

Promoting economic reforms in Libya's agribusiness sector

Issues paper for public-private dialogues on the agribusiness sector in Libya

This note aims at guiding a series of public-private dialogues (PPD) on the agribusiness sector in Libya (September 2022 – February 2023). It provides an initial assessment of the sector, including its potential for diversifying the Libyan economy, and key challenges impeding sector growth, such as strengthening the regulatory framework, improving the business environment, and increasing Libya's self-sufficiency and export potential. Participants are invited to share their views and perspectives on common challenges and priorities for the agribusiness sector. The conclusions will contribute to a policy reform roadmap for the sector. This note will also support the formation of a PPD platform in Libya that will involve both policymakers and private sector representatives.

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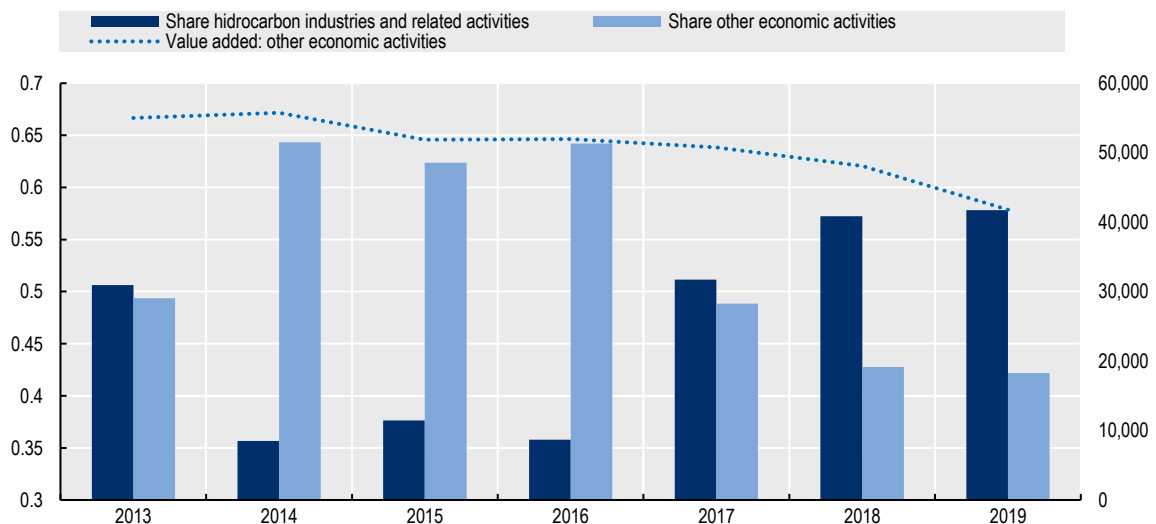
Promoting economic reforms in Libya's agribusiness sector

Acknowledging the strategic importance of agribusiness activities in Libya will build the country's resilience to global and regional shocks and improve Libya's food security, which is critical for the consecution of the SDGs¹. Overall, Libya imports around 50% to 70% of the food consumed nationally (OECD, 2016^[1]) - (Juillard H., 2021^[2]), representing USD 2.6 billion, 5% of the country's GDP. This significant dependence on foreign markets leaves the agribusiness sector prone to supply disruptions due to international conflicts. In 2021, Libya imported approximately 65% of its wheat from Ukraine and Russia (FAO, 2021^[3]), which caused price surges of food products because of the Russia's aggression against Ukraine. This solidifies the case for developing the agribusiness sector in order to reduce foreign dependency for food products. minimize risks to food security and reinforce the participation of the private sector.

In addition to ensuring higher resilience, improving economic activities under these sectors can support furthering Libya's economic diversification, sustainable growth, and employment creation. Consultations conducted by the OECD in 2013-2016 determined that Libya's agribusiness sectors had a relevant potential for economic growth and job creation (OECD, 2016^[1]). More recent surveys and stakeholder analyses have confirmed that the estimated and perceived potential behind these sectors remain high. In Libya, the overall feeling is that agribusiness has a significant growth potential, mainly due to its current significant dependence on foreign markets. However, Libya's diversification objectives remain distant. As non-hydrocarbon related economic activities have continued its decline (Figure 1), the oil industry has started its gradual recovery (but not without socks) towards the historical potential values.

