THE LIBYAN BANKING SECTOR: A MICROCOSM OF GLOBAL ENDURING DISORDER

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Cover photo: A Libyan bank clerk counts cash at a bank in the capital Tripoli on Feb. 16, 2012. Photo by MAHMUD TURKIA/AFP via Getty Images.

Contents photo: Vehicles of the "Tripoli Brigade," a militia loyal to the U.N.-recognized Government of National Accord, parade through the Martyrs' Square in Tripoli on July 10, 2020. Photo by MAHMUD TURKIA/AFP via Getty Images.

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Summary

We no longer inhabit the post-Cold War era. There is no global hegemon unifying its allies to adopt consensus positions on issues of shared interest like climate change, tax havens, or the reconstruction of post-conflict states. This era of Global Enduring Disorder makes it particularly difficult for wealthy, geostrategically important post-conflict states to transition to stable governance as myriad external and internal conflict actors pull them in a range of directions, making real reform or peacebuilding nearly impossible. This leads to a situation where post-conflict states (such as the post-Arab Spring states) have inherited their dysfunctional economic institutions from the prior regimes without meaningful hegemonic supervision. Furthermore, a core feature of this new era is the rapid spread of media narratives stigmatizing various institutions or elites for participation in "conspiratorial" activities. Conspiracy theories and wars to control the narrative are not new. However, the ability of non-experts to spread their opinions and the sheer amounts of misinformation constitute a quantitively and qualitatively new phenomenon.

All of these core dynamics are at play in Libya's post-Gadhafi transition. In fact, it may be the first theater in which *all of the relevant dynamics of the Enduring Disorder initially came together*. In this paper, we investigate the ongoing Libya conflict through the Enduring Disorder paradigm focusing on the financial and banking sectors, honing in on stakeholder perceptions of the Central Bank of Libya (CBL), its transparency/opacity, and the "narrative wars" over who is to blame for, and who benefits from, Libya's economic dysfunction, the lack of an annual budget, and the current lack of a quorum on the CBL board.

This paper concludes with policy recommendations. The international community shouldn't get lost in debates around elections and new interim governments. Fixing the CBL's irregular board structure and bifurcation is crucial to solving the narrative war around Libya's finances, yet it is not possible without intermediate steps towards reform. On Feb. 5, 2023, the regional spokesman for the U.S. Department of State, Samuel Warburg, said that the U.S.'s current priority in Libya is to "achieve Libyan aspirations to have a transparent management of oil revenues." As such, we advocate for the U.S. to lead international efforts pushing for transparency and international best practices to be brought to Libya's finances. The Enduring Disorder is here to stay. Misinformation, disinformation, and narrative wars prevail on most complex and divisive issues of our day. Policymakers need to take this into account as they devise new interventions to mitigate the disorder and isolate sensitive and essential institutions, like the CBL, from larger conflict dynamics, by promoting transparency and best practices.

Key Points

- The CBL is at the center of a range of outlandish conspiracy theories about the underlying causes of Libya's ongoing conflict. We found that the bank has used the misinformation against it as an excuse to not initiate genuine reforms, but rather to undertake "window dressing" measures to allay critics.

- Most Western policymakers we spoke to cited the reunification of the CBL as a paramount concern, yet among businesspeople the security situation and the lack of trusted contacts, not the lack of structural reforms or reunification, remains the main impediment to doing business in Libya.

- We propose quick wins to disentangle technical matters from media optics, while better informing Libyans and Libya-watchers about the actual state of Libya's finances, hence blunting the potential impact of misinformation. We counsel a "follow the money" approach: Western officials should not get lost in the media debates concerning the constitutional basis for elections. In reality, the root causes of most status quo attempts to block political progress are financial opacity and corruption.

- The Biden administration has recently taken steps indicating that it will continue its efforts to bring transparency and accountability to Libya's finances, while simultaneously confining itself to the margins of the Libyan elections debate — allowing the U.N. to call the shots on that file. We applaud this approach and advocate for American policymakers to use carrots and serious sticks in their push for transparency and accountability in Libya's banking sector.

Methodology

We interviewed no fewer than 30 policymakers, economists, journalists, and businesspeople from six countries over the last 18 months. Jason Pack has undertaken two research trips to Libya and has had five one-on-one conversations with the CBL Governor Sadiq al-Kabir and high-level CBL team members. Stefano Marcuzzi has spoken to many continental European officials and businesspeople. This approach has allowed us to disentangle the physical/structural/political battle over Libya's finances from the separate media/narrative one. We have sought to understand how both struggles are discrete from each other, while both simultaneously are connected to the prevailing Global Enduring Disorder. We conclude the report by suggesting how smart policymaking can disentangle the two separate struggles, making genuine solutions more palatable and more implementable.

Now for a caveat lector: this report is *not a technical economics paper about Libya's finances or a legal exploration of mandate of the CBL*. We do not present technical figures about reserves, deficits, eastern commercial bank debt, balance sheets of the eastern and western CBL, or budgetary shortfalls, nor do we seek to dissect specific Libyan laws and explain the precise competencies of the Central Bank as opposed to the Audit Bureau (AB) when it comes to oversight of the financial sectors. Although such a technical paper would be an interesting contribution to the scholarship, we feel that perceptions and narratives are what drives the big-picture conflict dynamics over Libya's banking sector. Hence, this is a humanities research paper and not a technical social science one. *We have sought to conduct a reputational analysis of the Libyan banking sector using a due-diligence methodology and to place the narrative and reputational war surrounding the CBL in the widest possible context.*

Introduction: Narrative Wars, Misinformation, and the Battle over the Libyan Banking Sector

The banking sector is crucial to Libya's conflict economy and how the CBL's core operational procedures facilitate the continuation of the ongoing low-grade civil war and incentivize many parties to maintain the status quo. The CBL is also essential to doing business in Libya and making sure Libyans have basic services from electricity to infrastructure to food imports to drinking water. Simply put, the Central Bank conducts its legally mandated functions in the economy. It may also do a lot more than that. The CBL implicitly continues the Gadhafian indirect rentier tradition of funding all sides of Libya's conflict economy and underwriting the subsidy system on which it is based. It is also the key portal through which most foreign businesses interact with Libya, even if they are not in banking. Foreign actors like Turkey, Russia, the Gulf states, the U.S., and the European Union (EU) have core equities in how the Libyan banking sector operates. Companies within those countries are also all owed money by various Libyan entities and their hopes of recovering those debts or backpayments depend on CBL actions.

