Market Trends in Libya: Unravelling economic reforms and conflict

June 2018 - October 2019

Topics covered by this brief

- How illicit activities create a financial burden on the Libyan population by creating shortages in fuel and foreign currency.
- The driving factors behind higher prices in the south of Libya.
- The effect of economic reforms and the recent Tripoli conflict on food prices across the country.
- An analysis of the differences in market behaviour of key goods between regions, cities, and commodity groups.

Key Findings

- The economic reforms in September 2018, creating a 183% transaction fee on foreign currency and approving additional letters of credit, reduced prices across Libya by 13% between October 2018 and March 2019.
- The conflict in the south of Tripoli, which began in April 2019, caused prices across Libya to temporarily spike, especially the domestically produced agricultural goods, such as tomatoes, onions, potatoes and peppers. The cities with the largest price spikes due to the conflict were located in areas that suffered the most from logistical isolation created by checkpoints and road blockages.
- The prices of imported non-perishable goods were most strongly affected by the change in parallel market exchange rates, but fluctuated later to these changes compared to domestically produced agricultural goods.
- The bread crisis in 2018 was resolved by allowing suppliers to import flour at cheaper rates, alleviating the flour shortage and reducing the price of bread significantly.
- Price changes for southern Libya experienced a month delay to parallel market exchange rate fluctuations.
- In December 2019, the cost of the Minimum Expenditure Basket[1] (MEB) food portion was 22.3% higher in the south than Libya overall, due to a number of logistical, political, infrastructural and security issues.

1 The **Minimum Expenditure Basket** represents the minimum culturally adjusted group of items required to support a six-person Libyan household for one month.

Introduction

Since 2011, the intertwined political and security crises have shadowed over the Libyan economy, causing the deterioration of public services and an 80% loss of Libyan purchasing power.[1] In the past two years, oil revenues have almost returned to pre-conflict levels, but there is little sign that it has translated into economic support for vulnerable populations.[2] Shortages in fuel and cash, as a result of dysfunctional systems and a mistrust in banks, continue to damage the Libyan economy. These shortages have led to further market failures, inflating the price of staple goods and leaving the most vulnerable without the resources to maintain their well-being. Given the complexity of the political landscape and the wide variety of affiliated actors, this brief examines the recent developments within the Libyan economy that humanitarian actors need to be aware of to most effectively target households in need. Based on interviews with political and economic specialists, previous REACH market assessments and relevant secondary sources, the report aims to highlight the systems and trends that might drive the financial vulnerability of the average consumer in Libya.

One of the most influential factors is the affordability and availability of common goods. Therefore, it is important to highlight the price fluctuations linked to security issues or centralised economic policy decisions from the Libyan authorities. The core of the analysis is based on 16 months of accumulated pricing data of 23 food items across 33 cities in Libya from July 2018 – October 2019. The data was gathered through monthly key informant interviews with 500 shop owners and representatives.

Ultimately, the analysis creates a portrait of market dynamics and price trends across Libya.

In addition to this longitudinal country overview, the brief provides comparisons and exposes trends amongst regions, cities, and commodity groups. The combined comparative analysis aims to shed light on how these factors affect geographic areas differently and which cities/ regions are more vulnerable to certain economic shocks. While capturing the market behaviour of the 23 commodities, the link between prices and supply chain variations for certain goods are highlighted.

Methodology

The monthly data and analysis that fed into this brief were provided through the Joint Market Monitoring Initiative (JMMI), which was created by the Libya Cash Working Group (CWG) in June 2017 to further the understanding of market dynamics in Libya.

Members participating in the JMMI, currently includes ACTED, DRC and WFP, assess markets in key urban areas across Libya on a monthly basis. In each location, field teams record the prices and availability of basic food and non-food items (NFIs) sold in local shops and markets, along with complementary information on supply chains and market functionality.

The methodology for the JMMI is based on purposive sampling. In each assessed market, at least four prices per item need to be collected from different shops to ensure the quality and consistency of collected data. Each month, price data is collected from the same shops whenever possible to ensure comparability across months. Partner field teams, in coordination with the CWG, identify shops to assess based on the following criteria:

1. Shops need to be large enough to sell all or most assessed items.

2. Prices in these shops need to be good indicators of the general price levels in the assessed area.

3. Shops should be located in different areas within the assessed city or baladiya.

The CWG primarily targets urban centres throughout Libya, aiming to ensure coverage of markets that serve as commercial hubs for surrounding regions. Following data collection, the data is compiled and all partner data is cleaned, normalising prices, cross-checking outliers and calculating the median cost of the Minimum Expenditure Basket (MEB) in each assessed market. **A factsheet, dataset, and data collection tool** are published every month and disseminated to the humanitarian community. Periodic longitudinal studies are also released to highlight overall trends.

Analyses

The median prices reported in this report are 'location medians', designed to minimise the effects of outliers and differing amounts of data among assessed locations. First, the median prices of all assessed items are calculated within each assessed location (city or mahalla[3]); then, REACH calculates the median of this list of medians. All boxplots, as well as MEB and price index calculations, are created using this method.

The cost of the MEB is calculated by multiplying the median price of each item in the MEB's 'Key Elements' section by the quantity listed in table 1 on page 16. Under the circumstance in which median prices aren't available for an item in a particular location, the median price for that item across the region (west, east, or south) is substituted.

Challenges and limitations

- Price data is only indicative for the time frame within which it was collected. Prices may vary during the weeks between adjacent data collection rounds.

- The data is only indicative of the general price levels in each assessed location. Representativeness on the mantika (district) level cannot be claimed. Even on the city level, price data must be interpreted with caution, particularly in larger cities with substantial variation in neighbourhoods' socioeconomic profiles.

- The JMMI data collection tool requires enumerators to record the cheapest available price for each item, but does not require a specific brand, as brand availability may vary. Therefore, price comparisons across regions may be based on slight variants of the same product.

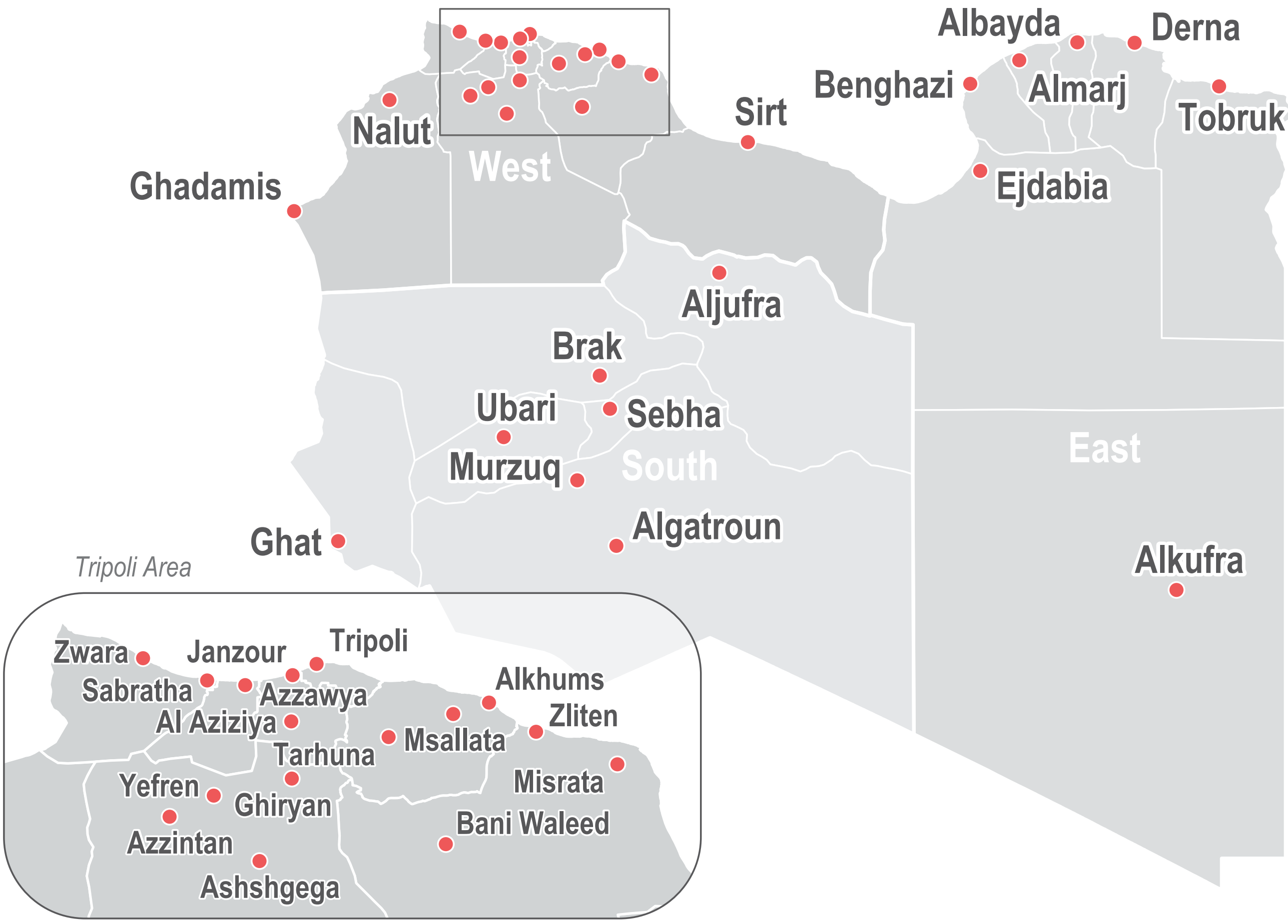
- The JMMI does not intend to measure general inflation levels on Libyan markets. As per JMMI methodology, only the cheapest available price per item is collected, meaning that changes in middle-market and upmarket goods are not captured.

