitor Group and Adam Smith International. Moreover, Libya al-Ghad ('Libya Tomorrow'), a programme of reform spearheaded by Muammar Gaddafi's son and heir apparent, Saif al-Islam, brought together a group of technocrats to deliver reform. This included forward-thinking efforts over administrative decentralization and the creation of new entities such as the Libyan Investment Authority. However, these initiatives were undermined by the interests of the Gaddafi regime, and they sparked tensions between proponents of the socialist model of the 1970s and 1980s and advocates of liberal reform. By 2011, on the eve of the revolution, Libya's governance was an uneasy mix of institutions from different eras, consisting of hundreds of state-owned entities lacking clear mandates. This incoherent state structure remains a challenging legacy for Libya's post-2011 leaders. While visions for reform of the state have also been produced since 2011, they have largely been a rehash of previous plans.

and mitigate conflict face many obstacles – including a lack of incentives, limited public support for a smaller state, and a lack of agreement over how reforms could be implemented.

Of these factors, the absence of incentives for current officials and their international partners is perhaps the most obvious impediment to reform. As noted, Libya's highly centralized government system, in which the state has a monopoly over the distribution of oil and gas revenues, offers members of the elites and their networks access to vast resources. Those in control of this system have a natural interest in maintaining the status quo, especially as economic governance discussions are often reduced to questions of 'power-sharing' – in effect, how to divide state wealth among conflicting parties.

Consequently, Libyan elites contesting power largely sideline difficult issues relating to structural reform, offering only superficial rhetoric on decentralization and development. Their primary concern remains control over existing institutional structures and resources rather than creating a fairer or more forward-looking system. This sustains zero-sum calculations, whereby obtaining or remaining in office offers a means to control access to financial or physical resources. It makes incumbent office-holders reluctant to support reforms that could dilute their power (thereby undermining any reform commitments they may have made in order to obtain office in the first place). These disincentives are often replicated at the international level, as external states – rather than helping Libya to tackle its structural governance problems – often focus on protecting and developing their own political and/or commercial interests through engagement with Libyan elites.

Just as problematic for reform prospects is a lack of vocal support from the very group that should in theory stand to benefit – the public. While public opinion on these issues is difficult to gauge, and technocratic governance reforms are hardly a common topic of everyday conversation, dissatisfaction with the economy and failing public services is easy to discern. Beyond this, there seems to be broad support for administrative decentralization,⁵¹ while many Libyans recognize their over-reliance on an ineffective state. Nonetheless, the cultural emphasis on the state is strong and there appears to be a lack of trust that reforms to the state system – such as the removal of costly subsidies for fuel, electricity, medicines and foodstuffs – would benefit the public.

The perspectives and concerns of ordinary citizens are insufficiently included in this debate. Economic reform discussions have remained largely confined to experts, and attempted governance changes have generally been limited to dialogue among ruling elites. One notable exception was a socio-economic dialogue led by the UN Economic and Social Commission for Western Asia (ESCWA) between 2018 and 2021. This provided a platform for a diverse and inclusive range of Libyan stakeholders to formulate a long-term vision for Libya's sustainable development. The initiative's findings were published in a 2021 report, outlining a common vision centred on prosperity, justice and strong state institutions.⁵² Other efforts, such

⁵¹ Centre for Humanitarian Dialogue (2018), *National Conference Process: Final Report*, https://www.hdcentre.org/wp-content/uploads/2018/11/Libyan-NCP-Report_English_web.pdf.

⁵² UN ESCWA (2021), 'Vision for Libya: towards prosperity, justice and strong State institutions', October 2021, <https://www.unescwa.org/libya>.

as those by Libyan Peace Makers, a dialogue programme that brings together Libyans from across the country and with different perspectives to inform international mediation efforts, have put forward visions for an equitable distribution of resources as part of a wider political process. Libyan-led discussions on these issues have grown in recent years, but much remains to be done to foster societal pressure for the inclusion of economic reforms in the political process.

Even among those who already advocate and work to facilitate reforms, there is a lack of consensus over the pathways that should be pursued and the optimal sequencing of steps.

Even among those who already advocate and work to facilitate reforms, there is a lack of consensus over the pathways that should be pursued and the optimal sequencing of steps. Some advocate incremental reforms with international support, while others argue that Libya's governance system is fundamentally flawed and requires immediate root-and-branch restructuring. One Libyan expert sees economic reform as part of a wider renegotiation of the social contract, a process that will necessarily entail downsizing the state and decentralizing power.⁵³ Another group suggests that a decentralization law could provide the foundation for lasting peace.⁵⁴ However, the questions remain: how can sweeping reforms be delivered in a structured and effective manner, and what are the risks of such efforts making an already bad situation worse?

⁵³ Author's interview with Libyan economic expert, Istanbul, September 2024.

⁵⁴ Author's interview with former planning official, London, September 2024.

04

Libya's 'economic track' to date

There have been sporadic efforts in recent years to develop the economic dimension of peace negotiations, with UNSMIL in particular playing a prominent role. But instability, political opposition and rivalry between Libya's parallel governments have impeded progress.

International policymakers have long recognized the need to mitigate economic drivers of conflict in Libya, and have taken a number of concrete steps to engage Libyan stakeholders on these topics. Such steps included the announcement of an 'economic track' of negotiations in 2018, and subsequent efforts to make state spending more coherent and rein in the diversion of state funds by officials and their associates. The UN also expressed its ongoing commitment to governance reforms in a recently unveiled 'multi-track' process.⁵⁵ There have also been continuing efforts to facilitate dialogue between Libyan stakeholders – such as on agreeing a budget between the Government of National Unity (GNU) and House of Representatives (HoR) – in the search for consensus on economic governance. But these ad hoc efforts have, until now, remained largely divorced from wider efforts on the political track of negotiations. Critically, too, they have taken the shape of dialogue rather than direct mediation. Thus, the meetings have aimed simply to share views rather than force agreements.