At the same time, the CBL is also at the center of a range of outlandish conspiracy theories about the underlying causes of Libya's conflicts. Various conflict actors wish to blame most injustices on CBL policy and Governor Kabir, in a similar way that QAnon supporters wish to blame a cosmopolitan elite and Hillary Clinton for all that is wrong in America and the world. These are both disinformation campaigns built upon deliberate misinformation and conspiratorial thinking. This is not to say that a cosmopolitan elite in America is not indirectly benefiting from certain advantages of neoliberal economic policies or that CBL policy does not implicitly favor certain Libyan social segments over others. All successful conspiracies are built around a tiny grain of truth. But on the whole, conspiracy theories painting the CBL as the puppet masters and ultimate beneficiaries of Libya's conflict economy are an exaggeration and vast oversimplification. The CBL largely carries out its legal mandate and functions with the woefully poor transparency standards common among Libyan institutions. It may also go beyond its legal remit, but it is impossible for even the most knowledgeable outsiders to determine this. At present, the CBL board lacks a legal quorum due to resignations and backroom deals. This unsustainable situation is likely to persist for some time as new board members can only be appointed as part of a broad consensus between the House of Representatives (HoR) and the High State Council (HSC). Achieving such a consensus would be as easy, or as difficult, as agreeing upon electoral procedures or a constitution for Libya. As a result, the disorder is likely to endure and deepen.

None of the Libyan and Western stakeholders we talked to could point to any conclusive evidence that the CBL is directly involved in corruption. Many pointed to incidents when CBL statements and actions indicated an overstepping of its mandate or the expressing of political partisanship. Yet for the businesspeople and policymakers we spoke to, that remains a far cry from financial malfeasance of the sort that "is frequently alleged and rarely if ever demonstrated." The academic, journalistic, and think tank community we spoke to demonstrated an interest in the particularly damning AB report of 2016 and the 2021 Global Witness report "Discredited," which allege corruption in letters of credit allocations, but we found these reports had very limited cut through with businesspeople and policymakers as their "allegations" were simply understood as being part of a larger narrative war and not viewed as conclusive in any way. These differences in perception are a critical part of the ongoing narrative war and they allow for a false equivalency that enables eastern Libyan attempts to "penetrate" the banking sector via coerced personnel resignations and backroom deals. In November 2022, HoR Chairman Aguila Saleh and Khalifa Hifter's inner circle sacked Ali al-Hibri, the deputy CBL governor and parallel eastern CBL head, for not releasing a budget to the HoR, coerced resignations from eastern CBL board members, and sought to siphon funds from eastern commercial banks. These are real-world outcomes of the narrative war. At present, without a functioning board the CBL cannot legally undertake its core function of providing liquidity to the economy, yet it is continuing to do just that. Therefore, its governor finds himself hamstrung by a conspiracy hatched against him. Just as happened on Jan. 6, 2021 in the U.S., when Congress and the Electoral College were lampooned in social media and misinformation reigns supreme, it becomes far easier for opponents to ignore laws and manipulate norms to attack it.

Despite the CBL largely being on the defensive in the narrative war, we have found that the bank has used the misinformation against it as an excuse to not initiate genuine reforms or major transparency initiatives, but rather to undertake "window dressing" measures to allay critics. These "media reforms" help the CBL and its allies counter the narrative war against it, while not fundamentally changing matters. Had the CBL established more regular board meetings and governance practices it might not now find itself in the current situation. In this, the CBL is no different from other Libyan actors and institutions that, when attacked for corruption or blocking elections, simply try to "play ball" with reforms or elections while fundamentally doing very little to change actual dynamics. As a result many Libyan institutions and key decision makers find themselves hamstrung by spoilers. The dynamics of the Enduring Disorder make genuine reforms nearly impossible until the narrative war is disentangled from the actual technical, legal, and political challenges.

Given how narratives of reforms have frequently obscured the lack of implementation of actual solutions, we conclude the paper by proposing a series of genuine reforms that are calculated with the complexities of our era in mind. They serve to fight misinformation, promote transparency, and defend technocracy, so as to remove Libya's financial and banking sector from the maelstrom of conflict that has engulfed the country and the international system.

Part 1) Setting the Stage for a Story of Banking Dysfunction: The Inscrutability and Semi-sovereignty of Libya's Banking Sector

This section seeks to provide a brief summary, drawing on previous work,[1] of how the conditions of the Global Enduring Disorder and the post-Gadhafi transition facilitated the CBL becoming Libya's most powerful semi-sovereign institution and why it is a "black box" beyond governmental scrutiny/ regulation.

The Gadhafi regime was toppled as the Global Enduring Disorder came into full swing. This had various implications: 1) Allied countries' policies towards post-Gadhafi Libya were poorly coordinated — France and Italy taking opposite sides in the post-2014 Wars for Post-Gadhafi Succession is a case in point; 2) non-transparent financial transactions and misinformation flowed seamlessly in and out of Libya; 3) rival actors that nonetheless could have cultivated certain shared interests in Libya — such as Turkey/Egypt, Russia/the U.S., Qatar/the UAE — chose to extend their global struggles into the new post-conflict vacuum rather than coordinating on shared interests; 4) another less known dynamic is the extent to which post-Gadhafian Libyan leaders as well as international actors prioritized political state-building over economic reform, misunderstanding Libya's conflict economy as a symptom of its state-implosion rather than one of its driving factors.

The Libyan economy remains the most poorly understood aspect of the country and its ongoing civil war. It is also highly dissimilar to other Middle Eastern oil states. Gadhafian economic structures, similar to those of the Soviet Union or Omar al-Bashir's Sudan, were not "inefficient" when judged against their actual goals. They were not created to produce profit and avoid loss. They were constructed to maintain political control, avoid scrutiny, facilitate the flow of corrupt money into and out of the international financial system, and convert their counterparties into advocates for the status quo — tasks in which they performed admirably. These perverse structures were bequeathed *en masse* to the post-Gadhafian state without meaningful reform. Only global collective action to adjudicate competing claimants could ever have succeeded in improving the situation, yet the Enduring Disorder inhibits that form of coherent collective action from getting started. As a result, Libya remains trapped with its Gadhafian legacy institutions and the ensuing proxy conflict, because major corporations, governments, and international institutions lack the coordination mechanisms to work with pioneering Libyan reformers to devise and implement something better.

During the 2011 Uprisings, no consensus existed among either the fighters or the political leaders as to the economic system that should be implemented post-Gadhafi. It should therefore come as no surprise that when Tripoli fell in August of that year and the Temporary Constitutional Declaration was issued earlier that same month, it did not directly address Libya's economic institutions. Similarly, the topic was not extensively discussed or legislated by post-Gadhafi Libya's first authority, the unelected National Transitional Council (NTC), or by its first elected body, the General National Congress (GNC). This

1. This section contains extended modified excerpts from Chapter 4, "Libya vs the Global Economy," Jason Pack, Libya and the Global Enduring Disorder (Hurst/ Oxford University Press 2021); Jason Pack, "It's the Economy Stupid: How Libya's Civil War Is Rooted in Its Economic Structures," (IAI, 2019); and Jason Pack, "The UN deliberately (albeit mistakenly) accorded sovereignty to post-Gadhafi Libya's economic institutions," (Middle East Institute), September 26, 2019.

behavior was justified at the time by the fact that first the NTC, then the GNC, and later the elected HoR and U.N.-appointed Government of National Accord (GNA) understood themselves as transitional governance authorities and lacked either unfettered sovereignty or domestic legitimacy.