- A large part of the brief was also conducted through an extensive secondary literature review and Key Informant (KI) interviews with political and economic specialists focused on Libya

Coverage

By October 2019, the JMMI covered 33 cities across Libya with relative consistency (Map 1), including 19 in the west, 7 in the east, and 7 in the south. Coverage shifted slightly from month to month due to the project's continued expansion and partners' temporary operational constraints.

Map 1 - JMMI geographic coverage



Macroeconomic background

Introduction

This section of the report draws from secondary literature and interviews with economic and political specialists to highlight how certain elements of the economy contribute to a higher cost of living in Libya. Due to the inaccessibility of obtaining liquidity through banks and a strong sense of distrust in the Libyan banking sector, much of the population has been disincentivised from keeping cash in formal institutions.[4] [5] The combination of households stockpiling cash, continuous years of inflation and the growth of the parallel market has exacerbated the shortage of physical Libyan Dinar (LYD) bank notes.[6] According to the 2019 Multi-Sector Needs Assessment (MSNA), 42% of Libyan households faced challenges obtaining enough money to meet their needs. The main reason (74%) for the economic challenge was due to the inability to withdraw enough money from a bank account. With a lack of physical cash, shops often allow the use of cheques with an additional cost of up to 30% of the price of goods.[7]

According to the World Bank, it is estimated that as of September 2018, 34.8 billion LYD was in circulation outside the banking system, comprising approximately 28% of the Libyan money supply compared to 16.4% in 2010.[8] An increasing shift towards the informal economy indicates a lack of public trust towards banks and formal economic institutions that enables non-state actors to exploit the system for their own gain. The shadow economy compensates for the shortcomings of the formal economy whilst further cementing a platform for exploitative economic actors to operate. Much of these Libyan economic systems contain rentier mechanisms that lead to differentials in economic power and accessibility. During the creation of the Mummar Gaddafi's Jamhuriya, an attempt to create independent institutions to balance state power lead to systems of dependence and patronage being established that solidified rentier behaviours shaped by social formations.[9] [10] To complicate matters further, the continuous conflict and presence of non-state armed groups has led the country to develop modalities of a "war economy" – which can be described as "economic activities dependent – directly or indirectly – on the dispensation or perpetuation of violence".[11] These activities are often entwined with the battle for control of key export and import nodes, transportation infrastructure, border posts, oil and gas infrastructure, smuggling routes, financial institutions and state entities. The rent-seeking environment often enables actors to siphon capital and goods for personal gains leading to shortages and high prices for the rest of the country.

Foreign Currency

The Libyan dinar is pegged to the Special Drawing Rights (SDR), which is a supplementary foreign exchange asset based on a basket of major currencies; US dollar, euro, Chinese yuan, Japanese yen, and pound sterling. Regardless of the state of the Libyan economy and political situation, the LYD will purposely not fluctuate against most of the major foreign currencies. During the revolution in 2011, the parallel market became stronger due to individuals funnelling capital out of the country and supporting armed groups through informal channels.[12] Nonetheless, only in 2014 did the parallel market exchange rates begin to rise due to a lack of political unity crippling the government from being able to control the parallel markets. The exchange rate leapt up from 2.000 LYD/USD in 2014 to the highest point of 9.550 in 2017, whilst during that period the official exchange rate stayed between 1.201 LYD/USD and 1.435.

In September 2018, a number of economic reforms were implemented after the Government of National Accord (GNA), the Central Bank Libya (CBL) and the High State Council agreed on a reform package. The economic changes came during a continued period of high inflation, a strongly depreciated Libyan dinar on the parallel exchange markets and state financial reserves being depleted.[13] The economic malaise can be seen by the drop in the imported amount of goods through Libya's sea ports between 2017 and 2018.[14] The reduction in imports happened during a period where total state revenues were growing due to strengthening oil exports. Depending on the type of goods imported, it may reflect a period of shrinking purchasing power for the Libyan population whilst the country's revenue was increasing.

The policies surrounding taxes and allowing more LoCs were implemented to stop suppliers exploiting the gap in the parallel market exchange rate and to stop legal entities from having to resort to using the parallel market to obtain foreign currency, from which they were exposed to the volatile currency market and to unpredictable parallel-market exchange rates. The government applied a 183% fee on the official exchange rate for all foreign currency purchases required for commercial or personal transactions. Effectively, the changes generated another official exchange rate of 3.900 LYD/USD and caused the parallel market rate to decrease from 8.300 in September 2018 to 4.300 LYD/USD in February 2019. Food prices are strongly linked to changes on the parallel market for foreign currency (see figure 1, pg 7). As an oil-based economy with little domestic production of other commodities, Libya imports the vast majority of consumer goods from abroad. Importers are therefore dependent on regular access to foreign currency in order to pay their suppliers. The cost of goods in Libya mostly falls on the consumers, as the additional expenses incurred by wholesalers are passed along the supply chain.

The capital generated from the foreign currency transaction fee has been transferred to a sovereign fund designed to invest in development projects and to bolster the country's financial reserves to allow a steadier flow of liquidity into the financial system.[15] The fund has been a point of contention due to disagreements budget allocation, exacerbated by the opacity of expenditure information and the lack of an electronic recording system.[16] Therefore, it has allowed further corruption and financial mismanagement to take place within the Libyan economic system.[17] However, the additional financial stimulation allowed the CBL to approve a larger number of letters of credit for suppliers to buy foreign currency at the official rate. Therefore, suppliers were less likely to resort to using the parallel market exchange rate to import goods, contributing to the price reductions in commodities across Libya from September 2018 to February 2019. The presidential council decided on July 29th to reduce the foreign transaction fee from 183% to 163%, which contributed to prices dropping by 12% across Libya and 20% in west Libya from July 2019 - September 2019 (see figure 2, pg 8).

Exploitative Schemes

The main activities that affect the cost of goods are often part of elaborate schemes within the shadow economy that have exploited the gap between official and parallel market exchange rates. For example, the actual value of imported goods entering Libya is often far lower than reported, due to companies using schemes that profit on their preferential access to foreign currency at the official exchange rate. This entails local businesses requesting access to an overestimated amount of foreign currency using a Letter of Credit (LoC) with the support of a forged invoice from an international company that supplies the goods. For example, the foreign business would request an invoice for $50,000, despite the actual value of the imported commodities being only $20,000. Therefore, the local business would have a surplus of foreign currency bought at the official exchange rate, which could then be exchanged on the parallel market for large profits. The scheme directly affects the availability of goods and access to liquidity for other actors that are not in a position to benefit from the system, further raising prices on goods throughout Libya. Businesses can request large amounts of currency, which is why the CBL implemented stringent regulations restricting LoCs. The CBL policies in 2017/2018 diminished the access to foreign currency, forcing businesses to resort to using the parallel markets for foreign currency that further increased prices and created a vicious cycle driving inflation.