Figure 1. While the hydrocarbon sector has recovered its pre-crisis weight, the non-hydrocarbon economic size has steadily decreased since 2013

Left axis show % of Libya's GDP; Right axis show value added in millions of Libyan Dinar.



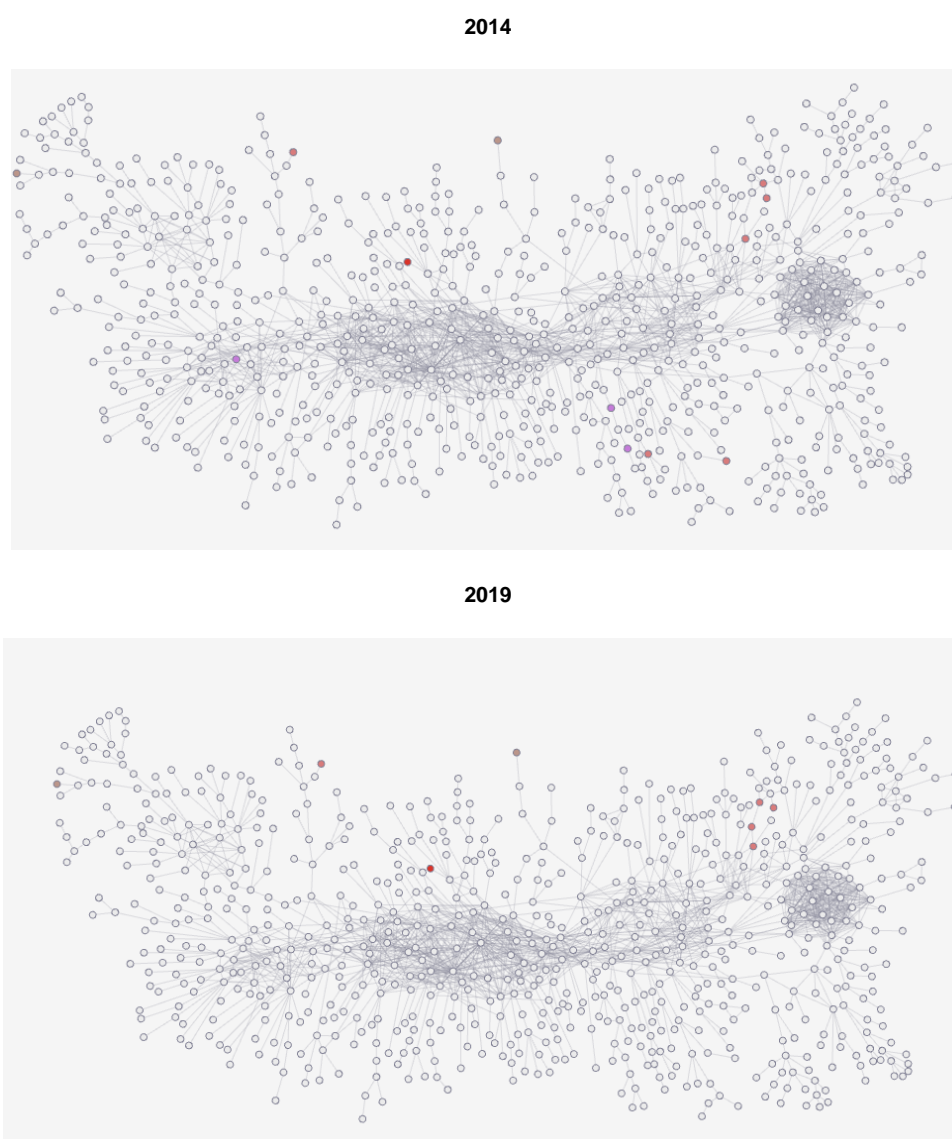
Source: OECD Staff calculations, Central Bank of Libya 4th Quarter Economic Bulletin, 2021

¹ UN Sustainable Development Goals: Goal number two. <https://sustainabledevelopment.un.org/topics/foodagriculture>

The decline of Libya's non-hydrocarbon economic activities can be observed in the composition of the country's exports basket regarding the goods where Libya offers a comparative advantage with respect to other international competitors (RCA). Between 2014 and 2019, Libya's exports basket has lost a number of goods that no longer offer an advantage with respect to similar goods in the global market (Figure 2). Among them, Libya has lost advantage over more complex and more integrated products, mostly from the chemical industries. Libya's main exports with high RCAs remain oil, its derivatives, and gases (which in total account for 90% of the country's exports in 2019).