Amidst this vacuum of legitimacy, they wished to remain in the good graces of the populace who had shed blood allowing them to come to power. Therefore, the new authorities resorted to appeasement: putting militias on the government payroll, more than doubling state salaries, increasing subsidies on consumer goods, and creating new semi-independent institutions, such as the Warriors Affairs Commission, to dispense billions of dollars in an attempt to purchase the loyalty of the most potentially disruptive segments of the population. These payments were routed through the Central Bank and required many Libyan men to be added to its payrolls. Hence, for many Libyans after the fall of Gadhafi, the Libyan social contract entails the state providing their economic livelihood in exchange for political quiescence via an indirect rentier model. Given that vision of a social contract, pre-existing economic institutions — such as the CBL, the General Electric Company of Libya (GECOL), and the National Oil Company (NOC) — whose ostensible roles were to help the Libyan populace by wiring money, generating electricity, or producing oil, had a greater degree of legitimacy than the new political bodies, which were not overseen by a constitution and whose electoral legitimacy or governance mandate was frequently challenged.

As a result of the political vacuum, the alphabet soup of Libya's economic institutions saw their degrees of sovereignty and independence increase over the course of the post-Gadhafi period. Libya's political class has neither the authority nor the competence to police, or sometimes even understand, their activities. In effect, these institutions have had no genuine domestic oversight and no effective way for government to control or even monitor their actions, or replace their leaderships. This is a situation in which Libya's Central Bank is its most powerful institution, able to hold and move money in whatever ways it sees fit.

It is illegal to wire dinars outside of Libya and forbidden to pay employees inside Libya in non-dinar currencies. Internally, salaries cannot be paid and government budgets doled out except through Central Bank lump-sum transfers. All money that flows through the Libyan economy passes through the Central Bank. This raises the interlocked questions: Who regulates and supervises the CBL? What governmental entities define its policy objectives? Who sees that its technical competencies improve or that it adopts international best practices or that it polices suspect transactions? The CBL's extensive legal mandate grants it a de facto monopoly over foreign exchange. As such, money cannot flow in and out of Libya without passing through the Central Bank. This point was vividly illustrated by a Libyan legal expert we spoke with: "There is no unified procedure for repatriating profits from Libya from joint venture companies or branch offices of foreign firms. Contracts and payments, yes ... but there is total opacity about how to handle things like moving your local company's profits out of Libya, so the only way to do it is through cultivating a close relationship with the management of the Central Bank." The bank's wide remit and perception of vast discretionary powers is part of the reason it is fought over so extensively. Clearly, future reforms to the bank's mandate and discretionary powers could help alleviate some of the drivers of the narrative and physical wars over the bank.

The CBL is thought of by many interviewed for this report as an omnipotent black box, Libya's most powerful, yet most opaque institution. Paradoxically, international law has combined with the prevailing conditions of the Enduring Disorder to further this situation and this perception. The semi-sovereignty of Libya's institutions was not much affected by the 2014-15 First War for Post-Gadhafi Succession. In fact, international community actions ring-fenced Libya's institutions, particularly the Central Bank and NOC, from the fighting, further increasing their semi-sovereignty even though the leaderships of those institutions were contested as Libya's governance bifurcated into rival eastern and western claimants (associated with the HoR and the GNC/GNA, respectively).

The Dec. 17, 2015 Skhirat Agreement refers to the CBL as a sovereign institution. The central banks of other countries are not traditionally thought of as possessing sovereignty even if they are legally independent. This conception might be because the CBL owns the vast majority of the banking sector and as such its influence over finance and banking in Libya is potentially greater than that of any other central bank. Annex 5 of the treaty reads, "Libya's sovereign institutions play an essential role in upholding the long-term interests of the Libyan people. The Government of National Accord will safeguard the Central Bank of Libya ... and other independent institutions and will ensure

Photo above: The offices of the Central Bank of Libya in Tripoli on Oct. 18, 2010. Photo by Weisserstier via Flickr, licensed under the terms of Creative Commons 2.0.

that these institutions are permitted to fulfil their recognized role of safeguarding Libya's resources for the benefit of all Libyans." Rather than appointing the government to supervise the bank, the treaty calls upon the government to protect it from political oversight or interference. The bank's "recognized role" is not further spelled out in the document; therefore, the agreement appears to simply enshrine Gadhafian legal precedents about various economic institutions as permanent and immutable for both the international community and Libya.

Part 2) Enter Hifter, Trump, and Twitter: The Struggle for Reunification and Transparency

Due to its semi-sovereignty, opacity, and critical importance to the post-Gadhafi economy, the CBL has become central to the narrative wars waged by various conflict actors, especially Turkey, France, the Gulf states, and Russia. In this section, we examine the steps taken toward reunification and greater transparency, the key role and proposals of the U.S. and the broader international community, and how the whole process got bogged down by competing conflict narratives and dynamics emanating from the Enduring Disorder.

The role of the CBL in Libya's economic and political life was a key — though often overlooked — driver of the April 2019-June 2020 war for Tripoli. Much of Hifter's rhetoric involved claims that he would take over the CBL and change how Libya's wealth was distributed. Even though he lost the war, the post-war settlement, hashed out through the U.N. and various mediated east-west meetings, such as the Ras Lanuf summit, required the CBL to 1) assume the debt of the eastern commercial banks, but also to 2) reunify and reform itself. It is unclear if the first point has happened. Yet even agreeing to it in principle sets quite a precedent — arguably a first in world history, where the winning side of a civil war has agreed to pay off the debts of the losing side, considering the rebels' military expenses as legitimate government expenditure. The second point rests in an even more ambiguous state. Rather, 2021 and 2022 have witnessed the veneer of reforms, audits, and reunification with various vague pronouncements. A range of conflict actors have presented the international community with a fig leaf of banking reforms, just as the 2021 electoral process was a complex act of multifaceted window dressing — designed by multiple conflict actors to mask that the underlying power realities were not in fact changing.

During the Tripoli war, the CBL had paid the salaries of armed groups on both sides — considering them legitimate government expenditures, just as it had during the 2014-15 civil war. But this time — in the absence of an approved national budget — the bank directly funded the GNA above and beyond its prior spending commitments via a vague reference in the Skhirat Agreement about extraordinary "financial arrangements."

In addition to its close government ties, the CBL was allegedly connected to three other entities: 1) Certain global PR and lobbying firms hired by the GNA but paid for, and utilized, by the CBL (Mercury LLC and others); 2) Tripolitanian armed groups like the Nawasi or Rada that at different times have controlled the territory that the CBL building is located on and intimidated CBL staff, leading to accommodation of their demands; 3) Islamist-aligned political figures in Misrata and Khums, which, according to myriad rumors in the anti-Islamist milieu, were closely tied to the Central Bank governor. Given the preexistence of these networks connecting CBL staff to compromised actors and the widespread belief that access to country's wealth was being distributed via preferential access to letters of credit, removing Kabir and taking control of the CBL in Tripoli was a key propaganda driver and possibly even a genuine motivating factor for Hifter's failed assault on Tripoli in 2019-20. The underlying causes of the war are rooted in Russian, Emirati, Saudi, and Trumpian desires to see the ascendence of anti-Islamist strongman and the inability of Western democracies to coordinate consensus solutions.