Furthermore, actors have also taken advantage of schemes that involve international cash transfers and electronic bank cards, which in turn has also exacerbated the liquidity crisis and influenced exchange rates.[18] Individuals who had access to foreign currency in Libya either transfered that cash to foreign accounts or gave their prepaid cards to runners known as "currency mules" or "asafeer" (birds), who travel abroad to liquidate these cards and bring physical cash back to Libya to sell on the parallel markets.[19] To combat this issue, the Libyan government restricts the amount of foreign currency that a Libyan household can access through the official exchange rates. On the 20th of August 2019, commercial banks began to distribute the CBL's foreign currency allowance, permitting 500 United States Dollar (USD) to be sold to Libyan families.[20] The previous foreign currency allowance in January 2018 encouraged this scheme to develop, as the families that did not use their foreign currency allowance gave their access to dollars to organised groups.[21] The dollars were withdrawn abroad and flown back into Libya to exchange on parallel markets, the large amount of foreign currency being exchanged into Libyan dinar caused the parallel market dinar rate to appreciate significantly against the USD and EUR.[22] The most recent foreign currency allowance distributed on the 20th of August 2019 used an "electronic Know Your Customer" (e-KYC) system that required the cards to be linked to people's national ID number and telephone number.[23] The identification verification system was applied to curtail the previous schemes and speed up the process of distribution.

The smaller gap between the different exchange rates due to the September 2018 economic reforms has made these activities less lucrative with reports that fewer actors are engaging in these schemes.[24] [25] Nonetheless, cases of preferential treatment seem to have continued, as a number of actors are reported to have received foreign currency without the transaction tax.[26] This would allow individuals and organisations to maintain larger profits from such schemes.

The Fuel Crisis

Fuel is an incredibly important commodity in Libya, not only for its exports, but due to high domestic consumption and its relationship with food prices, especially in the south (see page 11). The fuel crisis has led to many Libyan households loosing a significant portion of their disposable income, unofficial fuel prices in the east and west have increased by 300% since July 2018.[27] The CBL and Presidential Council had planned to conduct a subsidy reform, specifically focused on fuel subsidies to combat fuel smuggling and its weight on government spending.[28] Subsidies represented 12.3% of Libya's Gross Domestic Product (GDP) in 2018, totalling 6.8 billion LYD; of these subsidies, 66% went to hydrocarbon products and 11% to electricity.[29] In February 2019, it was estimated that over 30% of imported fuel was smuggled back out of Libya and resold on international markets.[30] According to a Chatham House study on fuel smuggling in Libya, approximately 1.3 million tonnes of petrol and diesel goes missing from official supply chains.[31] (To give an idea of the scale of the amount of fuel smuggled, it equates to 178 Olympic-sized swimming pools.)

Despite Libya having the largest oil reserves in the continent of Africa, the oil refinery capacity only covers 25% of Libya's domestic consumption and the rest is imported from abroad. In 2016, the amount of petrol imported into Libya was 30% higher than in 2011, while demand increased marginally, demonstrating an oversupply of fuel in Libya during a fuel shortage crisis.[32] The oil refineries are often controlled by non-state armed groups that use their position as security actors to siphon off refined oil and sell on the parallel market. Fuel smuggling is prevalent in Libya, with smugglers using small fishing boats to transport fuel to larger vessels or using specially installed pipes from trucks and drive the oil across the coast to small boats.[33]

From the refineries, the fuel is transported to fuel depots to be further distributed to other networks. The truck driver's association in Libya reportedly has also used their position to manipulate shift schedules in the favour of non-state actors seeking to divert oil shipments.[34] It is estimated that four fifths of all fuel intended to the depot in Sebha is intercepted and sold on the parallel market. To add to the fuel crisis, the Libyan authorities have attempted to crack down on "ghost petrol stations" that receive subsidised fuel but do not operate as a functioning gas stations for consumers, instead selling the low-cost oil on the parallel market for a substantially higher price. Since 2011, 480 new petrol stations have been opened with very little confirmation that they are operational.[35] According to the chairman of the National Oil Corporation (NOC), Mustafa Sanalla, 87% of all officially registered petrol stations were no longer operational.[36]

A combination of all these factors has contributed to fuel shortages across Libya that have forced many Libyans to resort to buying petrol on the parallel market at high prices and spending hours waiting in queues to attain fuel.[37] Overall in Libya during October 2019, the official price of a 11kg cylinder of liquefied petroleum gas (LPG) is 5 LYD, compared to 27.5 LYD on parallel markets, or 40 LYD in the south that can fluctuate to 85 LYD.[38] The planned fuel subsidy reform is predicted to curtail fuel smuggling as much as possible, but due to the complex nature of each actor entwined in the fuel supply chain, it will likely require a lot more to completely eradicate fuel smuggling in Libya. On the 16th October 2019, the authorities lifted subsidies on kerosene for industrial and commercial use, raising the price to 0.85 LYD ($0.6) from 0.15 LYD per litre.[39] This was seen as the first step towards the subsidy reform, as the price of kerosene for domestic use would remain the same until a cash subsidy is able to replace these changes in price. If fuel subsidies are lifted, there will not only be large fuel price spikes, but rises in the price of staple goods. This is due to long transport routes, food storage and food production requiring significant amounts of fuel in Libya.

To replace the fuel subsidies, the Libyan authorities had planned to implement direct cash transfers of $300 per person for each Libyan household.[40] It is predicted that the direct cash transfers will support families that do not drive and therefore do not reap the benefits from the fuel subsidies.[41] Nonetheless, there is a risk for individuals whose livelihoods are heavily dependent on fuel subsidies to become worse off after the shift in policy. According to KIs, a lack of institutional consensus has delayed the implementation of subsidy reforms. Furthermore, the non-state armed groups that have gained power, due to the security vacuum, are incentivised to keep fuel smuggling as lucrative as possible.

Food price fluctuations

Food items, as some of the key expenditures required to sustain a household, are at the core of the JMMI. In a typical month, they form roughly 68% of the cost of the MEB. In total, 23 food items are monitored as part of the JMMI, of which 18 are included in the MEB (Table 1, page 17). The following section analyses trends in the prices of food items monitored as part of the JMMI, as well as tracking changes in the cost of the food portion of the MEB across cities and regions.

Across all assessed Libyan markets, the cost of the food portion of the MEB in July 2018 was 770.68 LYD. After 6 months, Libya overall witnessed a 4.1% decrease to 738.89 LYD and a 2.2% decrease 6 months later to 722.81 LYD in June 2019. The most expensive month in Libya overall was September 2018 at 778.59 LYD and the cheapest month was in September 2019, at 623.24 LYD.

Figure 1 demonstrates the influence of the parallel market exchange rates on food prices. As the exchange rate dropped from 6.700 LYD/USD in September 2019 to 4.300 LYD/USD in April, the cost of the food portion on the MEB fell from 778.59 LYD to 679.23 LYD during the same period. The fluctuations of food prices can be seen to have only a month delay after the exchange rate changes. The region most affected by the parallel exchange rate was the east with a 17% fall, the west witnessed a 13% drop and the south saw its prices fall by 15%

Between July 2018 and June 2019, price trends for food items in Libya can be divided into four main periods:

- The period from **July to September 2018** saw rises in the parallel market exchange rates, which reached a peak of 7 LYD/USD at the beginning of September; this meant in turn that the cost of the food portion of the MEB was at its highest during this period.
- Subsequently, the September 2018 economic reforms caused the LYD/USD parallel exchange rate to drop significantly and allowed the CBL to approve a larger amount of letters of credit to suppliers importing goods into Libya. These economic changes led to price decreases across all regions, with the cost of the food portion of the MEB dropping 13% from **October 2018 to March 2019.**
- The outbreak of conflict in the southern parts of Tripoli in April disrupted supply routes and created barriers for commodities to reach certain regions in Libya. This caused food prices across the country to spike between **April and May 2019.**
- The reduction in the foreign currency transaction tax from 183% to 163% on the 29th July 2019 and markets adapting from the conflict related disruptions caused food prices to drop 11.5% overall in Libya from **July to September 2019**. It particularly affected west Libya where prices fell by 19.8% during the same time period.

