

# Assessment of the Libyan wheat supply chain

Mixed methods assessment of the short-term impact of the escalated conflict in Ukraine on the Libyan wheat supply chain

# Contents

- Research objectives & Methodology
- Key findings
- Conclusions

# Research Objectives & Methodology

The objective of this assessment was to provide essential qualitative and quantitative visibility on how the Libyan wheat supply chain has reacted to the sudden disruption of the global wheat supply chain by **capturing Minimum Expenditure Basket (MEB) variations** between February and July 2022 as well as the **experiences of importers, traders, and market regulators** in terms of perceived changes, trading strategies, and mitigation measures adopted.

A **mixed methods approach** was employed to achieve the objectives of the assessment. Data collection was carried over the month of May 2022 by REACH field staff after consultations with the Libya Cash and Market Working Group (CMWG).

## QUANTITATIVE

**Systematic secondary data review** of the **monthly Joint Market Monitoring Initiative (JMMI) datasets** collected and published by REACH up until July 2022

## QUALITATIVE

**31 Semi-structured Key Informant Interviews (KIIs) with different professional actors** working along the Libyan supply chain of imported wheat

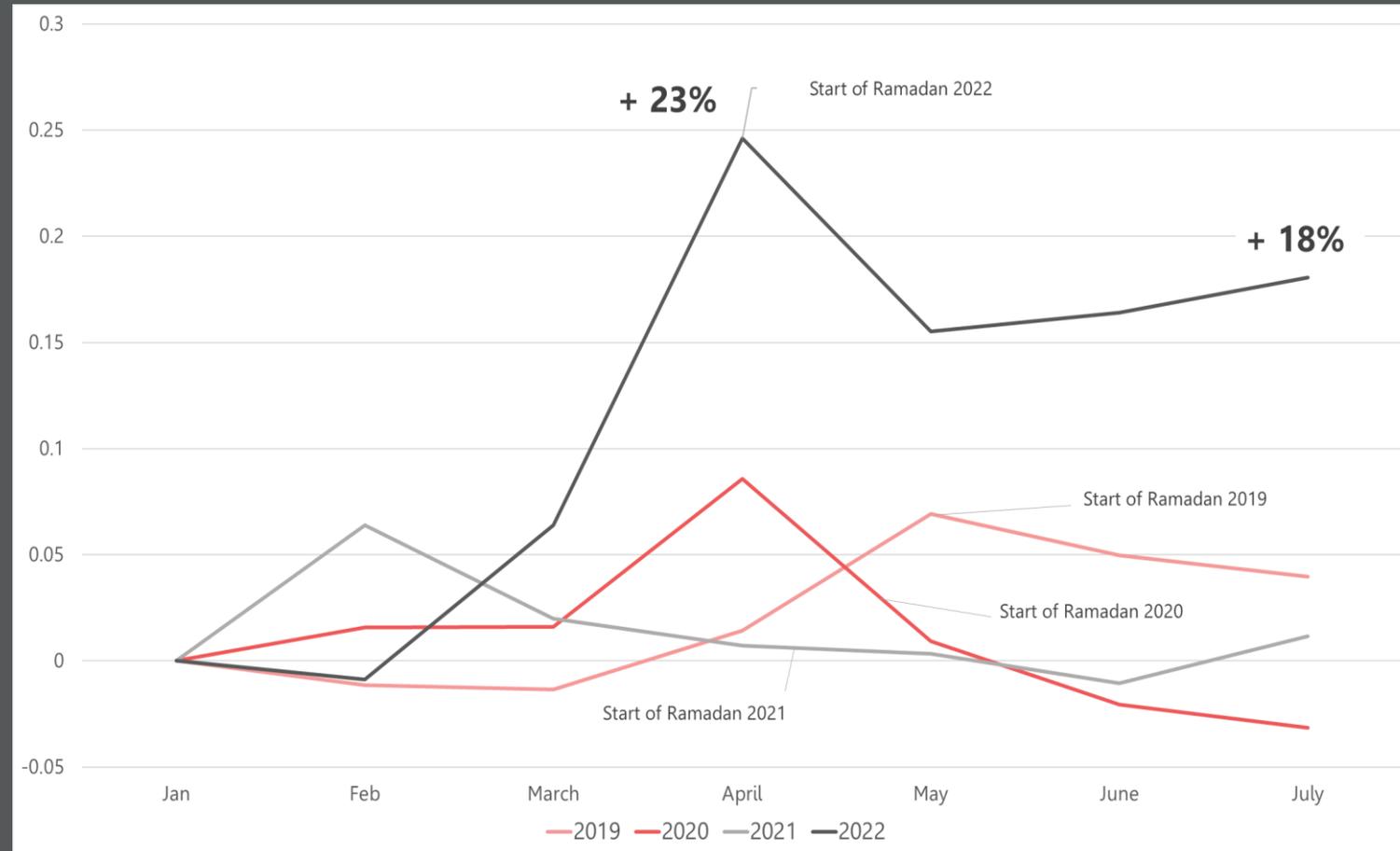
## Number of KIIs conducted per respondent profile