Although CBL reform was merely a faux *casus belli* for pro-Libyan National Army (LNA) social media, previous oil blockades in 2018 had actually been resolved via U.N. mediation with the promise of a CBL audit. Therefore, in the wake of the Tripoli war, when a new roadmap to national elections and constitutional transition was discussed in the Libyan Political Dialogue Forum (LPDF) in autumn 2020, the reunification and reform of the western and eastern central banks was presented in the Economic Working Group, which is a follow-up committee from the Berlin process, as a necessary condition for sustained peacemaking. However, progress on this front has been glacial. Much of the politics of our current era is a battle over narrative. In Libya, the battle over the CBL is no different.

In late 2021, as a condition for the ceasefire to hold, Kabir and Ali al-Hibri, then head of the CBL's eastern branch, agreed on a four-stage plan to move forward with the unification of the two central banks, detailing the plan during a subsequent meeting in Tunis on Jan. 20, 2022. Western players, particularly the U.S. and the U.K., gave strong support to the initiative, as evidenced by a number of official contacts between the U.S. Ambassador to Libya Richard Norland, the U.S. Deputy Assistant Secretary of the Treasury Eric Meyer, the U.K. Ambassador to Libya Caroline Hurndall, and Kabir and Hibri throughout February. However, the plan was largely part of an attempt to control the narrative rather than unify the bank. Connected to this process was the Deloitte audit of the CBL and the separately contracted and paid for Deloitte reunification project. The big four auditing firms had all previously declined the opportunity to audit the bank and according to knowledgeable sources Deloitte's efforts have been based entirely on figures that the CBL has provided. In short, the audit has not been forensic but rather about narrative making. An expert we spoke to postulated that "the U.N. calculated that the audit was best utilized as a route to reunification rather than accountability." By putting the cart before the horse, it has delivered neither.

However, by the end of March, even the narrative making process had slowed down. Kabir came under pressure from actors in Tripolitania who opposed the unification of the banking sector because it would cause the western CBL to shoulder significant debts incurred by the eastern branch during Hifter's Tripoli campaign. On Feb. 21, Abd al-Salam al-Safrani, the leader of the Muslim Brotherhood-aligned Justice and Construction Party collective within the HSC, generally considered to be allies of the CBL, even called for Kabir's removal. At the same time, Kabir overtly supported the new Government of National Unity (GNU) Prime Minister Abdul Hamid Dbeibah and devised ways around the 1/12th

budget agreement to fund numerous of Dbeibah's populist policies (like marriage grants and the restarting of construction projects) designed to channel financial incentives to his supporters. Cyrenaican players once again lamented Kabir's "partisan attitude," and a desire for a change in the leadership of the CBL was central in the negotiations and agreements between Libyan and foreign actors challenging the legitimacy of Dbeibah's government after the failed December 2021 elections and supporting the formation of the Government of National Stability (GNS), to be led by former GNA Interior Minister Fathi Bashagha. Bashagha has been an outspoken critic of Kabir, although, interestingly, he and Kabir had worked together quite seamlessly when Bashagha was interior minister during the GNA.

To prevent the CBL reunification process from entirely losing momentum, Amb. Norland proposed a mechanism to stop Libya's political crisis from spilling over into economic warfare that would deprive Libyans of salaries, subsidized goods, and state investment — as well as hitting global energy markets. Norland dubbed it the Mechanism for Short Term Financial, Economic and Energy Dependability, or Mustafeed — which in Arabic means "beneficiary" and "breadwinner." On June 6, 2022, the U.S. ambassador detailed his plan at the Economic Working Group on Libya. He envisaged a so-called "Libya Special Committee for Oversight" (LSCO) that would provide oversight of Libyan finances and ensure NOC revenues are distributed transparently and that critical public needs were prioritized (salaries, critical infrastructure maintenance, medical services, etc.). LSCO would be managed by a private independent audit firm and a selection of representatives of Libyan authorities.[2] However, the Mustafeed concept was opposed by U.S. allies, especially Egypt, and the lack of unanimity in the international community allowed Libyan actors to waylay the idea.

Norland acknowledged that it would be up to Libyan stakeholders to decide whether this mechanism should be implemented, but insisted that there were compelling reasons for leaders in Libya to ensure that oil revenues benefit the Libyan people — and do so in a transparent fashion that builds social trust. This view was indirectly supported by then Special Advisor to the Secretary-General Stephanie Williams. However, just as with previous proposals for an international financial commission, many key Libyan stakeholders — the status quo parties — felt that a lack of transparency and the overall conditions of the Global Enduring Disorder allow them to continue in their roles indefinitely and with their patronage networks intact, while too much transparency would likely damage their sinecures.

Grasping that transparency is the key to solving the intertwined Libyan financial and political conflicts, to complement this proposed financial mechanism the U.S. also pushed to increase transparency within the CBL at a more operational and technical level, and assisted in refining the Annual Monetary Plan for 2022. Over the course of 2022, more meetings followed between Kabir and Hibri, often under the auspices of the U.S. embassy, which fostered the transferring of cash funds to the eastern CBL to be disbursed to all the commercial banks in Cyrenaica, and the release of the first CBL Extraordinary Annual Report — a document produced jointly by the Tripoli- and eastern-based branches of the CBL. This unsurprisingly contained little useful information and is available only in Arabic.

Despite the U.S.'s best intentions to craft an inclusive process, Dbeibah's opponents flat out refused to work with Mustafeed because the process involved dealing with the GNU. The U.S. remains committed to pushing the Mustafeed mechanism or related economic approaches. On Feb. 5, 2023, the regional spokesman for the U.S. Department of State, Samuel Warburg, said that the U.S.'s current priority in Libya is to "achieve Libyan aspirations to have a transparent management of oil revenues." While the U.S. undoubtedly has an interest in securing the transparent management of oil revenues and budgets in Libya — both as a way to secure greater stability in Libya and to ensure Russia is not benefitting from the sector — there is little to suggest that there has been any major shift in approach or a significant increase in political capital being thrown at it by Washington. As a result, there is unlikely to be much progress towards establishing such a mechanism, especially while the broader political process remains so opaque, and the U.S. is only minimally involved on the Libya file at present. As such, Warburg's statement can be interpreted as showing that the U.S. will be confining itself to the margins of the Libyan elections debate and allowing the U.N. to call the shots and generate political will on that file.

Opponents of the American approach have successfully articulated a narrative that "the exclusion of GNS representatives

2. Mustafeed has certain elements in common with "An International Financial Commission is Libya's Last Hope," Middle East Institute, Policy Paper, January 2020.