Figure 1 - Parallel Exchange Rates and Food Prices

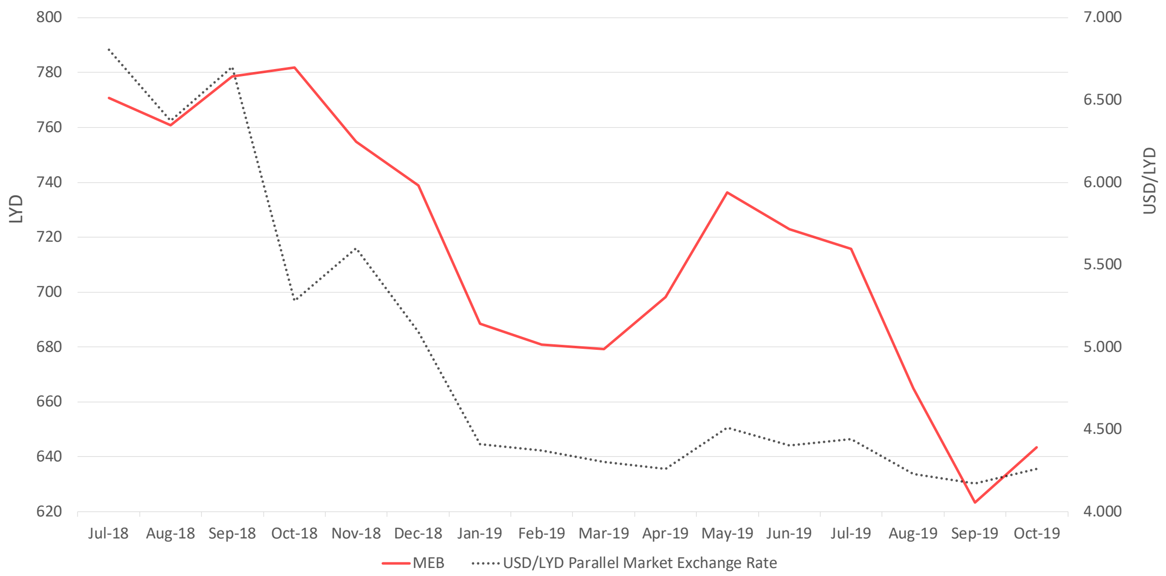
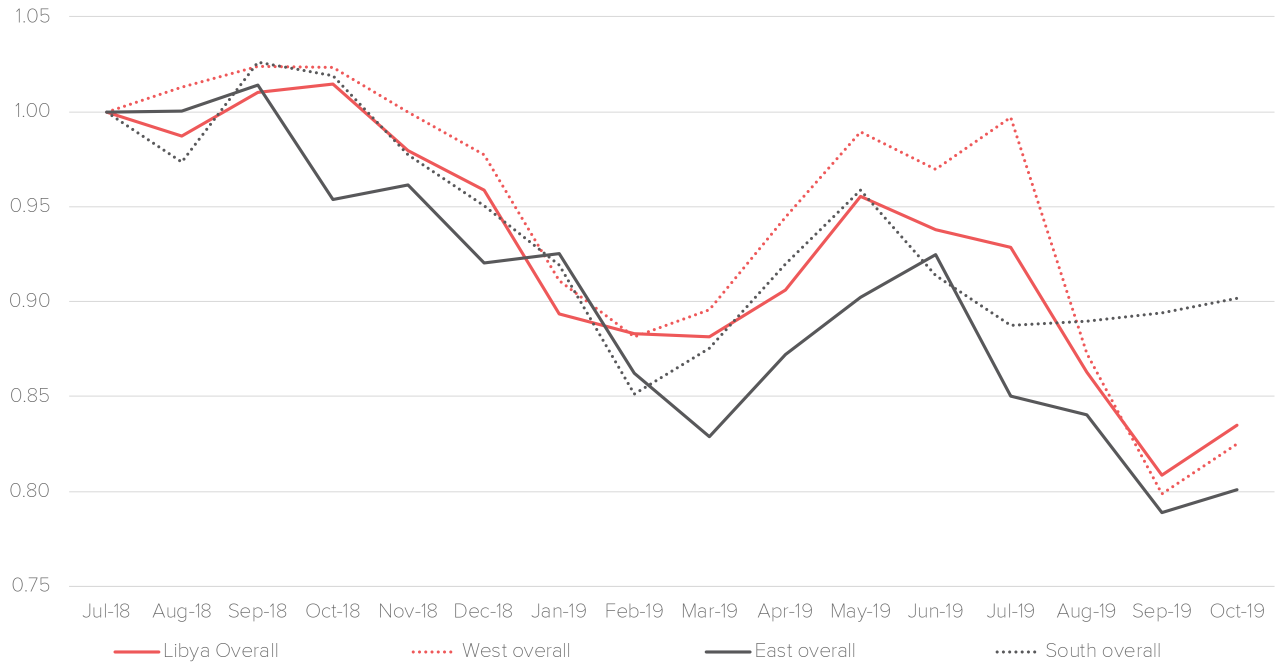


Figure 2 - Food Price Fluctuations by Region



How to read a price index

- A price index is a representation of relative price changes over a given period of time. The price indices in this brief were created by setting the initial price (that recorded in July 2018) equal to 1.00 and reporting all subsequent prices as a fraction of the initial price.
- In any given month, a value of 1.00 represents no change from the initial price level, a value of 1.10 represents a 10% increase.

Differences between Cities

West Libya

Figure 3 (page 9) shows the normalised cost of the food portion of the MEB in five of the largest cities in west Libya. Prices across west Libya vary depending on the region, the influence of the conflict, the proximity to the ports and the disruption of the supply routes. When comparing western cities, logistical constraints, created by the Tripoli conflict, are likely to have had a particularly large influence on food prices during 2019. Transporters passing through cities with multiple interrupted supply routes were required to take longer routes or pay fines at checkpoints, which increased their transportation costs. On the one hand, cities such as Tripoli, that are situated on the coast, have stable prices due to the supply routes being undisrupted. On the other hand, Ghiryan, south of Tripoli, has been a key staging point for the conflict south of Tripoli, with ongoing road blockages and damage to the city's infrastructure.[42] During the heaviest clashes, the cost of the food portion of the MEB in Ghiryan spiked by 16%, making it the most expensive city in west Libya. Once the fighting in Ghiryan subsided, the city found itself with disrupted supply routes and logistical constraints that prevented prices from recovering. Azzintan is situated in the south of the region, far from the key import nodes with longer routes susceptible to disruptions and intensified check points. This may explain the 11.4% rise in food prices in Azzintan from April to July 2019.

By the beginning of September 2018, the US dollar exchange rate on the parallel market exceeded 7.000 LYD/USD, which increased the cost of the MEB across Libya due to the rising cost of imports. However, cities in the west were differently affected by these changes in the currency markets. Ghiryan and Azzintan seemed to be less affected compared to Misrata and Tripoli, which witnessed a decrease in prices as the gap between the parallel market and official exchange rates narrowed. As Misrata and Tripoli have large and busy operating ports, the markets in these cities are closer on the supply chain to the suppliers that import goods directly into Libya. Thus, the cost of goods in these cities is influenced more closely by the exchange rate provided for the suppliers to buy the commodities from international partners. Cities that are located further away from the main ports often have suppliers buy goods in bulk, so the supply chain turnover for many imported items is slower and less responsive to macroeconomic changes, but is more susceptible to regional supply route disruptions. From the period of July to September 2019, the drop in the cost of the food MEB may be interpreted by both the adaptation of markets to conflict related disruptions and the reduction of the foreign currency transaction tax from 183%-163%. As previously explained, a lower transaction tax rate allows suppliers to import goods at a cheaper rate and lowers the price of food products for consumers across the country. Comparing all three regions, the west of Libya has the most diverse changes in the cost of living, due to the conflict and the logistical complexity involved in supplying a densely populated conflict zone inhabited by diverse groups and social factions.