Supply chain stage	Public/Private	Profile	South	West	East	Total
Retail	Private	Private retailers: small shops, supermarkets, bakeries	4	1	3	8
	Public	Consumer associations	4	1		5
Wholesale	Private	Private Wholesalers	4	2	1	7
	Public	Price Stability Fund (PSF)	1	1		2
Import (& Processing)	Private	Private importers		2		2
	Public	MATAHAN/National Milling Company (NMC)		1		1
Institutional Stakeholders	Public	Public authorities directly involved in the regulation of the Libyan trading sector or possessing some degree of national economic policy visibility and knowledge		5	1	6

# MEB fluctuations

- Findings do not point towards an ongoing deteriorating situation in terms of the quantity of wheat flour available, but rather to one which, after an initial drop, stabilised at a lower level. **What appears to be worsening is the financial accessibility of wheat-derived products.**
- Libyan food markets usually anticipate Ramadan by increasing supply stocks as well as prices during the month ahead of the official start. Yet the price increase that occurred ahead of the 2022 Ramadan was remarkably higher than that of previous years.
- Overall, the national median price of the **cheapest flour brand** available on the Libyan market in July 2022 was 3.500 LYD (+19% more expensive than in January 2022).
- Overall, **the availability and financial accessibility of cereals in Libya is found to be potentially further compromised in the medium-term.** As of July 2022, the world's trade for the year 2022 is forecast to decrease compared to 2021 estimates, with a decrease by 1.6% for wheat. This forecasted decrease is reportedly attributed to the war-related disruption of Ukraine's cereal supply chain.

**% Price fluctuations of the food portion of the national MEB in the first six months of the last four years (2019 – 2022)**





## Wheat flour import

- Findings from import KIs revealed that the level of import has remained the same between February and May 2022.
- The relative **stability of foreign exchange (FOREX) rates** against the international wheat price increase and the **sustained level of wheat imports** since February 2022 indicates that **access to Letters of Credit (LCs) may have in turn been unaltered**, and that their value may have actually increased. This is even more likely considering that Libya's net foreign currency reserves are reported to have reached comfortable levels across 2021.
- As such, the **main short-term impact** of the international wheat price increase following the escalated conflict in Ukraine **at the import level** only refer to the **price increase** and the **origin of wheat flour**.
- The origin of wheat flour available on the Libyan wheat supply chain has partially changed since the end of February 2022 with a reported **increase of wheat flour originating from other North African countries** (wheat-import dependent countries themselves) **as well as South American countries**.