Photo above: Aguila Saleh Issa (C), speaker of the Tobruk-based Libyan House of Representatives, meets with Ali al-Hibri (L), then governor of the parallel eastern Central Bank of Libya, in Benghazi on Dec. 6, 2020. Photo by ABDULLAH DOMA/AFP via Getty Images.

from the proposed LSCO raised doubts in Cyrenaica that the LSCO could satisfy the grievances of that region." The NOC decision to transfer $8 billion of oil revenues from its Libyan Foreign Bank account to the CBL in mid-April, in return for the GNU agreeing to disburse 34 billion LYD in emergency funding for the oil sector, triggered further accusations that the NOC and CBL were politicized in favor of the GNU. This, however, is itself a biased way of looking at the problem, inasmuch as the CBL and NOC were working with the legitimate government to source funding for the energy sector, albeit through non-transparent means. They have mostly done what they needed to do to keep oil flowing, while other actors have sought to turn the oil off to grab headlines and engage in blackmail.

In early July 2022, HoR Speaker Aguila Saleh unilaterally attempted to appoint Hibri as the "head" of the whole CBL, while conflict also resumed between the bank's two branches over fund allocations, with the eastern CBL warning that it would be forced to resume printing its own Libyan dinars if Tripoli does not provide it with further liquidity. These events fueled greater mutual mistrust and recriminations. On July 17, Hibri issued an official communication — co-signed by the chairman of the Administrative Control Authority (ACA) appointed by the HoR, Abdussalam al-Hassi, and the head of the AB in al-Bayda, Omar Abd Rabbu — which rejected the U.S.-proposed financial mechanism, deeming it "disrespectful of Libya's sovereignty." Despite repeated attempts by Norland to revitalize talks throughout August and September, efforts to establish a more neutral oversight of the management of Libyan revenues and reunify the banking system appear to have become irrevocably bogged down, as other internationals have not supported the process, while inside Libya each side has scrambled to blame the other and control the narrative.

This is an exact repeat of what happened over the slated December 2021 elections: No conflict actor wished to be the first to announce publicly that elections would not be happening and each sought to spin the failure as a result of his opponents' actions. Myriad conspiracy theories abound on Libyan Facebook pages about the role of the CBL and its leadership in prolonging and benefiting from the ongoing political conflict and bifurcation of institutions. The narrative war of "rival banks" forces internationals to meet with Hibri and to treat him as a major player and almost a co-equal to Kabir when he clearly is not. Similar dynamics played out with Hifter from 2016-19 when he leveraged official meetings with European officials for increased international standing, which he later used to further destabilize Libya.

In late November 2022, the HoR decided to sack Hibri and appoint Marai al-Barassi to replace him, both as the head of the eastern CBL and as deputy governor of the whole Central Bank. Barassi is a banker who has held many senior posts in the past, including chairman of al-Wahda Bank in Derna, and is considered very close to Gen. Hifter's clan of supporters. He stands accused of funneling funds to Saddam Hifter.

The scandal that is said to have brought Hibri down does not so much relate to his plans to revalue the dinar or the illicit Russian-printed dinars seized in Malta with his signature on them. His opponents say it has to do with embezzling funds from his role in the Derna and Benghazi Reconstruction Committee. Hibri says that it has to do with his failure to transfer to the HoR the 2022 budget that it passed for the rival-Bashagha government. This latter version is more credible, especially as no evidence has emerged of embezzlement from Reconstruction Committee funds.

Simultaneously to Hibri's ousting, rumors surfaced on social media that CBL board members Mohammed al-Mukhtar and Abdul Rahman Habil submitted their resignations to the office of the speaker of the HoR. This step was engineered by opponents of Kabir as it could legally lead to the dissolution of the CBL board, which currently lacks a quorum. Wishing to take control of the narrative, the CBL has responded by making more financial disclosures and publishing more information about annual expenditures and the letters of credit that it issues. It is also increasingly posting about its activities online and on Facebook and keeping the Libyan public up-to-date about issues like gold reserves and public sector salaries. There are some genuinely useful nuggets released in this manner; however, much of the more interesting information is published only in Arabic and in formats that are obscure and hard to cross-check or verify. That said, disclosures like the 2022 expenditure report released on Jan. 4, 2023, do appear to spark constructive debate about public sector inefficiency on Libya social media. They also allow the CBL to frame their new disclosures as an "important transparency initiative," even though they actually demonstrate how untransparent Libya's public expenditures really are and that a significant expansion in opaque public spending happened from 2021 to 2022.

This current impasse is the logical conclusion of the Enduring Disorder playing out against the CBL. At present, the governor fears that any of his actions will be criticized as illegal by Libya's AB or legal supervisory bodies. In the first week of January 2023, the ACA did just that, as it requested a freeze of all banking sector transactions until the HoR approved a budget for the 2023 fiscal year. As such, there are optics challenges from partisan bodies like the ACA for CBL spending on anything beyond salaries. Despite these challenges, at the time of writing it seems that normal approval procedures for letters of credit are continuing and that expenditures in 2023 are set to increase to new heights.

Towards the end of January, it was revealed that HoR Speaker Aguila Saleh had issued a decision requesting Kabir to authorize the disbursement of a 6 billion LYD loan to the GNS for the LNA General Command. However, it seems highly unlikely that Kabir will agree to disburse such a loan to eastern Libya outside of the CBL reunification process, even as part of a broader economic deal.

The Libyan banking sector is clearly beset by myriad paradoxes. The private banking sector has grown ten-fold in the last five years while the public banking sector appears to be stymied and sclerotic, yet its transparency about spending has an optic of improving, while actual opaque public spending is occurring at unprecedented levels.

The forces of disorder and corruption win so long as there is a brutal narrative war over who gets to control Libya's economy. At the time of publication, progress on the proposed reunification of the CBL has stalled and there is no movement over appointing new board members. The emergence of a renewed governance divide and ongoing disputes over the state budget serve as indications that the eastern authorities will seek to generate and spend funds directly. It is evident that both lending and the printing of banknotes have resumed in the east; however, the degree to which they are in circulation remains unknown. The fact that Hibri was removed and replaced with a bank executive known for his closeness to Saddam Hifter indicates that the funding taps are about to be turned back on and that illicit money is likely to start flowing into eastern coffers.

Rumors and misinformation campaigns alongside genuine personnel reshuffling will only contribute to further division and polarization over the role of the CBL. Kabir has previously headed off more threatening challenges and he is truly indispensable to various international actors, like the United States Treasury Department and the IMF, which seek to prevent the collapse of the entire Libyan financial system and to guarantee that they have legitimate interlocutors with whom to parley. Hence, the grand sum totality of these moves does not necessarily weaken Kabir's position, even as they perilously weaken the entire banking sector. At the time of writing, the only man recognized by Kabir as his deputy (Hibri) has now been dismissed and Kabir lacks working relationships with his other board members and deputies. Even his relationship with his erstwhile protégé, Tarik Youssef, is said to have frayed. Amidst this uncertainty over Hibri's alleged corruption regarding the reconstruction of Derna and Benghazi, it is possible that his two pledges from 2020 will come undone — namely for the eastern CBL and LNA to stop taking unauthorized loans from commercial banks and stop importing Russian-printed banknotes.