East Libya

Prices in the main east Libyan cities are the most stable across all Libyan regions. Despite a small amount of clashes and bombings, the region experienced comparatively less disruption from the beginning of the Tripoli conflict between April and June 2019. Many of the monitored cities in the east display similar trends, with local price swings tending to correct themselves back to the overall median in east Libya. However, the dynamic most closely correlated to food prices is, again, the parallel market exchange rate. All cities had relatively high prices prior to the passage of the Tripoli-based CBL's economic reforms, followed by price drops ending in February. The city with the most volatile price swings in the east was Benghazi, which has one of the largest active ports in Libya and supplies goods to many of the cities in the vicinity. Prices in Benghazi tended to respond faster to macroeconomic changes, whilst those in other cities tended to lag behind by 1-2 months.[43 44]

South Libya

Prices in the south tend to follow a similar trend to the rest of Libya, with large price spikes during autumn 2018 and price reductions in late 2018–early 2019. Nonetheless, the south of Libya is distinct because the pricing trends demonstrate a delayed response, compared to fluctuations across the country. Food prices in Brak, increased a month later than in most other cities in Libya. Ghat, meanwhile experienced a price spike even later in December, which can be explained by the fact that Ghat is geographically one of the most remote cities in Libya. Therefore, macroeconomic changes took longer to influence prices on local markets due to retailers and wholesaler buying goods in larger stocks and shipments coming less frequently from the main ports. Between October and February, all monitored cities in the south witnessed a reduction in the cost of the food proportion of the MEB by 15%-33%, linked to the shift in parallel-market exchange rates. Prices in the south are discussed further on page 10.

Figure 3 - West Libyan Cities

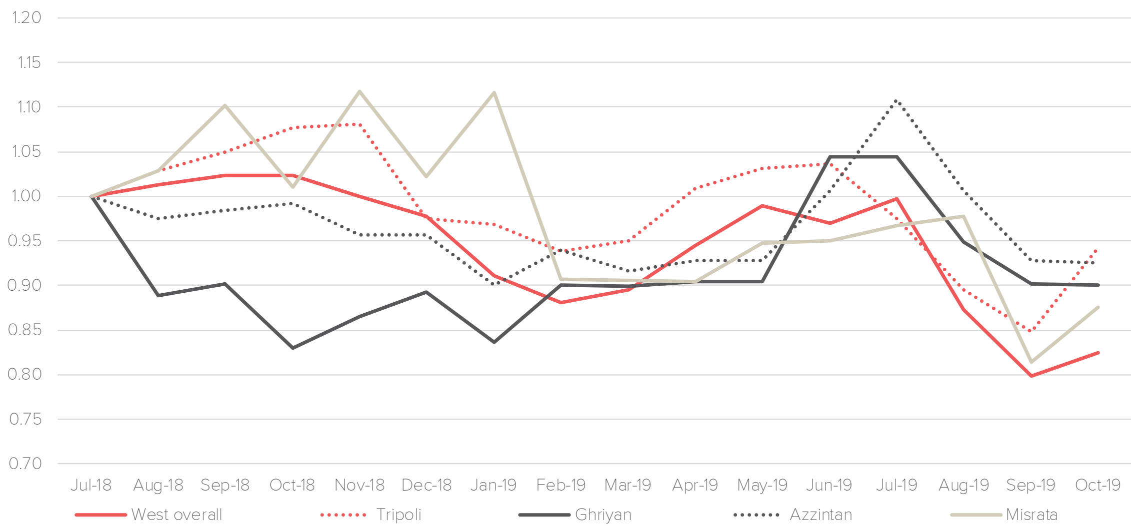


Figure 4 - East Libyan Cities

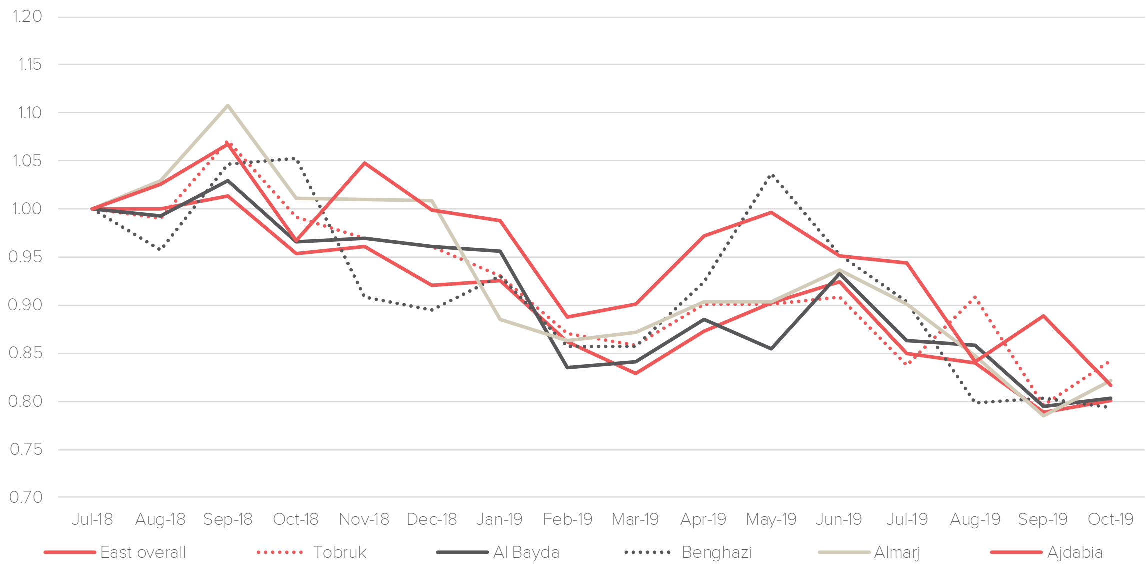
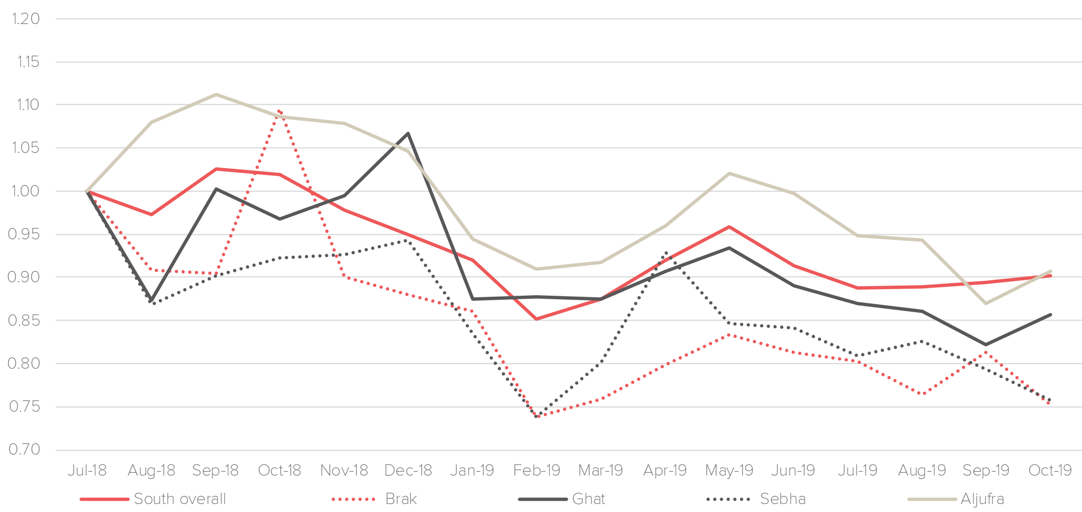
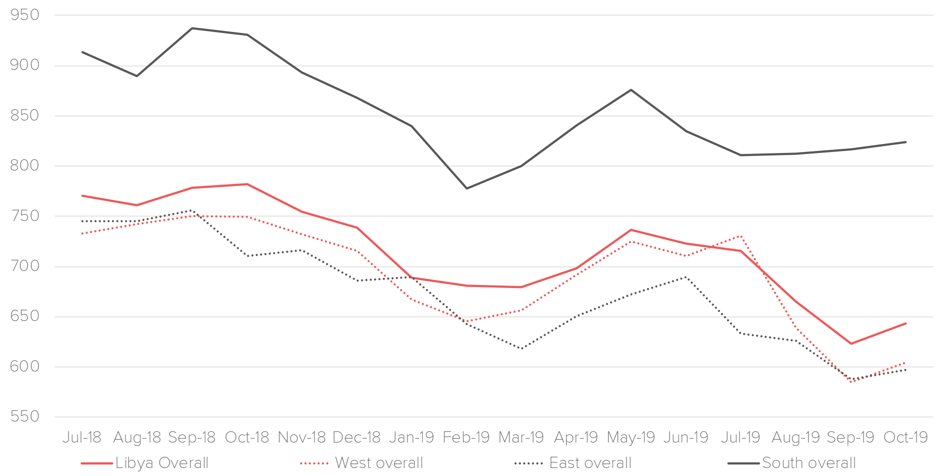