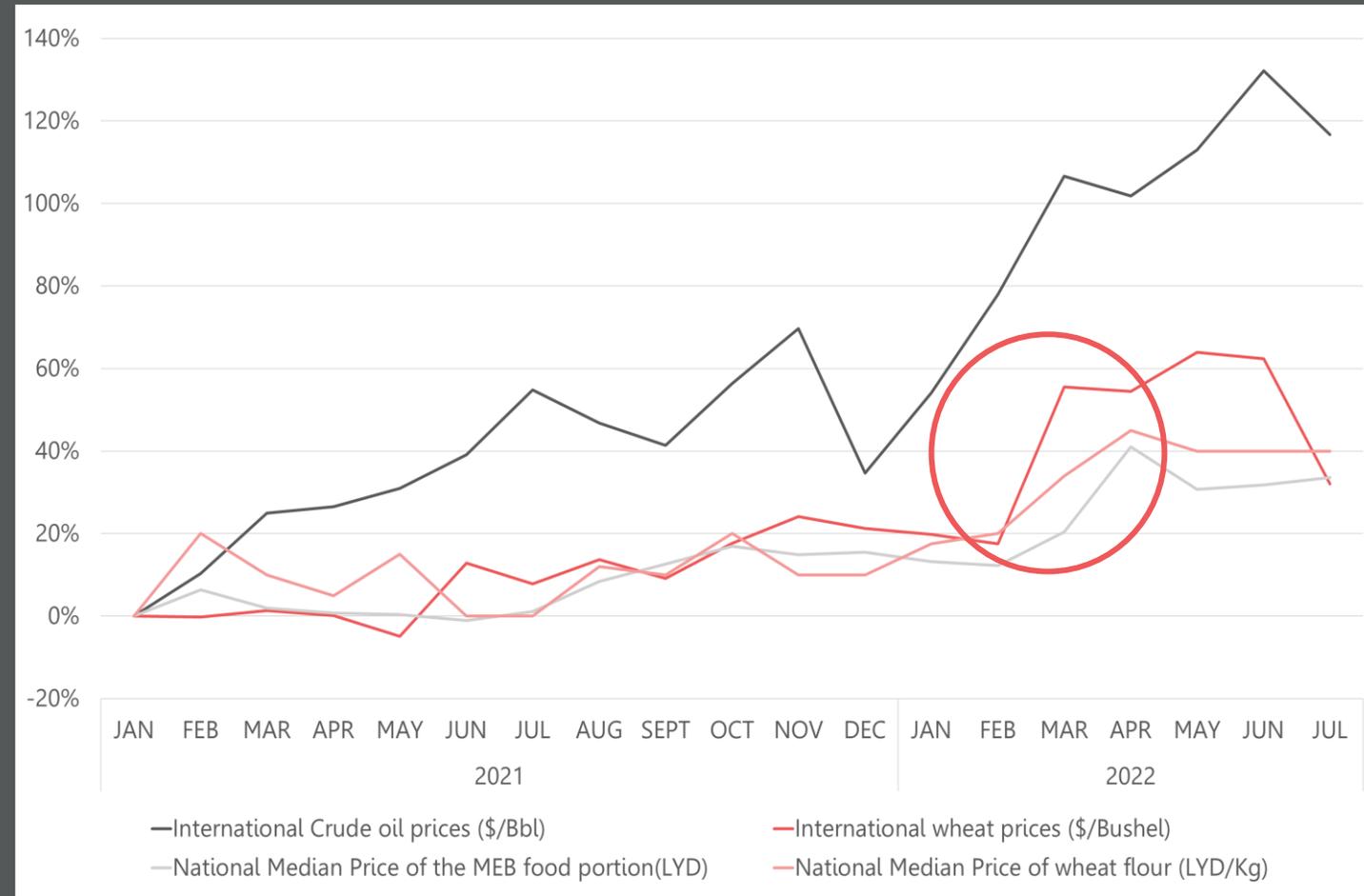
## Wheat flour wholesale & retail

- Overall, findings from the KIs suggest a **decreased capacity to source wheat flour among retailers and wholesalers** along the different stages of the private Libyan wheat supply chain. The majority of KIs reporting a **decreased quantity of wheat flour available along the supply chain and a price increase**.
- Overall, the **financial solvency of traders** towards their suppliers along the Libyan wheat supply chain **does not seem to have been affected** between February and May 2022. As a matter of fact, the persistent liquidity crisis and the lack of access to formal credit along the Libyan wheat supply chain mean that **no debt is accumulated along the supply chain**; debt is rather transferred to, and borne by, final consumers.
- While the **Libyan societal expectation of 1 LYD per bread bag at the retail level has mostly been maintained** across Libya, the increased price of wheat was found to have materialised in a **decreased number of pieces of bread per bag**.