⁵⁵ United Nations Security Council (2025), 'Remarks of the Special Representative of the Secretary-General for Libya, Hanna S. Tetteh, to the Security Council – 21 August 2025', 21 August 2025, https://unsmil.unmissions.org/sites/default/files/remarks_of_the_special_representative_of_the_secretary-general_for_libya_hanna_s._tetteh_to_the_security_council_-_21_august_2025.pdf.

A timeline of economic negotiations

Since 2014, Libya's economy has been shaped above all by the political and security challenges arising from the emergence of rival governments in the west and east of the country. In response to this split, the international community initially focused on damage limitation: essentially, mitigating the impact of conflict on key economic institutions, and hoping to prevent their division and protect critical sectors like oil.

These efforts had mixed results – for example, they failed to maintain nationally unified governance of the CBL and NOC – but nor were they entirely in vain. Indeed, coherent international action arguably prevented more serious impacts. For example, universal international recognition of the CBL's Tripoli-based leadership ensured that only the Tripoli-based entity could access international financial markets and foreign exchange. In the case of the NOC, the parallel leadership established in the east was prevented by the international community from selling oil directly on the international market. These measures by no means solved all the problems associated with the governance divide – as noted earlier, the east developed its own financing mechanisms entirely separate from those of its counterparts in Tripoli – but they did sustain a useful degree of national economic interdependence. Broadly, NOC-affiliated entities in the east and south of Libya continued to extract and sell oil and petroleum products, while authorities in the west of the country received the revenues and distributed them nationally.

In 2015, the Libyan Political Agreement (LPA), signed by Libyans invited to a UN-brokered dialogue process, sought to establish a unified government to bring an end to administrative division. While laying a roadmap for elections under a unified government, the LPA simultaneously sought to insulate economic and financial institutions from political instability in what was supposed to be an interim period ahead of elections. The LPA emphasized transparency, anti-corruption policies and adherence to international standards. Under the UN banner, the LPA also aimed to avoid oil blockades and ensure the continued functioning of vital sectors. Yet the government that was formed by the LPA – which became known as the Government of National Accord – was rejected by Khalifa Haftar and the House of Representatives in the east, leading the east to retain its own government. So, the problems remained unsolved.

In November 2017, Ghassan Salamé, at the time the new UN special representative for Libya and head of UNSMIL, told the UN Security Council that 'politics in Libya is strongly shaped by economic predation'.⁵⁶ Salamé and his deputy, Stephanie Williams, recognized that capture of resources had become a major driver of ongoing conflict in Libya, and that addressing this problem meant elevating issues surrounding Libya's economy to the forefront of the UN's political engagement with the country. Yet this statement of intent was not matched by actions, in part because of a deterioration of the situation on the ground.

⁵⁶ United Nations (2017), 'UNSMIL Convenes Meeting of Libyan Economic Experts to Discuss Establishment of Experts Commission to Unify Institutions', UN News, 21 November 2017, <https://news.un.org/en/story/2017/11/636382>.

Salamé had hoped to promote a shift from brokering stopgap agreements on specific issues, such as oil blockades, to addressing the underlying causes of conflict in a broader political settlement. His plan was to table economic components of reform at a planned 'National Conference' in April 2019; the conference was intended to bring together Libyan constituencies to negotiate an agreement that would end political division and chart a consensus path forward. The exact shape of what was planned on the economic side has never been disclosed, however, not least because the event was cancelled following the attack by Haftar's Libyan Arab Armed Forces (LAAF) on Tripoli two weeks before the conference was scheduled to take place.

Despite this setback, UNSMIL remained committed to addressing economic drivers of conflict through the creation of both a new Libyan body and a corresponding new international one. On 7 January 2020, UNSMIL established the Libyan Economic Expert Commission (LEEC), which was made up of Libyan officials, experts and academics and tasked with developing essential reforms.⁵⁷ The LEEC's establishment had followed UNSMIL-led engagement over several months, culminating in a meeting in Cairo where those selected to join the LEEC convened to discuss how the body should function. The LEEC was subdivided into three working groups: i) banking and the private sector; ii) revenue distribution and transparency; and iii) reconstruction and development.

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Meanwhile, on 9 January 2020 representatives from the international community convened at the first Berlin Conference, where Salamé sought to gather support for UN-led peace efforts. The conference was predicated on a belief that without international consensus on the way forward in Libya, agreement among rival Libyan factions would not be possible. The meeting resulted in the Berlin Declaration, which set out seven components for a peace process, including a ceasefire, security sector reform, and economic and financial reform. The declaration announced the formation of an Economic Working Group (EWG) 'follow-up committee' to coordinate international support for Libya's economic stabilization and institutional unification in pursuit of the declaration's goals.

UN Security Council Resolution 2510 (2020) endorsed the outcomes of the Berlin Conference, as well as confirming the establishment of the LEEC. Critically, however, the resolution did not clarify the relationship between the economic and political processes. It thus remained unclear what the respective roles of the LEEC and the EWG should be. Was the LEEC to be empowered

⁵⁷ UNSMIL (2020), 'UNSMIL Convenes Meeting of Libyan Economic Experts to Discuss Establishment of Experts Commission to Unify Financial and Economic Policy Institutions', press release, 7 January 2020, <https://unsmil.unmissions.org/unsmil-convenes-meeting-libyan-economic-experts-discuss-establishment-experts-commission-unify>.

to make decisions that any governing authority would be required to implement? Or was it there merely to advise the Libyan authorities and their international counterparts at the EWG?

What became clear was that the members of the LEEC expected it to be given the power to do the former – bringing them on a par with their counterparts on the political track – while the international community ended up settling on the latter.⁵⁸ The LEEC thus effectively became a consultative body that worked with the EWG to put recommendations to the Libyan government. While important, this role was clearly of less significance than the political track.