Figure 2. Libya's exports have lost international competitiveness in the last five years

Libya product space. Highlighted nodes represent exported products with RCA above 1



Note: Each node is a product, and its size determined by its share of total country exports. The opacity of a node indicates the degree to which the product is produced with an RCA. The product space map gets denser towards the centre and is sparse at the periphery. Many products group naturally into highly connected communities of products as they require similar capabilities (e.g. knowledge and factor inputs). The distance between the products represents the ease of "jumping" to another product.

Source: The Atlas of Economic Complexity and UN Comtrade Database

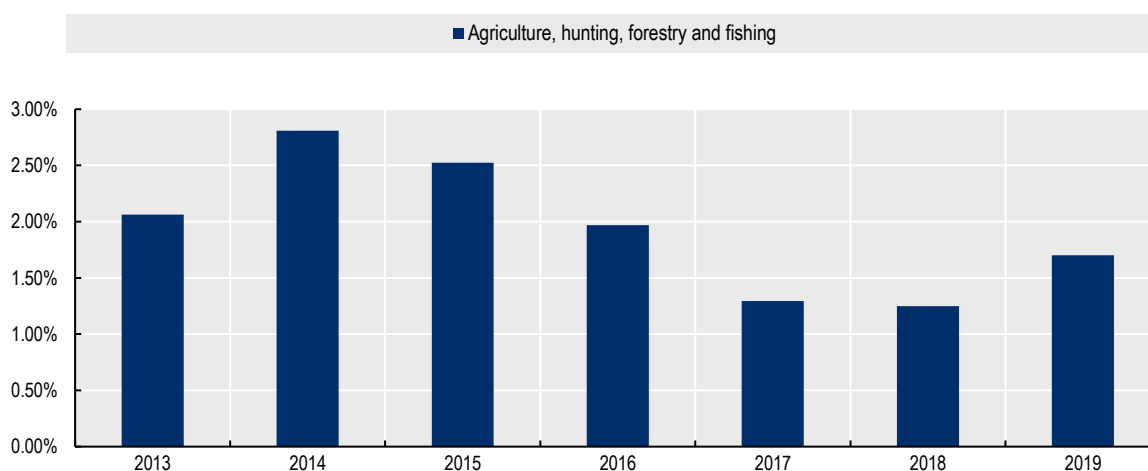
Agribusiness (agricultural products, fisheries, and food processing) is a priority for Libya's economic diversification and social development

The contribution of agribusiness activities to Libya's GDP falls short of its economic potential and below regional figures. In its last assessment of Libya's private sector, the World Bank estimated that agriculture, and food manufacturing in 2017 could represent at least 2% of the country's GDP (Rahman, 2020^[4]). In 2021, the Central Bank of Libya (CBL) released for the first time in years statistics on the GDP share of its economic sectors. In the last estimation (4th quarter of 2021), the CBL attributed to Agriculture, hunting, forestry and fishing 1.70% of the GDP generated in 2019. Other food processing activities are hard to estimate as they are integrated under the manufactures sector.

The International Labour Organisation estimates the agriculture and fisheries sectors provided 16.4% of the total employment in Libya in 2019². A recent labour market survey conducted by the IOM in 2021 lowered this estimate to only 1.4% of the Libyan employed population, however, in addition to the food processing industries, these sectors could be providing jobs to over 8% of the country's employed population (Juillard H., 2021^[2]). In 2018, the FAO announced the results of the UN-led 2018 Multi-Sector Needs Assessment³, which found that 22% of Libyan households were engaged in agricultural activities (FAO, 2019^[5]).

Figure 3. Agricultural and related food products remain below its economic potential

Value added, % of GDP



Note: The CBL presents data for fisheries not grouped with agriculture. For simplicity and due to its small size, the OECD has aggregated its value to the later.

Source: OECD Staff calculations, Central Bank of Libya 4th Quarter Economic Bulletin, 2021

Food production in Libya experienced a significant increase (over 20p.p) between 2000- 2013, before slightly declining and stagnating (FAO Food production index, latest data 2019). This decline and stagnation in production can also be seen in the drop of households involved in agricultural activities (FAO, 2019^[5]). According to the WFP, Libya needs to import 92% of its cereal needs (FAO, 2020^[6]), and in overall,

²Last access in 2022 <https://ilostat.ilo.org/topics/employment/>

³ [UN OCHA 2018 Multi-Sector Needs Assessment](#) referenced by [FAO 2018](#)

imports around 50% to 70% of the food consumed nationally (OECD, 2016^[11]) - (Juillard H., 2021^[2]), representing USD 2.6 billion, 5% of the country's GDP.