	January 2022	May 2022
Share of vendors selling less than 5 pieces of bread per bag at <u>1 LYD</u> out of all vendors selling bread (n=148)	<b>80%</b>	<b>98%</b>
4 pieces of bread per bag	88%	39%
3 pieces of bread per bag	12%	58%
2 pieces of bread per bag		3%

- The **retrieved discrepancy between wheat flour's sustained availability at import levels and decreased availability** downwards along the supply chain since the end of February 2022 may signal the occurrence of **speculative trading behaviours**.
- The **decreased availability** of wheat flour reported along the Libyan supply chain between February and May 2022 was artificial. This was mostly driven by **anomalous purchasing and selling behaviours in a food system characterized by fragile stocks and regulatory frameworks, triggered by a sudden international uncertainty around wheat availability**.
- These findings suggest that, even though wheat flour is available and circulating on the market, it may have come at the expense of a **general decrease of wheat reserves and stocks on a supply chain system level since February 2022**. A decrease of stocks and reserves across the country considerably **increases the supply chain's vulnerability to future shocks and** reduces food security resilience, especially in a country where production levels remain marginal.

## Longitudinal overview of the international % price change of crude oil, wheat as well as national % price change of Libyan wheat flour and Libyan food part of the MEB

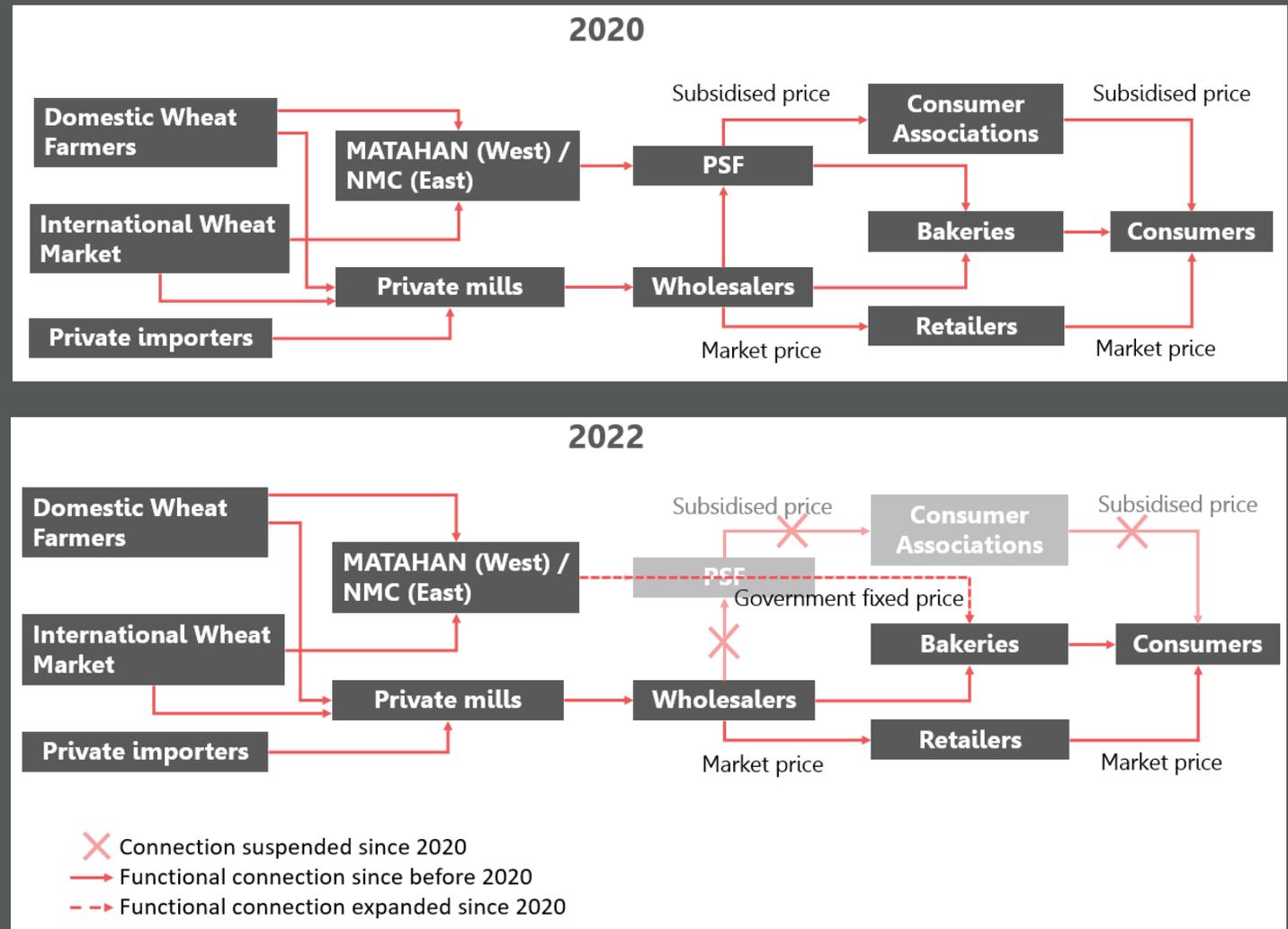




## Government Support

- The only governmental action mentioned by a minority of private trader KIs is the **government attempt to fix a unified wholesale wheat flour price**, confirming the secondary literature on the matter. As a matter of fact, only 7 out of 17 trade and import KIs reported a wholesale fixed price, reportedly being of 240 LYD per 50 kg bag. Still, all respondents clarified that **no stakeholder along the wheat supply chain was abiding to the newly fixed price**. The reasons reported are its economic inadequacy, as the set price is systematically lower than all the reported actual purchasing wholesale prices by KIs, and the lack of a legal framework supporting the enforcement and implementation of such decision-making.
- No new financial support for private traders along the Libyan wheat supply chain has reportedly been put into place by the Eastern and Western Governments since February 2022.
- The **creation of a new Cereal Bureau** by the government, which will replace the PSF and will oversee **the definition of a unified food security strategy for Libya**, was mentioned by multiple KIs across all interviewed profiles and confirmed by the literature, which reported the establishment of such a bureau at the beginning of **June 2022**.

