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Iraq and Libya: common challenges for the years ahead

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Iraq and Libya are facing similar challenges: addressing the hurdles of socio-economic recovery in areas liberated from the Islamic State (IS); facing a fiscal crisis in the midst of continuous political tensions; and striking a power balance between central and local authorities, serving the interests of the people.

When Muammar Qadhafi was deposed in October 2011, Libya welcomed a new beginning after 42 years of authoritarianism. The toppling of the "Leader of the Revolution" marked the end of an erratic regime that relied on repression to guarantee its rule over the people. A similar enthusiasm for a new beginning was evident in the immediate aftermath of the regime change in Iraq, with people cheering the liberation of Baghdad. In both cases, however, this early enthusiasm soon deteriorated. Tensions which were long simmering under the surface of the Iraqi and Libyan societies simply erupted after 2003 and 2011 and gave way to a downturn spiral of renewed conflict.

At different stages of their transitions, Iraq and Libya have now to face similar challenges, although they show important differences as well. Among them, the factors leading up to regime change in Iraq and Libya cannot be downplayed. In reaction to 9/11 and within the scope of the War on Terror, the removal of Saddam Hussein was, arguably, a key objective of the Bush Administration. In Libya, instead, popular demonstrations initiated a chain reaction that led to regime change: the controversial application of the "responsibility to protect" (UNSC Resolution 1973/17 March 2011) authorised NATO's military campaign in Libya, which, in turn, "morphed almost ineluctably into" regime change. The intervention in Iraq grew to become the second largest American reconstruction operation after the Marshall Plan, while the idea that Libya could sustain and lead its own reconstruction without engagement (political and financial) on behalf of the international community was ill-conceived from the very beginning.

Addressing the challenges of post-IS reconstruction

Launched on 17 October 2016, the battle to liberate Mosul from IS is progressing well. So far, the Iraqi Security Forces, Peshmerga, Hashd-al-Shaabi and the US-led multinational coalition have retaken the majority of the territories conquered by IS throughout the provinces of Diyalah, Salahaddin, al-Anbar, and Nineveh. IS is still in control of Western Mosul, Hawija and the sparsely populated areas south-west of Sinjar. While IS' rapid rise in Iraq was closely linked to internal developments, and foremost Maliki's second term of

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government, since late 2014 it has grown to play a destabilising effect in Libya as well. IS' presence in Libya was initially in Derna—from where it was driven out by local elements—and later in Sirte. The latter city was declared liberated on 7 December 2016, after seven months of fighting involving local militias and US airstrikes.

The eradication of IS poses important challenges to Iraq and Libya. From a security point of view, the sparsely populated areas in Southern Libya and Western Iraq are territories which are difficult to control and are at the centre of lucrative smuggling routes, which provide a key source of income for terrorist groups. From a political/social point of view, IS' expansion in Iraq has benefited from the exclusion of Sunni elements from the post-2003 transition. In Libya, a more homogenous society, IS' success stems mostly from the complete vacuum of power in the country following the fall of Qadhafi. But it is certainly not a coincidence that the group established itself in the city of Sirte, the hometown of Muammar Qadhafi, where it leveraged the city's marginalisation after the revolution. In Libya, as in Iraq, there is a necessity to ensure that the transition from the respective regimes will not cause new groups in society to feel excluded from the process.

Facing a fiscal crisis in the midst of conflict

Mosul fell under the control of IS in June 2014. That same month, oil prices started to plummet and reached less than $50 dollars per barrel in January 2015, a trend that continued throughout that year and the following one. The two phenomena, which are not causally linked, led to a scenario whereby a fall in oil prices meant that the Iraqi authorities had less resources to sustain the costs of fighting IS, which, in turn, further aggravated the fiscal situation of the Iraqi state. Both Iraq and Libya have been included in the so-called "fragile five" – the oil dependent economies of Algeria, Iraq, Libya, Nigeria and Venezuela – which have acutely suffered from the fall of oil prices in ways that have affected their political and social orders. Facing difficulties in maintaining control over its oil production, Libya has been excluded from the recently agreed cut in oil production among OPEC and non-OPEC members. Libya's overall oil production has declined significantly and constantly since the revolution, with an estimated 600.000 bbd in October 2016 compared to 1.6 million bbd in the pre-revolutionary period. Iraq, conversely, while facing a contraction of the non-oil economy, had an estimated 19 per cent increase in oil production.

The fiscal crisis has led to severe repercussions in both countries. In Libya the GDP per capita fell by almost two thirds of its pre-revolutionary level, a high inflation rate limited the purchasing capacity of the Libyan population, and the country is undergoing a severe liquidity crisis. In Iraq, the fiscal deficit rose to 14 percent of GDP in 2015 and the Budget law for 2017 projects a budget deficit of $18 billion. While inflation did not rise due to the Iraqi dinar being pegged to the dollar, Iraq had to introduce emergency measures to cut its excessive public sector, with a delay in the payment of public salaries drastically hitting the Kurdistan region. Even with stable oil prices at around $50 per barrel, Iraq and Libya are in need of a drastic plan for economic reform. Iraq has undergone another Stand-by-Agreement with the IMF for a total value of $5.34 billion, while Libya is almost entirely relying on its economic institutions, the Central Bank of Libya and the National Oil Corporation to keep the economy going in the absence of a nation-wide recognised government authority.

Striking a balance between central and local authorities

The ability to meet the above challenges is partly dependent on the performance of the governance system in both countries and its institutions. The crisis of legitimacy between the three competing governments in Libya has generated a deadlock that is paralysing the country, a situation which is not found in Iraq, despite its own problems, foremost the growing tensions among ethno-sectarian groups that the Iraqi state has not been able to mitigate. What the two countries both have to face is striking a balance between central and local authority. The decentralised governance of Iraq is built upon the federal region of Kurdistan and the governorates, whose competencies and responsibilities are regulated in the Law on Governorates Not Incorporated in a Region (Law 21/2008). Libya has only a preliminary system of decentralized governance in place, which is the result of pre-regime change dynamics, bottom-up and spontaneous trends occurring during the uprisings, and a not yet complete legislative process. The Local Administration Law (59/2012) establishes a system of administrative governance constituting three layers: provinces, municipalities and localities. In the very fluid environment of Libya, the structure is currently relying exclusively on the municipal level.

In Iraq and Libya there is a mismatch between what local governance structures are expected to do and what they can do. A key expectation is related to the provision of services to the population. However, the capacity of local structures to absorb, spend and manage budgets for a real devolution of service delivery is still very weak. With own-source revenues being almost inconsequential, reliance on intergovernmental transfer from the central level not only hampers the design of a functioning system, but can also represent a key contentious issue in both vertical (central-local) and horizontal (local-local) relationships. Due in part to the past, there is little appetite for restoring a strong central authority and great expectation is placed on the local level. However, while progress at the political level occurred, this has not been paralleled by institutional and fiscal decentralisation.

Taken together, these challenges are crucial for the future of Iraq and Libya. The impact of IS and the fight against it has severely hit the two countries, a situation further aggravated by the effects of the fiscal crisis. To prevent the former from re-emerging and to solve the latter local authorities, in whatever forms (municipal or provincial), are not enough. National initiatives should be encouraged and solutions pursued at the country level. It is indeed only in a healthy state system that local governance can perform its functions.

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