In short, a media war continues over control of Libya's banking sector that has spilled over into a political battle tangential to the battle over elections and a new interim government. Western Libyan "official" institutions have continued to control Libya's finances in a non-transparent way, while eastern "parallel" institutions have claimed that they have a right to be included in decision-making processes as if they were representatives of legitimate national institutions, which they are not. This dynamic has allowed eastern Libyan power players like the Hifter clan and Aguila Saleh to manipulate eastern CBL personnel and procedures to extract funds. Meanwhile, the narrative war over control of the bank extends to how the "reunification process" is being presented to the world. Negotiations take place behind closed doors and then the various sides of the conflict provide "spin" over who is doing what and who is to blame for the lack of progress.

This situation has come therefore to increasingly mirror the dysfunction in Libya's institutions prior to the Skhirat Agreement establishing the GNA — and in fact, it illustrates the dynamics of the Enduring Disorder writ large. Although cooperation would be in all sides' best interests, foreign meddling, a lack of international and domestic consensus, and a desire to score points in the media by blaming one's opponents for a conspiracy have inhibited all progress on reunification.

Part 3) The Cost of Bifurcation and Opacity: Business and Politics in a Divided Libya

This section partially examines the technical consequences of the lasting CBL division, but primarily probes perceptions of major international stakeholders concerning the bifurcation. This analysis confirms that the CBL is at the epicenter of interlocking narrative wars not only inside Libya but also among international actors. These narrative wars obscure the actual technical issues that impede doing business with Libya and making its economy function more effectively.

External observers — including most analysts and policymakers — tend to consider the division between the western and eastern CBL as primarily a political issue. "It's a political fracture that has de facto become a technical one," said one Western official. The lack of transparency in the CBL, and especially in the reunification procedures, is acknowledged by most technical experts we spoke to as having a negative impact on Libya's economy.

Yet others, mostly in the Western business community, see it as having almost no practical implications for doing business as the Tripoli-based CBL functions as the country's finance ministry and Central Bank rolled into one, while the eastern bank does "very little other than try to obfuscate matters, block progress, and attempt illicit transactions" according to a knowledgeable American banker. This group of businesspeople consider the bifurcation of the bank as essentially a "reputational problem" and part of the media optics that make doing business in Libya difficult. They see it as "inevitable and unsurprising" that there would be profound misinformation about the banking sector circulating, as a virulent narrative war surrounds each major institution and impedes its proper functioning. This analysis essentially relates the divisions in the bank to the prevailing dynamics of the Global Enduring Disorder, where narrative mirages are cast by spoilers to divide their opponents and rally their supporters.

Most stakeholders outside of Libya are less clear about the practical implications (or lack thereof) in financial, structural, technical, and economic terms of the west-east banking divide. For companies interested in pursuing new business ventures in Libya, security, transparency, and the availability of contacts are the main issues to consider when contemplating investing. For them, CBL bifurcation is truly a mirage and not one of their leading concerns. Many stakeholders, such as a major French businessperson we spoke to, admit to "not understanding how the CBL functions." He also noted the lack of a legal framework and of an infrastructure network that could support "bankable" projects on the ground as essential to fostering foreign investment.

International stakeholders operating in Libya are much more aware of the negative practical implications of the stalled unification of the banking system than were the Western government policymakers we surveyed. In the words of a different French banker who had been influenced by what others would see as misinformation, "When you have two monitoring authorities, it is impossible to be credible and to apply a national fiscal policy. The result is a de facto double economic system, with two exchange rates, and diverging regulatory frameworks." An American government affairs professional who downplayed the importance of CBL bifurcation noted that, on the other hand, "the failure by the HoR to pass the GNU's budget has created real problems for U.S. businesses as they are uncertain how much money will be allocated to specific sectors and if their projects will ever get funded." Consequently, their firms are unable to plan ahead for their activities in Libya.

This uncertainty, which does not actually stem from CBL bifurcation but yet may be confused with it, is causing many businesses to reevaluate their commitment to Libya, as a perception exists that corporate income streams are "too unreliable to merit investing in the future," especially as elections hang in the air and "no one knows when they might ever occur." Furthermore, a European embassy official told us that the fact that years ago "the eastern CBL's Russian-printed dinars had intoxicated the Libyan economy and inflated the black market" presents the specter that this might happen again. A major European multinational operating in the country warned that a reunification of the banking sector is considered "essential for the delivery of ordinary services," including internal bank transactions. In its absence, it is "just impossible to defend our business decisions to our superiors." In this sense, the eastern CBL and its backers are happy to maintain profound ambiguity around CBL unification as the current situation helps deny investments to western Libya and the official institutions. It also harms their western counterparts by making it look like they are not in control of a national institution.

A European banker with direct experience in the sector pointed out that "the eastern Libyan commercial banks — especially the Libyan Development Bank in Benghazi — are stronger and more active than most people think." They also stressed that divisions exist between the CBL and some commercial banks, including from Tripolitania. The impact of this is reported to be huge: Entire banks can be paralyzed by vetoes from individuals on their board of directors who play a political game. "There is no professionalism, it is rather puzzling," commented one European interviewee. According to several Libyan businessmen, this has led to the spectacular rise of the private banking sector — "a sector that was less than 3% of all transactions five years ago has grown to achieve parity of transactions with the state-owned banking sector."

These problems of genuine inefficiency are aggravated by the fact that the CBL rarely inspects its subsidiary commercial banks — which leaves the CBL unsure about how the smaller banks (which it owns) operate, and in turn, it leaves Libyan commercial banks largely unchecked. Thus, according to another European businessperson with decades of experience in the Middle East, "In Libya, unlike elsewhere, nobody has even a glimmering of the activities in which a given bank is involved, until a scandal breaks out."

Major European banks also expressed concern to us over the decline in deposits in Libyan commercial banks, which proved detrimental because the local banks, which should finance or act as counterparties to most foreign medium-to-small-size investments in Libya, were the most affected by the ongoing liquidity crunch. Other banking interlocutors referenced the CBL's self-disclosures about the sector on its website as "completely useless" and presenting "cooked books."

A second set of problems for investors in Libya is connected to the CBL's opacity around its own governance and internal procedures. The bank is widely considered by our interviewees to be the personal fiefdom of Kabir, who has been in charge since 2011. Many stakeholders believe that knowing the "right people" is key to make business, and especially to gaining access to letters of credit. The CBL's perceived "partiality" is a significant obstacle to international companies from countries that have weaker ties with the Tripoli-based authorities, such as France. The bank's unclear internal procedures, and the lack of governance mechanisms generally associated with a central bank, such as audit committees, are also cited as limiting trust. Whether actual partiality exists or not, its perception is a crucial part of the media war waged by Kabir's detractors. Libyan businessmen we interviewed spoke of "marked improvements in efficiency and transparency, especially concerning letters of credit and backpayments," but acknowledged that this information is all in Arabic and does not change international perceptions.

A third set of problems is linked to what an Italian businessman called "daily technical faults" hampering the efficiency of the sector. While acknowledging that the CBL is the most efficient financial institution in Libya, stakeholders with direct experience in the region see it as falling well below average standards in the rest of the Middle East and North Africa. One southern European banking interviewee complained that, "If you go to Morocco, Tunisia, or Algeria, banks are precise like clocks. They have even adopted European methods for accounting financial activities. Libya is the exception."