- The structural governmental entities supposed to provide essential goods at subsidised prices, namely the **PSF** and the **consumer associations (jam'iyats)**, **have not been operating since the end of 2020 across the entire country** due to the lack of financial resources from the government.
- It was also reported that the inactivity of the PSF has led to the development of a highly concentrated and uncontrolled private food trading market with monopolistic and speculative tendencies.
- Except for the reported exceptional shipment of subsidised goods to a restricted number of consumer associations in February 2022, **subsidised food items have otherwise been inaccessible in Libya for more than a year.**
- Households, including the most vulnerable, have been exclusively relying on increasing private market prices for their food security since the end of 2020.**



# Conclusions

- Findings indicate that the escalation of the conflict in Ukraine at the end of February 2022 and the sudden rise of international wheat prices **mostly impacted the Libyan wheat supply chain in terms of wheat financial accessibility**. The food portion of the national MEB increased by 18% while the cheapest wheat flour brand increased by 19% between January and July 2022. The wheat flour price increase was found to have translated in a **decreased number of pieces of bread per bag usually sold at the retail level for 1 LYD** between January and May 2022.
- Since Libyan wheat import levels were found to have remained the same since February 2022, the **decreased availability** of wheat flour reported by KIs along the Libyan supply chain between February and May was mostly driven by **anomalous purchasing and selling behaviours in a food system characterized by fragile stocks and regulatory frameworks**.
- The exposure to speculative behaviours across all stages of the Libyan wheat supply chain is found to have contributed to the erosion of wheat reserves and stocks on a supply chain system level, seriously reducing Libya's cereal security resilience to future shocks.
- The structural governmental entities supposed to provide essential goods at subsidised prices, namely the **PSF** and the **consumer associations (jam'iyats)**, **have not been operating since the end of 2020 across the entire country** due to the lack of financial resources from the government. From an institutional perspective, no major financial measure from the government was found to have been put into place to support private traders along the supply chain since February 2022.

Questions?