The EWG was encumbered with a situation where it had four co-chairs – the US, UNSMIL, Egypt and the EU – with their own priorities and interests. Moreover, the priorities set for the EWG were extensive, ranging from pursuit of structural economic reform to supporting the provision of vital public services. To add to the challenge, the EWG had no obvious means of delivering these ambitious goals, beyond the facilitation of dialogue among Libyan officials and institutions.

Simultaneously, UNSMIL's economic unit formulated a detailed 'policy reform roadmap' that would be pursued with support from the EWG and the LEEC. Combined, these developments meant that the economic track centred on agreements among existing holders of office in Libya, targeting measures that would improve economic governance. However, momentum for this agenda faltered as international attention focused on the establishment of a new government via another UN-led selection process, called the Libyan Political Dialogue Forum, in October 2020. Few of the target measures of the policy reform roadmap were achieved.

The Government of National Unity (GNU) became the first unified government since 2014 when it was appointed in March 2021. Its mandate was almost exclusively focused on taking Libya to elections planned for December that year. In this context, the GNU had no clear mandate to engage on any expansive set of economic objectives, beyond the existing day-to-day priorities pursued by the EWG, such as achieving improvements in the electricity grid. While the EWG and LEEC continued their work, the GNU did not prioritize implementing their recommendations, viewing economic decision-making as its responsibility.⁵⁹ Moreover, the limited number of LEEC members who subsequently joined the GNU did not appear to act as advocates for the LEEC's reforms once in government.⁶⁰ Thus, Salamé and Williams' goals of addressing economic drivers of conflict did not materialize.

Libya's political process stagnated following the failure to hold elections in December 2021. In February 2022, the split between parallel governments – the GNU in the west, and the Government of National Stability (GNS) in the east – re-emerged. To address the executive division, UNSMIL, with the EWG's support, pursued three main objectives: ensuring transparent and equitable management of state revenue;

⁵⁸ Interviews with members of the LEEC.

⁵⁹ Interviews with diplomats familiar with the situation and with members of the LEEC.

⁶⁰ Interviews with members of the LEEC.

safeguarding the NOC's operations; and advancing the reunification of the CBL.⁶¹ Overall, these moves indicated a reversion to the pre-2017 agenda of improving day-to-day governance rather than seeking to reform the Libyan state *per se*. Importantly, the approach was also based on dialogue rather than active mediation, so any progress depended on the willingness of incumbent Libyan policymakers.

A US-developed proposal, the Mechanism for Transparency and Accountability in Public Finance (known as 'Mustafeed'), was tabled at the EWG in the spring of 2022. This was a departure from previous efforts in that it sought to impose conditions on Libyan authorities. Specifically, Mustafeed sought to limit state expenditures to essential categories. This was aimed at making it harder for officials associated with vested interests to cling to office, and at incentivizing a move towards elections. Unsurprisingly, the proposal faced stiff resistance from Libyan policymakers, who claimed it was an infringement of Libyan sovereignty.⁶² In the face of this resistance, and potential implementation challenges, Mustafeed did not materialize.

A key feature of the political process to date has been the idea that efforts should be 'Libyan-led'. A genuinely Libyan-led effort on the economic track emerged in the summer of 2023, amid tensions between the rival western and eastern governments over control of state revenues. The Tripoli-based Presidency Council founded the so-called High Financial Committee, designed to mediate in economic disputes between rival powerbrokers. The committee met several times, but eastern-based officials withdrew from it after a political deal was reached between the CBL's governor, Sadiq al-Kabir, and the speaker of the House of Representatives (HoR), Agila Saleh, over a nominal 'reunification' of the CBL in which the bank's eastern governor, Marei al-Barassi, became deputy governor.⁶³ With the collapse of the High Financial Committee, negotiations on the economic file withered. Real discussions between rival powerbrokers moved behind closed doors and focused on the tacit agreement in the oil sector to divide access to oil revenues between west and east. Subsequently, the HoR formed a technical committee in December 2023 to prepare a draft unified budget, although this budget was ultimately disregarded. Libya has thus continued to operate without any formal agreement on state spending between west and east, allowing for the uncontrolled increases in expenditure detailed in this paper.

In June 2024, the US re-initiated its own economic dialogue to foster consensus between Libya's divided state institutions.⁶⁴ However, by August 2024 escalating disputes over resource allocation had triggered a leadership crisis within the CBL. Negotiations facilitated by UNSMIL resulted in the appointment of a new CBL governor and the re-establishment of a board of directors in October 2024, after a decade-long absence.

⁶¹ Interview with UNSMIL official. UNSMIL had supported an international audit of the CBL's Tripoli and Al-Bayda branches in 2020, yet the findings of the audit were not made publicly available.

⁶² Interviews with diplomats and Libyan economic experts.

⁶³ Interviews with Libyan officials.

⁶⁴ The economic dialogue had been a mechanism used by the US, with support from the World Bank, to bring officials from west and east to agree a spending settlement during the tenure of the Government of National Accord, 2016–21.

In December 2024, UNSMIL announced the launch of an UNSMIL-facilitated but Libyan-led and -owned 'multi-track' political process. The centrepiece of this initiative was the formation of an Advisory Committee of independent Libyan experts who would put forward options for UNSMIL to consider so that the political impasse could be broken.

As part of the process, UNSMIL would formulate an inclusive, structured dialogue among Libyan social constituencies to reach consensus on a collective vision for the country's future and to address long-term conflict drivers. Notably, the dialogue aimed to build on existing work involving Libyan partners, with the economic consultations focusing on fundamental issues that could ensure a 'stable, sustainable and prosperous economy'⁶⁵ for the benefit of the Libyan people. Yet, the necessary parameters to define how the structured dialogue would interact with other lines of effort were never fully finalized and agreed.