This originates in the lack of a regulated bureaucratic banking culture and administrative competence dating back to the Gadhafi period, a problem further aggravated by the fact that certain skilled bureaucrats who had served under the old regime were replaced by inexperienced personnel after the Uprisings. The reliability of payments and services, including CBL letters of credit, are questioned by many international stakeholders. One of them described the process of selling goods to Libya as follows: "First, we alert our Libyan partner [intermediary]; second, he goes to his commercial bank; third, he asks for a CBL letter of credit; once that is confirmed, fourth, the shipment can happen. The bottleneck is between points 3 and 4, where there is a need for a service from the CBL." Although elements of the narrative war link this delay to the aforementioned CBL politicization, the interviewee considered it more likely to be the result of bureaucratic inefficiency. For companies not yet established in Libya, their search for a banking partner is "a nightmare," in the words of a separate European interviewee: "Most commercial banks have no balance sheets or they have outdated ones. You don't know who you can trust." This was acknowledged by the new chairman of the National Commercial Bank (NCB), Musbah Akkari, who on Sept. 14 publicly promised to improve services.

Among non-Libyan policymakers the apparently limited understanding of these dynamics has favored a personalization of the debate over the stalled process of unification and banking sector reform. This is where the narrative war massively obscures actual technical and political issues. There has been a tendency to center the analysis around Kabir, his personality, his responsibilities, and his future role in the sector. Yet it is unclear even to experts what his exact role in these processes is. Some foreign policymakers, especially in France, tend to see Kabir as epitomizing a broken status quo, and would like to see new interlocutors emerge from both the Libyan political and economic spheres. Such perceptions are supplemented by French officials' accusations of technical mismanagement of the CBL — namely that "Kabir keeps the CBL utterly inefficient to make himself indispensable" — and of misuse of oil revenues. This is quite different than the view we encountered among American policymakers and businesspeople, who see the CBL and the governor "as protecting Libya's wealth," or a prevailing pragmatic view we encountered in Italy that Kabir represents "a political status quo which is preferable to other possible alternatives."

Interestingly, while many international firms and domestic Libyan experts voiced concerns over Kabir's connection with Tripolitanian armed groups and considered his management of the CBL inefficient, none cited to us proof of wrongdoing, preferring to reference various allegations — another aspect of the narrative war. Other firms we spoke to, particularly in America, saw Kabir as a guarantee of institutional continuity and relative competence. Both groups, however, disliked the personalization of the debate surrounding the CBL: "In Libya there is too much talking of the person, and not enough discussion about the role and the rules, and about

Photo above: Sadiq al-Kabir, governor of Libya's central bank, during a Bloomberg Television interview in London, on Dec. 10, 2021. Photo by Jason Alden/Bloomberg via Getty Images.

improving the efficiency of the sector itself." In short, just like the politics surrounding Brexit or the MAGA movement in America, technical policy choices have simply exited the mainstream debate — replaced by personalization, accusation, and narrative wars. This seems to be a defining feature of the Global Enduring Disorder.

Part 4) Heading Forward: Can the Narrative War be Stopped? Can the Libyan Banking Sector be Reformed?

A final assessment of the situation and some policy recommendations.

Most Western policymakers we spoke to cited the reunification of the CBL as a paramount concern, yet among the businesspeople interviewed for this report the security situation and the lack of trusted contacts, not the lack of structural reforms or reunification, remains the main impediment to doing business in Libya. The narrative war and Enduring Disorder has obscured for most that transparency is the fundamental underlying issue for the banking sector, not reunification. Reunification appears to require that a complete political transition to a unified and constitutional governance occur. Reforms, however, can be implemented even as the period of seemingly endless interim governance continues. Therefore, the focus on reunification rather than reforms seems destined to fail just as the focus on elections prior to economic reforms did.

For too long, international policymakers have thought: We can't incentivize the reform of Libyan banking procedures while the sector is bifurcated, so the international community should focus on unification. But that logic needs to be turned on its head: Reunification cannot proceed while the CBL's actions remain so opaque, inefficient, and shrouded in a narrative war. Only once transparency is achieved and the narrative war disentangled from policymaking can reunification be achieved.

All groups we spoke to in our research, especially in the private sector, also considered that some improvements are desirable and possible even in the current state of political unrest. Below are some policy recommendations that our interlocutors mentioned that could be implemented in the short, medium, and long term, to promote sector efficiency and improve the prospect of economic and financial development. These recommendations are calculated to mitigate the ongoing narrative war that makes progress so difficult in Libya, despite its fundamentally enviable underlying financial situation. In fact, progress on reform could be made in certain instances with the stroke of a pen, the convening of a task force, the mustering of political will, or the embedding of empowered experts.

Short-term measures to be taken by the CBL:

- **Increase oversight.** Cooperate and share information with regulatory institutions. The CBL must share its internal accounts with the AB and ACA to increase overall oversight of commercial banks, including through more frequent inspections. This will decrease the likelihood of bank failures, reduce the spread of misinformation, and diffuse allegations of corruption.
- **Improve reliability of payments.** This is a serious concern for international companies. The CBL could produce streamlined "how to" information about letters of credit and backpayments, and send representatives to major international firms interested in Libya to foster better cooperation and rapid reaction in case of emergencies. Most bureaucratic payment delays over letters of credit have now been resolved, but those rooted in politics tend to become protracted as sitting down and finding compromises is difficult due to the lack of mediation channels.
- **Improve governance, accessibility, and transparency.** This is arguably the domain in which the narrative war most obscures the functioning of the banking sector. We propose the following quick wins to disentangle technical matters from media optics while better informing Libyans and Libya-watchers about the actual state of affairs, hence blunting the potential impact of misinformation:
    * Create a system to transparently monitor financial transfers into and out of the CBL and ministries. Results should be published online in Arabic and English.
    * Update and publish organization charts and contact details of the CBL and related institutions to improve access and specify a clearer demarcation of roles.
    * Publish details about CBL, subsidiary, and corresponding banks' liquidity.
    * The CBL should adopt the International Monetary Fund's (IMF) International Financial Reporting Standards (IFRS) for Central Banks. This would not only facilitate investment and economic activity, but it would also fight the politicization and spread of misinformation and conspiracy theories about the CBL.
    * Announce in advance the CBL's schedule for a stated number of regular board and committee meetings each year, whose decisions would be published.
    * Promote Libya's adherence to the Extractive Industries Transparency Initiative (EITI).
    * Make sure that the numbers in the published revenues of the NOC tally exactly with CBL's incomings and outgoings, and that care is taken to show exactly what foreign currency exchange gains and losses occur at each point.
    * Make sure that letter of credit allocations are decided on the basis of published criteria, with the meetings deciding those allocations being recorded and published.