Figure 4. Food imports dominate Libya's food and agricultural market, but exports have gained relevancy in the past decade

Millions of USD Dollars



Source: OECD Staff calculations, UN Comtrade database

For instance, the FAO proposes strengthening efforts to ensure that Libyans that abandoned agricultural work can re-incorporate while the national conflict eases (FAO, 2019^[5]), ensuring job creation and reinforced revenue sources in rural areas in the country. The IOM's Labour Market Assessment estimated through a production model that the creation of jobs in the agriculture sector would be among the most responsive in a scenario of public investment and direct support, with an average creation of circa 35 000 jobs per increase equivalent to 1% of Libya's GDP (Juillard H., 2021^[2]). The UNDPs sees in the agriculture sector and food services very promising medium-term employment growth expectations (50% value added growth for agriculture, 40% for food services in a period of 3 years) and acknowledges the importance of reducing Libya's reliance on food imports. Furthermore, the UNDP highlights among the sector's qualities its high share of entry-level positions, which can support youth and new entrants find opportunities in the labour market (UNDP, 2021^[7]). The World Bank, acknowledged as well the potential of high-value agricultural products (e.g. dates) in their study, in particular for Libya's southern region (Rahman, 2020^[4]).

Key challenges facing the agribusiness sector in Libya

Policy Priority 1: Improving the regulatory framework

I. Reinforce integration with international markets

Lack of regulation over quality and costs of agricultural input has caused Libya to be poorly integrated with international markets. Production input is often only available on the black market and at high prices, leading farmers to favour cheaper and lower quality input which results in lower yields and productivity (FAO and UNDP, 2021^[8]). In this area, FAO has called for the implementation of policies that support agricultural production, production inputs, the purchase of surplus production, and policies supporting agricultural commodities and marketing (Megri et al., 2022^[9]).

Integration into international markets also requires improvements in quality control, grading, classification and certification, food safety measures, proper packing and packaging practices (FAO and UNDP, 2021^[8]). Quality certification of good agricultural practice (GAP) and organic certification will integrate Libya further to international markets, particularly as Libya holds export potential for organic commodities such as dates and olive oil.

Key questions

- What policy instruments should be introduced to promote integration in agricultural value chains (e.g. quality certification, good agricultural practice, organic certification)?
- What policies need to be changed or implemented to conserve water and soil, better manage groundwater or improve water allocation?

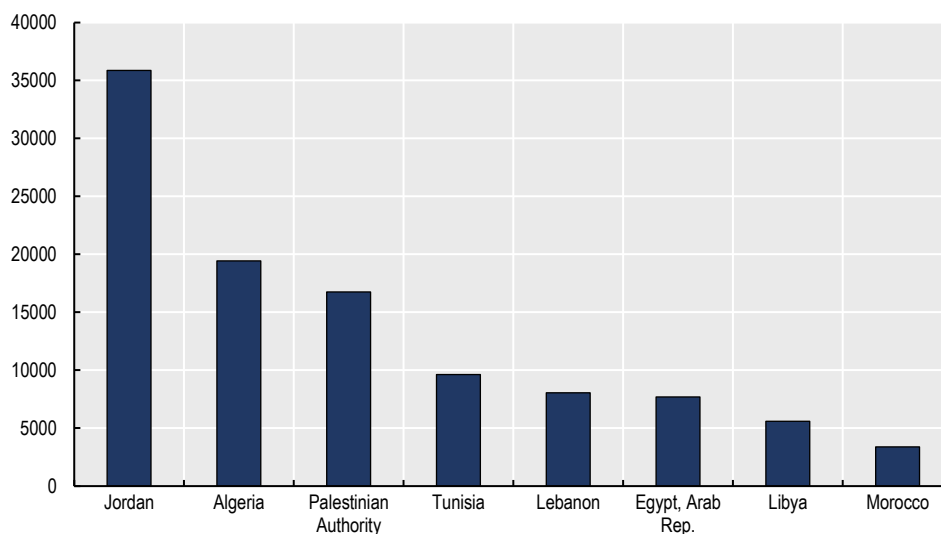
Policy Priority 2: Improving business environment