In the summer of 2025, the Berlin process resumed, with Germany helping the UN to bring international players together in an attempt to forge consensus behind the UN's developing plans. These plans were announced at the UN Security Council by the current head of UNSMIL and special representative of the secretary-general, Hannah Tetteh. Building on the Advisory Committee's recommendations – delivered in June 2025 – Tetteh's proposals focused on navigating the political roadblocks to the holding of national elections, seeking the promulgation of an elections law that would have broad acceptance, and facilitating the establishment of an interim government ahead of polls being organized. Yet, the connection of this process to the previously announced structured dialogue on economic reform remains unclear. As of November 2025, when this paper was being finalized, efforts to reconvene the EWG – which had not met in the previous three years – remained in progress. There is, however, no clear consensus over what the function of a reinstated EWG should be, or how it might interact with the structured dialogue that has already been initiated.

⁶⁵ UNSMIL (2024), 'Remarks by DSRSG Stephanie Koury to the Security Council', 16 December 2024, https://unsmil.unmissions.org/sites/default/files/20241216_dsrs_g_koury_remarks_to_unsc_english.pdf.

05

Lessons from other countries

Successful peace agreements usually include provisions to reduce economic disparities between communities and foster economic development. But settlements can fail to deliver their full benefit if institutional capacity for implementation is low or if ‘vertical’ economic inclusion is lacking.

The combination of ongoing conflict, competition for control of state resources, administrative over-centralization and a lack of sustainable development is not unique to Libya. Modern political settlements in various countries have included a range of economic provisions to tackle such problems, and may offer lessons for policymakers engaging with Libya. Such provisions have included:

- formulas for resource revenue-sharing;⁶⁶
- reconstruction funding;⁶⁷

⁶⁶ Resource revenue-sharing is a common feature of peace agreements. The 2005 Sudan Comprehensive Peace Agreement allocated 50 per cent of oil revenues to the government of Southern Sudan, while the Aceh Peace Agreement (2005) granted the Aceh region control over 70 per cent of local oil and gas revenues. Control over key industries and natural resources can also shape post-conflict economic stability. In Papua New Guinea, the Bougainville Peace Agreement (2001) granted the Bougainville government greater economic autonomy over Bougainville’s natural resources, particularly in the mining sector. Similarly, the Sun City Agreement (2002) in the Democratic Republic of the Congo (DRC) addressed control over mineral-rich areas and committed the interim government to economic governance reforms to reduce resource-driven conflict. See Ghani, A. and Lockhart, C. (2008), *Fixing Failed States: A Framework for Rebuilding a Fractured World*, Oxford: Oxford University Press; Regan, A. J. (2010), *Light Intervention: Lessons from Bougainville*, Washington, DC: United States Institute of Peace Press; Nzongola-Ntalaja, G. (2002), *The Congo: From Leopold to Kabila – A People’s History*, London: Zed Books.

⁶⁷ Reconstruction and development funds also play a crucial role in rebuilding war-torn economies. The Dayton Agreement (1995) established economic reconstruction programmes supported by international donors to restore Bosnia and Herzegovina’s infrastructure. Similarly, the Liberia Comprehensive Peace Agreement (2003) led to significant donor support for economic reconstruction. See Chandler, D. (2000), *Bosnia: Faking Democracy after Dayton*, London: Pluto Press; Sawyer, A. (2005), *Beyond Plunder: Toward Democratic Governance in Liberia*, Boulder, CO: Lynne Rienner Publishers.

- land reform;⁶⁸
- employment programmes;⁶⁹ and
- debt relief.⁷⁰

Analysis of political settlements from other countries and contexts illustrates that such agreements have been broadly successful in ensuring economic inclusion and avoiding further outbreaks of violent conflict in the short term, but that they have enjoyed fewer successes in delivering long-term stability, equitable development and sustained economic growth.

Where they have supported wider economic development, the economic provisions of political settlements have provided some kind of socio-economic peace dividend. For example, revenue-sharing in the Aceh Peace Agreement in Indonesia is considered to have prevented a relapse into conflict by addressing economic marginalization and reducing support for separatism. The Good Friday Agreement in Northern Ireland unlocked significant EU and UK financial investment that improved economic conditions across Northern Ireland. This helped reduce the economic disparity between communities and created a shared incentive to maintain peace.⁷¹ In Liberia and Sierra Leone, debt relief and international aid enabled post-war governments to redirect financial resources towards essential services, infrastructure and employment programmes.

The latter two examples also reflect a further ingredient that is often critical to the sustainability of peace deals: in both Liberia and Sierra Leone, two countries dependent on external rents, the mobilization of financial resources was accompanied by aid conditionality mandating governance and institutional reforms. This was to ensure that aid was used effectively.

However, as Libya is an upper-middle-income country with abundant natural resources, the threatened withholding of access to external financing does not carry the same leverage as it might elsewhere. Consequently, a different approach is advisable if Libya is to meet the challenges of providing long-term stability, equitable development and sustained economic growth. Such an approach should

⁶⁸ Land reform and redistribution are key to addressing structural inequalities. The Colombian Peace Agreement (2016) incorporated a comprehensive land reform programme to reduce rural inequality and provide land to former combatants. Similarly, the Zimbabwe Lancaster House Agreement (1979) contained provisions for land redistribution, though its implementation was later contested. See Kroc Institute for International Peace Studies (2017), *Special Report: The Colombian Peace Agreement*, University of Notre Dame; Raftopoulos, B. and Mlambo, A. (eds) (2009), *Becoming Zimbabwe: A History from the Pre-colonial Period to 2008*, Harare: Weaver Press.