Medium-term measures to be taken by the CBL and the Libyan authorities in coordination with international partners:

- **Strengthen technical competence.** Improving the efficiency of Libyan commercial banks and the government's financial bureaucracy will be critical to raising standards in the sector. The CBL needs to strengthen its capacity to absorb, manage, and distribute capital/deposits, as well as its delivery of basic services. This could be done through training modules established in partnership with international banks and corporations, including the IMF and World Bank, thus expanding the USAID initiative. In parallel, the CBL could improve its capacity to attract skilled personnel from abroad (including foreign professionals, embedded experts, and educated Libyan expats), through incentives and more transparent hiring procedures. This step will also reduce the attractiveness of conspiracy theories.

- **Improve legislation.** An adequate legal framework is key to promoting non-corrupt business practices. Libyan authorities should consider updating banking regulations, including through joint Libyan-international forums on technical and legal adjustments to the regulatory framework. Libya's private and online banking sectors lack sufficient modern legal frameworks to govern them. As a result, most businesses operating in the IT and Fintech space are not only entirely unregulated and untransparent, they cannot achieve global competitiveness, despite strong Libyan human capital in these fields.
- **Embed experts.** We strongly suggest that Libyan government officials request embedded experts from allied governments — British and American experts tend to be unable to embed in Libya institutions for security and bureaucratic reasons, but experts from Italy and smaller European countries are keen to deploy for the task. They should be given more than just advisory and training functions, and should be harnessed to help create the structures of transparency.
- **Delineate and then narrow the CBL's role.** Produce a study explaining the exact legal powers of the CBL relative to other Libyan entities. Once such a study is carried out, a consortium of Libyan and international stakeholders could consider narrowing the CBL's mandate to one more akin to that of other central banks through a range of modifications to Libyan laws and international agreements. Important questions need to be asked like: Should the CBL monopolize all FX transactions? Is there an economic logic for preserving the CBL as the central node through which all flows of money into and out of Libya must pass?

Long-term measures for international players:

- **Continue to pursue the unification of the western and eastern banks, but only as part of a long-term culmination of more immediate reforms.** Despite the narrative war over CBL unification, international stakeholders should not give up promoting sector reunification. Rather they should conceptualize it as the culmination of prior reform and transparency processes. Relaunching that process after transparency reforms are already implemented would be crucial both for political purposes and to encourage greater efficiency. It would also serve to reject further intrusions by Russia and undercut its misinformation narrative. Failing to encourage transparency and subsequent reunification could allow Russia to exploit the eastern CBL's need for money to gain greater leverage with eastern economic and political authorities.
- The United States undoubtedly has an interest in securing the transparent management of oil revenues and budgets in Libya — both as a way to secure greater stability in North Africa and to ensure Russia is not benefitting from the Libyan oil sector. The Biden administration has recently taken steps indicating that it will redouble its efforts to bring transparency and accountability to Libya's finances while simultaneously confining itself to the margins of the Libyan elections debate and allowing the U.N. to call the shots and generate political will on that file. We applaud this approach and advocate for American policymakers to continue to use carrots and serious sticks in their push for transparency and accountability in Libya's banking sector.

Part 5) Conclusion: Central Banking and the Global Enduring Disorder

We zoom out to show how the situation with the Libya banking sector is a key case study in how contested institutions and controversial financial flows play out in our newly disordered global system and give rise to narrative wars.

This report has showcased that rather than Libya becoming financially more unified in the wake of the defeat of Hifter's attempt to take Tripoli, parallel and bifurcated institutions have actually taken further hold. In this fraught environment, rather than pursuing unification, reforming itself, and adopting genuine transparency, the CBL has pursued business as usual combined with a dose of window dressing transparency. This does not imply corruption or malfeasance, but it allows for a growing narrative that the bank has emerged once again as a partisan political actor connected to Turkish and factional Libyan interests. These trends of fragmentation, regional penetration of ungoverned conflict spaces, and conspiracy theories are indicative of the Global Enduring Disorder.

We firmly believe that reforming Libya's economy to make its financial flows more genuinely transparent is the key to preventing its disordered economic landscape from keeping the country from being permanently dysfunctional and

Photo above: Libyan youth take part in a demonstration outside the central bank in the capital Tripoli on Dec. 23, 2020, demanding reforms to the banking system and central bank. Photo by AFP via Getty Images.

spreading disorder elsewhere. The CBL cannot achieve this alone; it needs buy-in from other stakeholders and pressure from international players to hold everyone accountable. In fact, Libya's banking sector could be used as a key case study of how opaque financial flows work in our newly disordered global system and give rise to conspiracy theories and contagion. There are key lessons that can be drawn for understanding issues like corporate financing of political campaigns, financial flows from specific Russian oligarchs, and transnational crime networks.

Transparency is required to disentangle actual from alleged malfeasance. Many status quo actors globally are threatened by transparency and reforms, preferring narrative wars and conspiracy theories that obscure real causation chains. Financial transparency is useful in most contested political spaces, inasmuch as money, power, and control of the narrative are highly linked. That said, transparency initiatives alone have few success stories; they need to be paired with sticks and carrots from international policymakers to incentivize follow-up reforms. This is something that the Libya context is uniquely well suited for, as the international community acting in concert has much structural leverage. Furthermore, this paper refers to transparency as the first step to gaining structural momentum and social trust for initiatives like bank reunification and then later elections.

Unless reforms of the Libyan banking sector are undertaken, the Western policymakers we spoke to are concerned that the political and financial division of the country may become an established fact. This eventuality would further crystallize if eastern institutions were able to smuggle crude oil or implant stooges inside the CBL board who will facilitate illicit expenditures. We counsel a "follow the money" approach:

Western officials should not get lost in the media debates about the constitutional basis for elections or new interim governments, the root causes of all the status quo attempts to block political progress are financial opacity.

The high-ranking officials and businesspeople we spoke to claim the current state of affairs cannot be prolonged indefinitely. According to one of them, “a system in which the printing of illegal banknotes by the eastern CBL continues, while the western CBL has no supervisory role over eastern commercial banks, and the GNU is unable to pursue a national financial and economic policy, will lead to a collapse, sooner or later. Not in a month’s time, probably not in two years’ time, but in four or five years.” Hence, international policymakers still seem to believe in the importance of U.N.-mediated Libyan national elections, stating that “even though they did not take place in December 2021 and can be postponed and held through other legal frameworks, they cannot indefinitely be postponed or Libya will cease to exist as a functional entity.”

Finally, our research suggested that many embedded financial players in Libya do not wish elections to take place as they risk losing their fiefdoms. They are willing to put forth a media song and dance about new electoral mechanisms or interim governments, but they are not willing to have genuine oversight of Libya’s finances. They are aware that thorough reform of economic structures requires electoral legitimacy to happen, and thus are impeding such legitimacy through obfuscation, foot dragging, spoiler proposals, and narrative wars. We propose an initial focus on incremental economic reform and transparency that will allow subsequent bank reunification and then finally elections to be undertaken, rather than the approach that most U.N. and Western countries have proposed of elections first and economic reform later. We believe the tried and tested approach of elections first, all other reforms second, has failed. Genuine elections resulting in a transfer of power to constitutional governance appear impossible in Libya so long as the opaque “war economy” and destructive narrative war over Libya’s finances persist.

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