I. Support research and innovation and technology transfer

Limited support given to expanding extension centres, research and innovation in Libya has had adverse effects on productivity. As a result, Libya's value added per unit of input in the agriculture sector falls short in comparison to select countries in the region due to lower labour productivity (Figure 5). FAO and UNDP have identified areas for further support including post-harvest handling, processing, and other value-added practices such as human resources (FAO and UNDP, 2021^[8]). Given Libya's climate and scarcity of natural resources, technology transfer and capacity building present tangible actions to achieving development goals and boosting productivity in the sector.

Figure 5. Labour productivity in the agricultural sector in Libya is comparably low in MED

Agriculture, forestry, and fishing, value added per worker (constant 2015 US\$), 2019



Note: Data for Libya is based on constant 2015 US\$.

Source: World Bank (2021^[10]), Fuglie and Rada (2019), International Agricultural Productivity Dataset, ERS, USDA.

II. Foster sustainable productivity growth

Water scarcity poses a serious risk to the development of agricultural production in Libya, given the country's dry climate, limited annual rainfall, high evapotranspiration, and scarce surface water. In the absence of permanent water sources, Libya covers the bulk of its water needs from non-renewable groundwater, at 97% of total water use (FAO, 2021^[11]). Similarly, energy and electricity form a large obstacle to the functioning of irrigation systems and water pumps, as well as the ability to precool and refrigerate agricultural products for distribution and export. Regulations are needed to improve the management of water sources with emphasis on agriculture.

To foster sustainable productivity growth, the agricultural sector can tap into Libya's solar power potential, which provides a daily average of solar radiation on a horizontal plane of around 7.1 kWh/m²/day. Given Libya's climate, FAO has recommended the adoption of Solar Powered Irrigation Systems (SPIS) to regulate groundwater use and provide energy access to rural areas in Libya. However, the viability of such an option requires a predictable and transparent regulatory framework that is conducive to investment, and the integration of SPIS strategies into an overall energy strategy (FAO, 2021^[11]).

Key questions

- How can Libya promote use of technologies that support the sustainable management of water and energy by the agriculture sector?
- What measures need to be taken to promote innovation in the sector in order to integrate technologies or enhance production methods (e.g. R&D, capacity building)?

Policy Priority 3: Increasing Libya's food self-efficiency and export potential

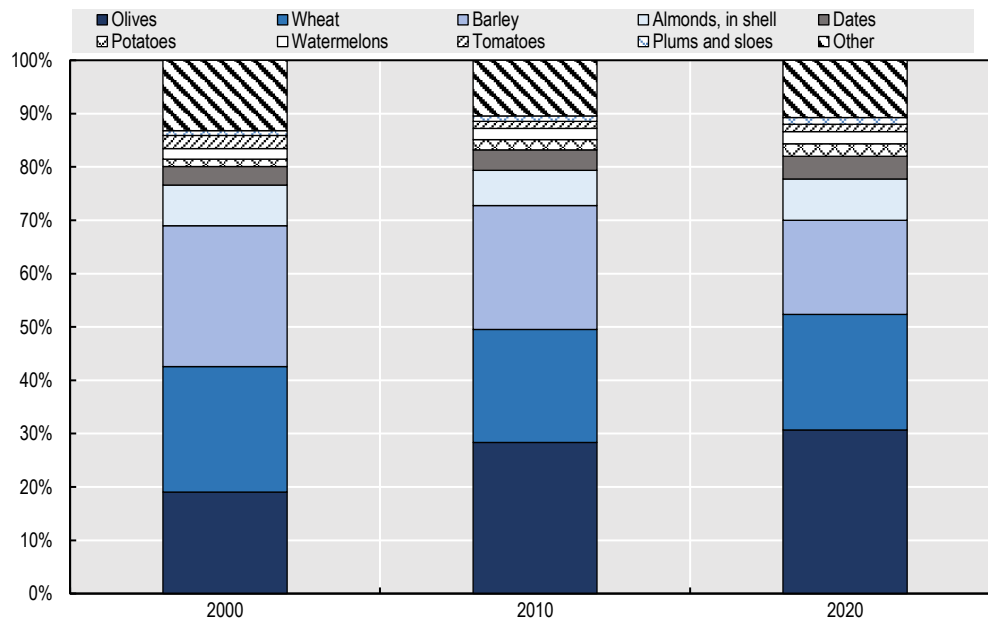
I. Optimize production of the agriculture and agribusiness sectors

In 2020, Libya's allocation of harvested area by commodity shows that the largest shares are accounted for by olives (30.70%), wheat (21.66%), and barley (17.62%). Since 2000, Libya's production of olives has increased by 11.64%, which is mainly used in the production of olive oil, making the country the 15th largest producer in the world based on estimates from 2019. Dates is a high value crop whose production has slightly increased since 2000 given the presence of a strong domestic market (Figure 6).