⁶⁹ The Good Friday Agreement (1998) facilitated economic development initiatives, including EU-funded projects aimed at fostering cross-community business and employment opportunities in Northern Ireland. The reintegration of ex-combatants through employment and vocational training is another crucial economic component. The El Salvador Chapultepec Peace Accords (1992) introduced programmes for economic reintegration, including job training and employment schemes for former fighters. Post-apartheid South Africa (1994) implemented Black Economic Empowerment (BEE) policies to integrate historically marginalized groups into the economy, fostering long-term economic inclusion. See Todd, J. (2018), *Identity Change after Conflict: Ethnicity, Boundaries and Belonging in the Two Irelands*, Basingstoke: Palgrave Macmillan; Arnson, C. J. (ed.) (1999), *Comparative Peace Processes in Latin America*, Stanford, CA: Stanford University Press; Tangri, R. and Southall, R. (2008), 'The politics of black economic empowerment in South Africa', *Journal of Southern African Studies*, 34(3), pp. 699–716.

⁷⁰ Debt relief and international aid commitments have been used to stabilize post-conflict economies. The Sierra Leone Peace Agreement (1999) included international pledges for economic aid and debt relief to support recovery. See Kaldor, M. and Vincent, J. (2006), *Evaluation of UNDP Assistance to Conflict-Affected Countries: Case Study Sierra Leone*, New York, NY: United Nations Development Programme.

⁷¹ Queen's University Belfast (2023), 'Has There Been A Peace Dividend In Northern Ireland Since The Good Friday Agreement Was Signed?', Queen's Business School, 3 April 2023, <https://www.qub.ac.uk/schools/queens-business-school/about/news/SEOfriendlyURL,1718331,en.html>.

focus on leveraging Libya's reliance on access to dollar transactions in the international financial system. Ultimately, all of Libya's international oil export revenues must be routed through this system. Thus, an emphasis on ensuring that Libya and its international commercial partners are fulfilling financial compliance requirements is the greatest source of leverage possessed by the US and its international partners.

Where they have supported wider economic development, the economic provisions of political settlements have provided some kind of socio-economic peace dividend.

For this leverage to be effective, sustained engagement between the international community and Libyan stakeholders is required. Evidence from other contexts suggests that roadmaps for the implementation of agreed economic provisions must be realistic and retain buy-in from parties to the conflict. Failure to meet such criteria – for example, due to a lack of institutional capacity or to the privileging of vested interests – would likely result in limited or incomplete implementation of economic provisions in any agreement.

Similar risks are illustrated by the challenges that later emerged around the Aceh Peace Agreement – despite its success, in many respects – in Indonesia.⁷² The agreement contained complex economic components, including provisions for the establishment of special autonomy status, which allowed the province to retain a larger share of tax revenues and control over public spending through a process of fiscal decentralization, along with provisions for resolving land disputes, compensating displaced persons and restoring property rights to those affected by the conflict. Yet, Aceh had a bureaucracy ill equipped to handle post-conflict reconstruction and development, and this complicated the peace deal's adoption.⁷³

Another example of implementation and governance challenges can be found in the Comprehensive Peace Agreement between the government of Sudan and the Sudan People's Liberation Movement. The agreement, signed in 2005, contained economic provisions that were instrumental in maintaining peace during the transitional period prior to South Sudan obtaining independence in 2011. However, weaknesses affecting implementation, transparency and economic diversification limited the success of efforts to improve petroleum sector governance, attract foreign investment and stimulate economic development. The new government of South Sudan struggled to enact the necessary legislation and regulatory mechanisms, and this impeded the implementation of the peace

⁷² The Aceh Peace Agreement brought nearly three decades of conflict in Indonesia to a close, as the Free Aceh Movement (Gerakan Aceh Merdeka, GAM) sought independence from the Indonesian government.

⁷³ Hillman, B. (2011), 'The policy-making dimension of post-conflict governance: the experience of Aceh, Indonesia', Academia.edu, https://www.academia.edu/69966805/The_policy_making_dimension_of_post_conflict_governance_the_experience_of_Aceh_Indonesia.

agreement's economic components ahead of independence.⁷⁴ As a result, most of the money or investment that was supposed to have funded South Sudan's post-2011 transformation never reached its targets. It is alleged that much of the funding that did arrive was siphoned off by certain leaders.⁷⁵

A final lesson for Libya, from the wider MENA region, is that so-called 'horizontal' economic inclusion – in the form of power-sharing deals unaccompanied by accountable economic governance – may sow the seeds of medium- and long-term economic collapse. In the case of Lebanon, the 1989 Taif Agreement rebalanced economic and political power horizontally among sectarian elites and their associates, but 'vertical' inclusion – beyond the elites, stretching to their constituents in the general public – was not seriously attempted. Consequently, this redistribution resulted in the entrenchment of clientelism in economic decision-making.⁷⁶ Ministries too often became fiefdoms for political elites, facilitating corruption and inefficiency rather than fostering national economic recovery.⁷⁷ By the late 2010s, Lebanon's debt-to-GDP ratio had become one of the highest in the world, leading to financial instability and an eventual economic collapse in 2019–20. In other words, the very policies designed to stabilize Lebanon's economy after the war of 1975–90 ended up creating conditions for financial crisis decades later.⁷⁸

So-called 'horizontal' economic inclusion – in the form of power-sharing deals unaccompanied by accountable economic governance – may sow the seeds of medium- and long-term economic collapse.

A similar story is perceptible in Iraq, where politically sanctioned corruption has undermined governance, posing significant obstacles to reform.⁷⁹ Exploitation of the *al-darajat al-khasa* system of 'special grades' – whereby political parties vie to appoint loyalists to senior civil service positions – has allowed some appointees, protected by their political patrons, to control resource allocation within ministries and state institutions, diverting funds to benefit the parties with which appointees are affiliated.⁸⁰ Billions of dollars have been lost to inefficiency and fraud in this way, limiting the impact of reconstruction programmes.⁸¹ Protests over economic

⁷⁴ Wassara, S. (2009), 'The Comprehensive Peace Agreement in the Sudan: Institutional Developments and Political Trends in Focus Areas', GSDRC, <https://gsdrc.org/document-library/the-comprehensive-peace-agreement-in-the-sudan-institutional-developments-and-political-trends-in-focus-areas>.