Figure 5 - South Libyan Cities



The Driving Factors for Higher Prices in South Libya

Figure 9 - Differences in Food Prices by Region



In December 2019, food prices in the south were 22.3% higher than those in Libya overall, with Algatroun and Ghat reporting the highest food prices in the country at that time. In these cities, the median cost of the food portion of the MEB was respectively 52.8% and 37.5% higher than the cost for Libya overall. This price difference reflects a number of logistical, security and political constraints in south Libya.

Political

During the months of January and February 2019, the authorities in the east took control over much of southern Libya with only limited armed clashes. However, the shift in power meant that southern municipalities became politically divided in showing loyalty towards the two separate governments, but eventually expressing their alliance to the east. As the south relies on fuel and cash shipments coming from eastern or western cities, the source of the shipments can often depend on political agreements. Therefore, delays in fuel and cash shipments were reported whilst the authorities negotiated a logistical consensus.

In comparison to other regions, the south witnessed the highest price increase from February to March 2019, which could be attributed to the political volatility. To appease local residents, the eastern authorities cracked down on parallel-market fuel stations in an attempt to decrease fuel prices. However, closing available fuel markets may have caused unofficial fuel prices to rise 41% in the south from February to March 2019.

Security

The south has continuously struggled with security issues. Transporters that bring supplies from Tripoli to the south charge high fees due to the risk of being robbed en route and the additional cost of hiring security personnel to accompany them. Sebha, meanwhile, is reported to be the most dangerous city in the south of Libya, due to many armed actors competing for multiple resources and trading routes.[45] As Sebha is the principal trading hub in southern Libya, the security risks associated with trade with the south are hard to avoid and continue to create a financial burden for consumers.

Furthermore, the security gap also limits agricultural production in south Libya, as farmers throughout the region, but particularly in Murzuq and Sebha, face security risks in accessing their land due to the presence of armed non-state actors. This has subsequent consequences on the local production to supply local markets and would likely effect prices within the region.

Infrastructure

Due to prevalent power shortages in the south, shops require generators to maintain their cold storage capacities during electricity cuts. Such generators run on high-priced diesel fuel, which generates additional expenses for the retailers, which are ultimately reflected in the retail prices of fresh commodities.

Additionally, in order to avoid road blockages, many transporters are required to use unmarked and unpaved desert roads. The vehicles driving along these dirt tracks are required to have expensive enhancements to strengthen the trucks against the difficult terrain.

Logistics

According to a rapid assessment conducted by ACTED's program REACH in June 2019, the greatest contributor to elevated costs in markets was reported to be the additional transport costs due to the conflict in Tripoli.[46] The normal trade routes from Al Aziziya to Ghiryan and from Ghiryan to the south via Brak were closed due to the frequent clashes in that vicinity. Transporters were therefore forced to circumvent the roadblocks and take longer routes to Ghiryan via Yefren, or roads to the south via Misrata and Aljufra.

Fuel shortages are prevalent in the south, driving prices even higher. To compensate, the employees operating the trucks demand larger salaries that range from 1,000 to 3,000 LYD per shipment depending on the transported commodities. Along the roads to the south, there are a number of checkpoints under the control of armed groups that charge transporters for passage. The security risks and the fees differ depending on the community affiliations of those manning the checkpoint and of the individual transporting the goods. Travelling long distances with perishable goods sometimes requires the use of refrigerated trucks that consume a large amount of fuel; transporters operating these trucks are thus even more exposed to fuel price increases.

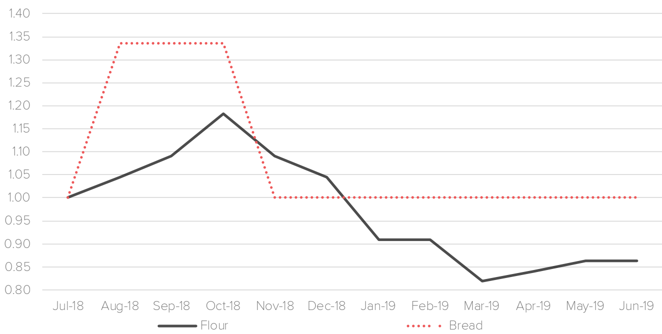
Finally, all supply chains leading to south Libya have an added layer of complexity due to the additional wholesaler located in Sebha that distributes the commodities to retailers. Considering that a large part of trade is distributed through Sebha, it is difficult to avoid the costs that are incurred with the additional supply chain actor. In comparison to Tripoli, where there is often only one wholesaler between the retailer and importer.

The Resolution of the "Bread and Flour Crisis" of 2018

Due to high wheat and bread consumption in Libya, changes to the supply chain of this commodity have a disproportionate effect on the well-being of Libyan households. In 2014, Libya was reported to have one of the highest per capita wheat consumptions in the world, at 12kg per month.[47] As the economic situation deteriorated, Libyan consumption dropped from 280,000 tonnes of flour per month in 2014 to 120,000 in 2017.[48]

During the period of March to November 2018, Libya experienced serious supply shortages and price increases for wheat flour and bread.[49] The price of bread increased by 45% from 1.13 LYD to 1.67 LYD per five pieces of bread from June to September 2018, then dropped by 25% to 1.25 LYD in November, after which it stayed stable through to August 2019 (see figure 10). The cost of bread is highly correlated to flour prices; from June – October 2018, flour prices rose 41%, to drop 35% November 2018 – March 2019. Surprisingly, the cost of bread did not change during the four months that flour prices continued to drop. Bread prices flatlined from December 2018 – August 2019, after which the cost of bread dropped by 10% in September 2019. The price spikes began partly due to supply chain disruptions caused by restrictions on letters of credit implemented by the CBL.[50] Through these restrictions, the CBL attempted to crack down on the issue of "ghost bakeries": legally registered but physically non-existent entities that use their position to access foreign currency at the official rate, then sell their foreign currency, subsidised flour or subsidised fuel on the parallel market. [51]

Figure 10 - Flour and Bread Price Trends



These restrictions were relatively successful in stopping illicit activities, but had heavy financial repercussions towards the functioning bakeries that sold bread to consumers. Bakeries that continued to operate had less access to foreign liquidity and resorted to obtaining currency for imports using the parallel-market rates. Further measures were implemented to combat ghost bakeries by enforcing the use of e-payments for bakeries that are buying flour and ensuring security cheques. Despite flour prices being liberalised in 2014, reports indicate that 80% of flour consumption by bakeries rely on subsidised grains and flour bought with foreign currency.[52]

Bakeries and retailers adopted three main strategies in mid-2018 to compensate for their increased operational expenses:

- Most monitored bakeries continued to sell bread at a fixed rate of 1 LYD per bag, but reduced the number of pieces per bag so that each individual piece cost more. The individual pieces of bread also frequently shrank to use less flour.
- Less commonly, bakeries continued to sell bags of the same size, but increased the price they charged per bag.
- Finally, some bakeries suspended operations or shut down entirely due to unsustainable operating costs.