Libya holds a comparative advantage in its ability to produce vegetables for the European Union in wintertime, on par and even earlier than neighbouring countries such as Egypt, Tunisia, and Algeria (FAO and UNDP, 2021^[8]). The agri-food commodities that have been identified for their export potential in Libya are dates, olives, potatoes, among others.⁴ Challenges persist to expanding these sub-sectors for export including marketing, transportation infrastructure, lack of quality input and pesticides, poor-harvest handling and low availability of labour (Rahman, 2020^[4]).

⁴ FAO and UNDP (2021) have identified varieties of date palm and olives, potatoes, prickly pears, onions, garlic, among others. The World Bank (2020) has identified dates as a high-value product with potential in the south of Libya.

Figure 6. Libya's composition of harvested area, by crop, 2000-2020



Source: OECD staff calculations, based on FAO statistics.

Key questions

- Can Libya achieve self-efficiency in agriculture? What challenges exist to increasing food security?
- What areas or products represent a comparative advantage or high potential for export in Libya? What steps need to be undertaken to develop specific value chains that provide access to domestic or export markets?

OECD policy frameworks and tools can support Libya's efforts to improve the competitiveness and attractiveness of its agri-food sector

The OECD has developed over the years several policy tools on investment and agriculture. These are presented below, considering their relevance to support Libya improving the competitiveness and productivity of its agribusiness sector.

- The [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) represents a central reference for companies of any size in the agricultural sector to implement risk-based due diligence. The Guidance provides enterprises with a practical framework to identify, prevent and mitigate adverse impacts on people, the environment and society along the full agricultural supply chain. Recognising that building responsible agricultural supply chains is critical to sustainable, resilient, and inclusive growth, governments are encouraged to promote the use of the Guidance with a view to ensure that agricultural enterprises conduct business responsibly and contribute to sustainable development, in particular poverty reduction, food security and gender equality.

- The OECD [Declaration on Better Policies to Achieve a Productive, Sustainable and Resilient Global Food System](#) constitutes a central pillar of the OECD efforts to set global standards in the realm of agricultural policy. It outlines a set of shared goals for the agriculture and food sector, and a set of policy principles to ensure an integrated approach to agriculture and food policies reflecting these shared goals. It invites to build a solid evidence-based on the best policy mixes to achieve the shared goals and emphasizes on tailoring advice to specific countries to take account of the diversity of economic, environmental, social, and food security situations. These goals include:
 - Ensuring reliable access to safe, healthy, and nutritious food.
 - Enabling producers everywhere, big and small, male and female, to operate in an open and transparent global trading system.
 - Guaranteeing sustainable productivity and resource use.
 - Contributing to inclusive growth and development.
- OECD cross-cutting analysis includes the annual [Agricultural Policy Monitoring and Evaluation report](#), which reviews developments in agricultural policies at the country level and provides up-to-date estimates of government support to agriculture, as well as the [Policy Instruments to Support Green Growth in Agriculture](#), which defines the concept of green growth, and takes stock of the current initiatives in OECD countries to promote green growth.
- The [2020 OECD Agro-Food Productivity-Sustainability-Resilience Policy Framework](#) reviews the impacts of a wide range of policies on the creation and adoption of innovations needed to increase productivity and sustainability in food and agriculture, leading to concrete recommendations for each policy area. It examines the respective roles for the government and the private sector in strengthening agricultural innovation systems and facilitating adoption of more innovative practices at the farm and agri-food firm level.
- Finally, the [Digital Opportunities for Better Agricultural Policies \(2019\)](#) report present opportunities to deliver better policies for the agriculture sector by helping to overcome information gaps and asymmetries, lower policy-related transaction costs, and enable people with different preferences and incentives to work better together.

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