⁷⁵ Benson, M. S. (2024), 'Of Rule Not Revenue: South Sudan's Revenue Complex from Colonial, Rebel, to Independent Rule, 1899 to 2023', *Comparative Studies in Society and History*, 66 (2024), pp. 673–99, <http://dx.doi.org/10.1017/S0010417524000045>.

⁷⁶ Krayem, H. (1997), 'The Lebanese Civil War and the Taif Agreement', Civil Center for National Initiative, <https://www.civil-center.org/files/taif/The-Lebanese-Civil-War-and-the-Taif-Agreement--Hassan-Krayem.pdf>.

⁷⁷ Leenders, R. (2016), *Spoils of Truce: Corruption and State-Building in Postwar Lebanon*, Cornell University Press, <https://doi.org/10.7591/cornell/9780801451003.001.0001>.

⁷⁸ Makdisi, S. and Amine, R. (2022), *Lebanon's Multifaceted Economic Crisis of October 2019: Causes, Repercussions: A Diagnosis*, Economic Research Forum, Working Paper No. 1562, August 2022, https://erf.org.eg/app/uploads/2022/08/1661157830_526_726054_1562.pdf.

⁷⁹ Dodge, T. and Mansour, R. (2021), *Politically sanctioned corruption and barriers to reform in Iraq*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2021/06/politically-sanctioned-corruption-and-barriers-reform-iraq>.

⁸⁰ Ibid.

⁸¹ US Defense Technical Information Center (2013), *Learning From Iraq: A Final Report From the Special Inspector General for Iraq Reconstruction*, DTIC ADA587236, <https://apps.dtic.mil/sti/citations/ADA587236>.

conditions, unemployment and corruption have erupted frequently, indicating that Iraq's economic peace provisions have largely failed to create inclusive growth or stability.

In conclusion, the examples in this chapter reveal how the success of economic components in peace agreements depends on countervailing external pressures, long-term commitment, and robust institutions to generate tangible benefits for the population. Without these factors, even well-designed economic policies risk being undermined, leading to renewed instability.

06

Policy proposals: How to make reforms more coherent

An internationally mediated ‘economic track’, formally integrated into Libya’s peace negotiations, should focus on five areas: stabilization of governance, structural reform, capacity-building, anti-corruption enforcement and public diplomacy.

Given nearly a decade and a half of failed peacebuilding, Libyans can be forgiven for mistrusting the intentions of their own elites and foreign states alike. While this paper has focused on Libya’s systemic failings, the influence of foreign states has become increasingly malign in recent years. Moreover, the foreign policy of the US, which until recently has led calls for political solutions and improved economic governance, has shifted to a more transactional approach. The status of the UN, and of multilateral institutions more widely, is in decline.

These shifts make developing an economic track of negotiations harder than ever. Yet the need has not diminished. As the violent reorganization of Tripoli’s security sector in May 2025 showed, the informal settlements that currently underpin the Libyan state’s governance are precarious (see Chapter 1). The institutions critical to the state’s survival – such as the CBL and the NOC – are increasingly undermined and sidelined by vested interests.

Should these trends continue unabated, then the economy will become ever weaker and the opportunities for Libya and its foreign partners to benefit from soundly managed economic development will dwindle. Private foreign investment in Libya will be a riskier proposition, while illicit financial flows and irregular migration will continue to thrive. It is therefore important to make the case that addressing economic drivers of conflict would provide the proverbial tide that lifts all boats for Libyans and their international partners.

The calculus of the UN and foreign states should rest on improving the well-being of the Libyan population, while drawing upon enlightened pragmatism in delivering settlements that have a realistic chance of working on the ground. On the other hand, if external states adopt a narrower, more mercantilist approach – which is the apparent direction of travel – any investments by international companies are likely to be subject to instability and renegotiation as Libya's economic landscape shifts and society suffers.

With this backdrop in mind, this paper's assessment of the nature of Libya's economic drivers of conflict, the paper's appraisal of efforts to date to mitigate their effects, and its presentation of the lessons from other contexts reveal that negotiations on stabilizing Libya require an enhanced economic track. While there is no substitute for a political track of negotiations to address political succession, or for a security track to agree arrangements in the security sector, the centrality of Libya's economic challenges cannot be minimized. This problem set clearly illustrates the need for the economic track to be formally established as a forum for international mediation and negotiation – not simply dialogue – on par with its political counterpart.⁸²

A revamped economic track of this type should have five components. The first should consist of engagement with current Libyan leaders on stabilizing economic governance in the short term. The second element should be forward-looking, with a focus on planning for and initiating structural reforms to be undertaken under a future government. The third should be continuing to develop the technical capacity of Libya's public officials and their institutions. The fourth should consist of enforcement measures against corruption and kleptocracy. Last but not least should be engagement of the general Libyan population through concerted public diplomacy. Only through such a combination of efforts can success be achieved.

Components of an enhanced economic track

1. Stabilization of economic governance

In recent years, political incumbents and armed groups have significantly increased their control over state institutions, eroding the independence and operational integrity of these bodies. The aforementioned killing of Abdelghani al-Kikli in Tripoli in May 2025 came against a backdrop of his growing efforts to control the distribution of cash from the CBL and to dominate other key state institutions.

⁸² This chapter proposes how such an approach could succeed in the current framework laid out in the UN's multi-track process, and in connection with the ongoing US-led economic dialogue, because these are the existing forums for such engagement.

These behaviours were emblematic of a trend that has seen a rise in grand corruption and a deterioration in the availability and quality of public services such as education, healthcare and public security.