Food Types

Domestically produced vegetables

Despite most products in Libya being imported from foreign markets, a few agricultural goods are still produced domestically. Peppers, onions, potatoes and tomatoes are grown locally in the west, east and south; however, most agricultural production is generated by large-scale producers near Tripoli in the Jfara plain. According to a 2017 market assessment by ACTED's program REACH, an estimated 90–100% of tomatoes found in Tripoli were produced domestically, compared to 66% in Benghazi.[53] During the 2017 assessment, there were an estimated 300 farmers producing tomatoes in the region surrounding Tripoli.

In the south, meanwhile, comparing the number of tomato farms in 2014 (700) to 2017 (40-50) highlights the decline of the south's agricultural output.[54] The security situation in the south deteriorated due to social pacts. The clashes amongst actors in the region slowly escalated over the years with rival communities competing over fixed economic streams, such as oil fields and smuggling routes.[55] Furthermore, water scarcity is constant, and access to water can be precarious if the infrastructure is not well maintained.[56] Consequently, the south suffers from constant water outages due to underfunded and outdated water systems, without other options to fall back on.

The domestically produced agricultural products follow a similar pricing trend from July 2018 to June 2019. From July 2018 to January 2019 the prices either remained stable or fluctuated between 0% and 25% from the price in July 2018, subsequently the prices of food items rose 50%-75% between February–May 2019. In Libya, agricultural products such as tomatoes generally increase in price over the winter, due to the higher cost of growing vegetables and fruit in greenhouses, and subsequently decrease during the summer as production moves outdoors. However, the offensive on Tripoli prevented prices from decreasing, instead causing the cost of these commodities to sky rocket. Many of the clashes during this period were situated in the south of Tripoli, in close proximity to many of Libya's most productive large-scale farms which supply much of the country with agricultural products. This created larger logistical barriers and more expensive transportation costs, severely disrupting supply chains. According to a rapid assessment of south Libya in July 2019, the small amount of local production was not sufficient to meet the demands of the local market, demonstrating the dependency of the south on other agricultural hubs in the country.[57]

Most of the commodities, tomatoes, peppers and onions recovered from the conflict related spike with prices dropping from 33%-63% from June - September 2019.

Imported non-perishable goods

Imported non-perishable items are less susceptible to regional variations, but are influenced more strongly by macroeconomic developments, in particular the parallel market exchange rate. The imported canned foods were at their highest price during the peak of the Libyan dinar devaluation in September 2018. As canned goods are often bought in larger stocks by retailers and wholesalers, non-perishable goods are slower to react to parallel market exchange rate fluctuations. For example, the prices of chickpeas, beans and tomato paste only began to drop in price in January, compared to products such as bread or milk, which face faster turnovers and thus began to drop in price shortly after the implementation of the economic reforms in September.

On the other hand, these products were not strongly affected by the conflict in the south of Tripoli. The ability of retailers to buy these types of goods in larger stocks meant that they are less susceptible to conflict related supply route disruptions. The prices of chickpeas, beans, and canned tuna increased by 6%-9% between May and June, but decreased in price the following months. For example, the price of tomato paste increased by 10% in April 2019, stagnated for one month and dropped in price by 7% from May to June 2019. Similarly, tuna and beans respectively rose by 6% and 9% in June, but immediately fell in price by 9% and 6% in the following months. Even during the time of conflict, all major Libyan ports (apart from Sirt and Derna) were declared open and functioning, demonstrating that imported commodities could be shipped into the country without many logistical barriers.[58]

Meat and Dairy

According to KIs, 60% of lamb meat, 70%-80% of chicken, 90% of eggs and only 10%-20% of milk is produced in Libya. The difference in domestic production can evidently be seen by the changes in price during the conflict in the south of Tripoli. Eggs, chicken and lamb increased in price by 13%-19% in May, the markets nonetheless adapted quickly to the supply chain disruptions and prices recovered within a month. Whereas the (mostly imported) milk consumed in Libya witnessed a slower gradual rise during the same period.

Figure 6 - Domestically Produced Vegetables

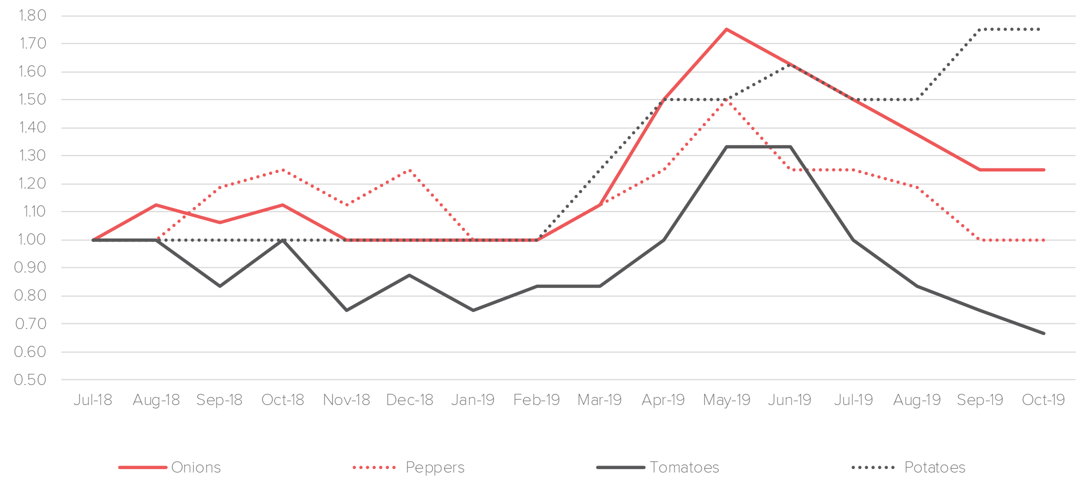


Figure 7 - Imported Non-Perishable Goods

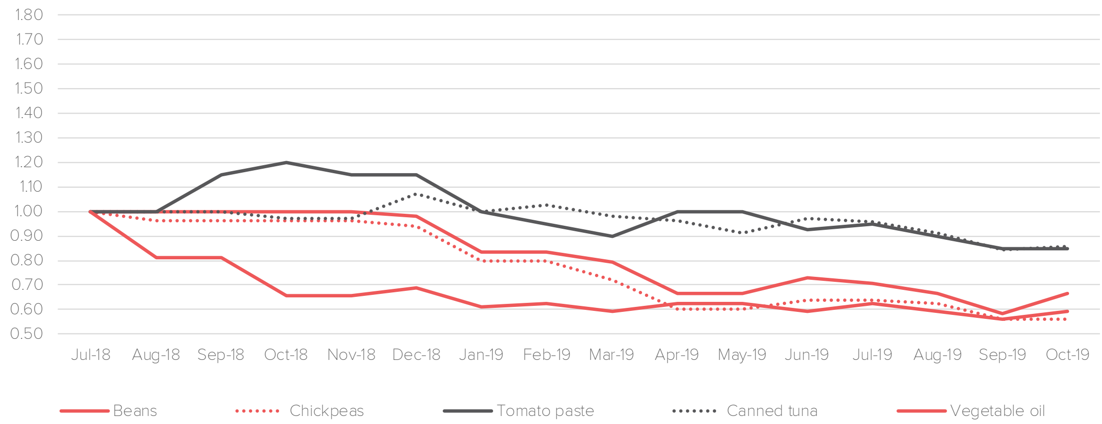
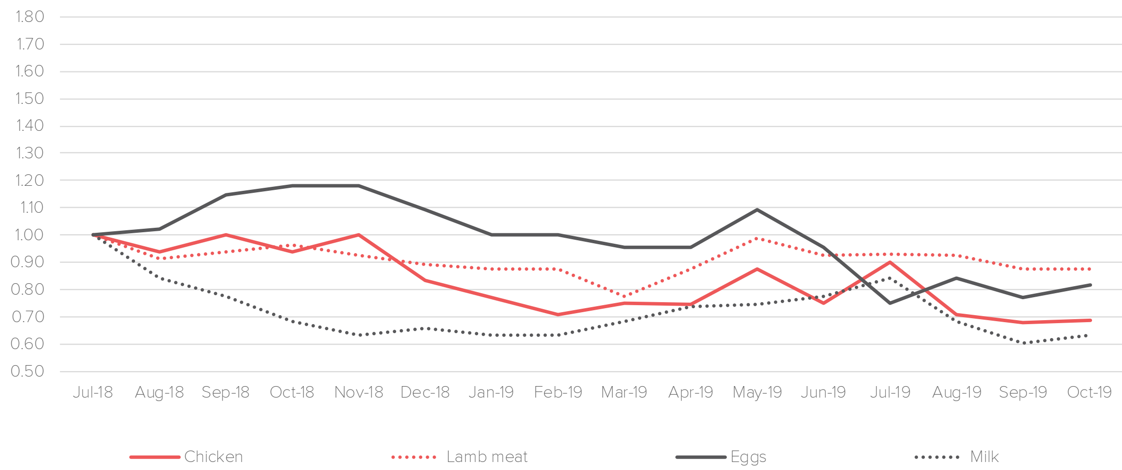