Unless such issues are addressed, the prospects for success in the wider political process are dim, and the recommendations of UNSMIL and its Advisory Committee are unlikely to succeed. Thus, economic stabilization must come before political transition in the sequencing of steps, rather than the other way around (as has often been the case to date). Consequently, the UN (with its partners) should pursue measures that will stabilize economic governance as part of its ongoing political engagement in Libya. The aim should be to prepare the ground for a future political transition and to arrest worrying trends in economic governance.

Efforts should be limited, however, to ensuring adherence to existing laws and regulations, ensuring transparent financial reporting of laws and regulations, and agreeing a nationally unified budget. In this context, 'unified' means a budget that applies across the entire country, as opposed to the GNU releasing a budget in parallel to the GNS. The NOC should be provided with a clearly delineated allocation from the budget to cover its running costs and investment needs, while the revenues it generates from oil and gas should *all* pass through the CBL; off-book spending and financing from eastern authorities for unvetted projects via the banking sector must cease, as must currency printing by eastern-based authorities. The unified budget should be supported by provisions to ensure transparency and accountability, and should be designed in such a way as to prevent undue inflationary pressures.

The US is currently best placed to lead on this effort. Revamping its 'economic dialogue' as an economic mediation process would be the best means of doing this. Engagement by the US special adviser for Africa, Massad Boulos, has recently led to an agreement between western and eastern authorities on a budget for development.⁸³ If focused on institutionalizing arrangements – rather than representing insider deals with elites – these efforts could be stepped up and formalized, becoming complementary to wider UNSMIL efforts, which focus on medium- and longer-term economic reforms.

Creative means can also be sought to secure Libyan buy-in, such as leveraging of the partial unfreezing of the billions of dollars in Libyan assets held under sanctions regimes.⁸⁴ But the key is that any deals must bring with them transparency and accountability to reinstitute checks and balances in the governance of the state's finances, thereby facilitating a shift towards strengthening of state institutions. Other

⁸³ Reuters (2025), 'Rival Libya parliaments agree to 'unified' development programme, central bank says', 18 November 2025, <https://www.reuters.com/world/africa/rival-libya-parliaments-agree-unified-development-programme-central-bank-says-2025-11-18>.

⁸⁴ Billions of dollars of Libyan state assets owned by the Libyan Investment Authority are frozen under UN sanctions. For more details on these assets, see Eaton, T. (2021), 'Investing the wealth of a nation', Chatham House, Feature, 24 February 2021, <https://www.chathamhouse.org/2021/02/libya-investing-wealth-nation>. In December 2024, reports also emerged about a further US\$45–50 billion in assets belonging to the former Gaddafi regime being uncovered in the US, triggering a series of disputes over how the funds should be repatriated. See, Hamilton, J. (2025), 'The Gaddafi billions – how Libya plans to reclaim the stolen wealth', *Africa Confidential*, May 2025, <https://www.africa-confidential.com/special-report/id/50/the-gadafi-billions-%E2%80%93-how-libya-plans-to-reclaim-the-stolen-wealth>.

countries or actors could also theoretically take on the role of the US in such a direct negotiation, but to date there have been no indications that any are willing to do so. The EWG has proven that it cannot fulfil this role.

While these goals may sound modest, they have eluded policymakers for a number of years. In particular, placing pressure on Libyan institutions to act within the law, and naming and shaming them where they do not, would be a significant step forward. Such efforts can build on the quiet work of the US to strengthen the CBL's anti-money-laundering policies and to establish third-party monitoring of the CBL's dollar transactions. These efforts can build leverage on Libyan leaders given Libya's reliance on access to US dollar markets. Improvements in this regard also open up means of pressuring Libya's commercial partners to encourage better behaviour by Libyan officials and rival powerbrokers through commercial compliance regulations in Western markets.

Where opportunities exist to find technical fixes that would improve economic governance, these should be explored. The World Bank, in particular, could provide useful insights, given its expertise in public finance management. Among other measures, external engagement with Libyan policymakers to assist in the transparent and accountable execution of spending under Chapter III (development) of Libya's budget framework could help to ensure that, even amid ongoing policy dysfunction, the state is investing in its own future. Presently, planned expenditures on development are rarely executed in practice, as procedural problems resulting from the national governance split impede the legal disbursement of funds. One symptom of this split is the Haftar family's apparent reliance on a dedicated Libyan Development and Reconstruction Fund for public works in eastern Libya; however, spending through this fund has little or no official oversight from the Libyan authorities, and the fund appears to be accountable (and in name only) to the House of Representatives. Reorganizing funding mechanisms and channelling funds through the proper state entities must be a priority for both Libyan and international policymakers.

2. Medium- and long-term economic reform

Few oppose the view that Libya needs structural reforms to its system of economic governance. There are a series of potential reform goals that would be likely to generate widespread public support. These include: the devolution of state powers to local government structures; development of the private sector; economic diversification; adaptation to the global energy transition; and climate action. However, discussion of specific reforms requires moving from considerations of the vested interests of political elites to an approach that places the rights of Libyan citizens at the heart of governance. In practice – and drawing on lessons from Lebanon and Iraq – this means the abandonment of power-sharing as the operating principle of economic decision-making.

Achieving this will depend on a systematic programme of government action, the passage of new legislation and the mobilization of funding mechanisms beyond year-to-year budgetary allocations. The question is how this can be achieved under Libya's current circumstances. A range of policies could be pursued to these ends, though each brings different challenges. The simplest option would be to

leave major decisions to a future, unified Libyan government. An alternative approach might be to address foundational elements of economic governance in a constitutional process. Yet both of these options would risk delaying action, potentially indefinitely. Libyans are mindful of the experience of the current GNU, which entered office in March 2021 with a mandate to deliver elections six months later. At the time of writing, in November 2025, the GNU remains in place, no national-level elections have been held, and no significant economic reforms have been pursued.