Figure 8 - Meat and Dairy



Conclusion

This report highlights the correlation between food prices and a highly depreciated LYD to USD on parallel markets, the results of the economic reforms and the susceptibility of food prices to the conflict in the south of Tripoli. Libya's economy can be perceived as a complicated, opaque web entwined with a multitude of actors aiming to serve conflicting interests. The lack of security, especially in the west and south, enable economic actors and non-state armed groups to exploit almost every segment of the economy, from the production of oil, to the currency markets and the importation of goods.

Food prices were at their highest point during September 2018, whilst the LYD reached 7.000 LYD/USD on the parallel market. This exchange rate value has a significant effect on pricing due to mainly suppliers not being able to access foreign currency through the official rate and therefore being reliant on parallel exchange markets to attain hard currency for the importation of commodities into the country. To combat this issue, authorities in Libya implemented a 183% transaction fee on foreign currency transactions and began approving a higher number of letters of credit for suppliers. Consequently, the cost of the MEB food portion dropped from October 2018 to March 2019.

The conflict to the south of Tripoli began on the 4th April 2019, the cost of the MEB returned to previous levels during the months of April and May. The cities most affected by the conflict were those that suffered the highest amount of logistical restraints from disrupted supply routes. The main commodities that were affected by the conflict were domestically produced agricultural goods, such as peppers, onions, potatoes and tomatoes. This was due to many of the farms being located in the south of Tripoli, in close proximity to the conflict, leading to a disruption in production and supply routes for these products. Since the start of the conflict, prices have reduced by a large margin, demonstrating how markets have adapted to their environment and continue to function adequately despite ongoing conflict.

The cost of the MEB food portion in south Libya was influenced by both exchange rate fluctuations and regional disruptions. Compared to other regions, prices in the Fezzan tended to have a one-month lag in response to the parallel market exchange rate changes due to its geographic and logistical remoteness. The cost of living is substantially higher in the south due to a number of political, security, infrastructure and logistical constraints.

Libyan markets have shown great resilience in adapting to the disruptions caused by the conflict. Nonetheless, the country's insecurity has allowed rentier systems to further manifest within its economic structure, enabling the predatory behaviour of certain economic actors and allowing consumers to absorb a hefty financial burden.

Endnotes

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Annex 1

Table 1

MINIMUM EXPENDITURE BASKET (MEB)

Key Elements: Food Items

Bread	38 kg	Tomatoes	12 kg
Rice	12.5 kg	Potatoes	14 kg
Pasta	11 kg	Onions	8 kg
Couscous	6.5 kg	Peppers	5 kg
Beans	7 kg	Tomato paste	7 kg
Chicken	9 kg	Black tea	2 kg
Tuna	4.5 kg	Vegetable oil	6 L
Eggs	4.5 kg	Sugar	2 kg
Milk	10 L	Salt	1 kg

Key Elements: Non-Food Items

Bathing soap	1.5 kg (10 150-g bars)
Toothpaste	0.6 kg (6 100-g tubes)
Laundry detergent	1.5 L
Dishwashing liquid	1.5 L
Sanitary pads	4 packs of 10
Cooking fuel (LPG)	22 kg (2 11-kg refills)

Optional Elements[6]

Water (drinking and domestic use)	2,790 L
Median rent for 3-rm flat	1 month
Float[7]	20% of key elements

The **Minimum Expenditure Basket (MEB)** represents the minimum culturally adjusted group of items required to support a six-person Libyan household for one month. The cost of the MEB can be used as a proxy for the financial burdens facing households in different locations. The MEB's contents were defined by the CWG in consultation with relevant sector leads.

Only the MEB's key elements (food and non-food items) were incorporated into the calculations in this factsheet.

Table 2

City	Cost of Food MEB, July 2018 (LYD)	Cost of Food MEB, December 2018 (LYD)	Cost of Food MEB, June 2019 (LYD)	Change July -December 2018(LYD)	Change December 2018 - June 2019 (%)	Change July 2018 - June 2019 (%)
Al Aziziya	816.99	691.16	787.16	-15.40%	13.90%	-3.70%
Alkhums	760.08	767.59	764.49	1.00%	-0.40%	0.60%
Azzawya	825.01	696.45	699.84	-15.60%	0.50%	-15.20%
Azzintan	724.2	652.09	728.65	-10.00%	11.70%	0.60%
Bani Waleed	677.27	712.94	696.54	5.30%	-2.30%	2.80%
Ghadamis	791.63	676.13	782.63	-14.60%	15.80%	-1.10%
Ghiryan	775.84	692.25	810.54	-10.80%	17.10%	4.50%
Misrata	702.46	718.19	667.38	2.20%	-7.10%	-5.00%
Nalut	710.12	737.76	773.31	3.90%	4.80%	8.90%
Sabratha	814.29	722.24	688.8	-11.30%	-4.60%	-15.40%
Tarhuna	709.71	748.44	677.13	5.50%	-9.50%	-4.60%
Tripoli	699.57	682	724.91	-2.50%	6.30%	3.60%
Zliten	634.19	696.31	697.5	9.80%	0.20%	10.00%
Zwara	828.08	728.98	722.47	-12.00%	-0.90%	-12.80%
Median West	**732.55**	**715.77**	**710.19**	**-2.30%**	**-0.80%**	**-3.10%**
Albayda	740.63	711.75	690.75	-3.90%	-3.00%	-6.70%
Alkufra	922.67	863.05	787.41	-6.50%	-8.80%	-14.70%
Almarj	707.88	714	662.56	0.90%	-7.20%	-6.40%
Benghazi	717.16	641.4	682.77	-10.60%	6.40%	-4.80%
Ejdabia	678.73	678.38	645.6	-0.10%	-4.80%	-4.90%
Tobruk	739.49	710.38	672.19	-3.90%	-5.40%	-9.10%
Median East	**745.42**	**685.88**	**689.31**	**-8.00%**	**0.50%**	**-7.50%**
Algatroun	949.59	1005.34	933.46	5.90%	-7.10%	-1.70%
Aljufra	816.87	854.26	815.06	4.60%	-4.60%	-0.20%
Brak	853.25	750.91	694.13	-12.00%	-7.60%	-18.60%
Ghat	1031	1099.5	917.49	6.60%	-16.60%	-11.00%
Murzuq	953.24	991.47	896.47	4.00%	-9.60%	-6.00%
Sebha	845.12	796.98	711.13	-5.70%	-10.80%	-15.90%
Ubari	982.17	873.93	945.31	-11.00%	8.20%	-3.80%
Median South	**913.61**	**868.2**	**834.81**	**-5.00%**	**-3.80%**	**-8.60%**
Median Overall	**770.68**	**738.89**	**722.81**	**-4.10%**	**-2.20%**	**-6.20%**