A more effective means of initiating economic reforms could be through incremental changes, with each measure tied to the political process. One promising idea that has been floated is the establishment of an economic reform charter which any incoming government would be expected to endorse and commit to implementing. The structured dialogue on the economy currently under development for UNSMIL could be the vehicle to develop this charter. This would provide a clear mandate and purpose for the structured dialogue. Such a charter could earmark priority areas for action, such as administrative decentralization, private sector development, economic diversification, and climate change mitigation and adaptation. Importantly, the charter could identify programmatic actions for the next government to pursue. Experience from reforms in Aceh and South Sudan underlines the importance of ensuring that programmatic elements consist of actions that state institutions have the capacity to deliver. It would be for the incoming government and the wider state apparatus to then formulate an implementation plan and carry the reforms out. International support should be mobilized for such an effort.

An economic reform charter would need to be endorsed by participants in the associated political process, and publicly endorsed by the incoming government prior to its entering office.

Critically, an economic reform charter would need to be endorsed by participants in the associated political process, and publicly endorsed by the incoming government prior to its entering office. This would be necessary to ensure that technical proposals have a means of being implemented by the experts who have developed them. The international community would need to play a role in holding the future government accountable to its commitments. One practical way of doing this would be to deploy technical experts to the new government to facilitate their plans and retain a forum for sharing information on progress, such as through the EWG.

Such an approach would by no means be foolproof. There are many ways in which it could fail, yet an economic charter would at least provide a means of diluting the powers of an incoming government and reducing the winner-takes-all dynamics that have inhibited reform to date. It would also enable complicated economic issues to be addressed in a manageable fashion.

3. Capacity-building

Public finance management experts caution that Libyan officials and institutions lack sufficient capacity to implement a coherent and strategic programme of reforms. The provision of targeted institutional support via the World Bank, the International Monetary Fund and bilateral support packages should centre around the key deficits in economic governance identified in this paper. Addressing these deficits would probably need to be a focus of the economic charter described above.

4. Anti-corruption enforcement

Outside of these distinct efforts, the UN and its partners should continue to support the efforts of the Libyan state's oversight bodies, most notably the Libyan Audit Bureau and National Anti-Corruption Commission, in promoting good governance and combating corruption. In September 2025 these two agencies announced the launch of a joint strategy to combat key vectors of corruption. As corruption associated with elite capture of the Libyan state is often international in nature, partnerships between Libyan oversight bodies and investigators in other countries could strengthen anti-corruption efforts. Internationally supported enforcement could also constrain the behaviour of Libyan elites, many of whose members have developed a sense of impunity over their economic activities. Violations of Libyan and international laws could be addressed via criminal justice mechanisms within Libya but also in other jurisdictions given the international nature of some of the activities.

Within Libya, the establishment of clear 'rules of the game' through the economic track would provide a mechanism for stronger anti-corruption measures. Sanctions issued by external states should be on the table as a possible punishment for individuals who are profiteering from Libya's governance chaos. The UN Security Council's sanctioning of an armed group commander, Ibrahim Jadhraan, in 2018 for economic damage to the Libyan state is a helpful precedent in this regard.⁸⁵

5. Public diplomacy

Finally, for these efforts to be successful, the UN and its partners must engage the Libyan public. Ordinary Libyans have long been excluded from discussions over the future of the country. Successful engagement on the economic track, and on the political track for that matter, must mobilize public support by explaining the goals of the initiative and building momentum through expansive public diplomacy. The UN and its international partners can help with this process, capitalizing on previous efforts such as the ESCWA-led socio-economic dialogue and the ongoing attempts of the Libyan Peace Makers group.

⁸⁵ United Nations Security Council (2018), 'IBRAHIM SAEED SALIM JADHRAN', 11 September 2018, <https://main.un.org/securitycouncil/en/sanctions/1970/materials/summaries/individual/ibrahim-saeed-salim-jadhran>.

Last word: No option but to continue trying

There are many reasons why the suggestions in this paper for the development of an economic track, in conjunction with a wider political process, may fail. As noted, support from external states for a negotiated settlement to Libya's ongoing conflict has waned considerably in recent years, with a number of countries focusing on building their political capital with existing office-holders to serve geopolitical and/or economic agendas. The UN's credibility has also suffered following repeated failures of its mediation attempts. However, this does not diminish the necessity of reaching a settlement.

Libya's current trajectory is one of elite consolidation over the control of state resources, and of escalating misuse of state funds. This is depleting the remaining capacities of state institutions, and perpetuating a level of public spending that cannot be sustained. Any outbreak of substantial conflict, or a significant fall in global oil prices, threatens to worsen the economic situation. Moreover, the problems of rent-seeking and economic predation associated with Libya's current governance arrangements have left the country unequipped to tackle the challenges of the future in relation to the renewable energy transition, climate change and sustainable development. Foreign states that are building their relationships and influence within this system can only be assured of short-term returns. A more robust state would offer a much-improved partner for Libyan's foreign interlocutors.

About the author

Tim Eaton is a senior research fellow in the Middle East and North Africa Programme at Chatham House. His research focuses on the political economy of conflict in the Middle East and North Africa (MENA) region, and on the political economy of the Libyan conflict in particular.

Tim was the lead author of a 2019 Chatham House report, *Conflict Economies in the Middle East and North Africa*, which developed a comparative framework for understanding conflict economies in Iraq, Libya, Syria and Yemen, and for developing targeted policies to reduce economic drivers of conflict. The report was selected as one of the leading papers in the University of Pennsylvania's 2020 Go-To Think Tank Index.

Tim has engaged extensively with Western policymakers in the development of their policies in the MENA region. His research on the Libyan conflict has seen him work with UNSMIL and other stakeholders to develop an economic track of political negotiations. He also leads the training of officers in political economy analysis at the UN Department of Peacebuilding and Political Affairs.

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Cover image: A teller serves customers at a bank in Misrata, Libya, on 25 August 2024.

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