BRIEF

SMALL TRADERS BARRIERS ANALYSIS

DECEMBER 2022
LIBYA

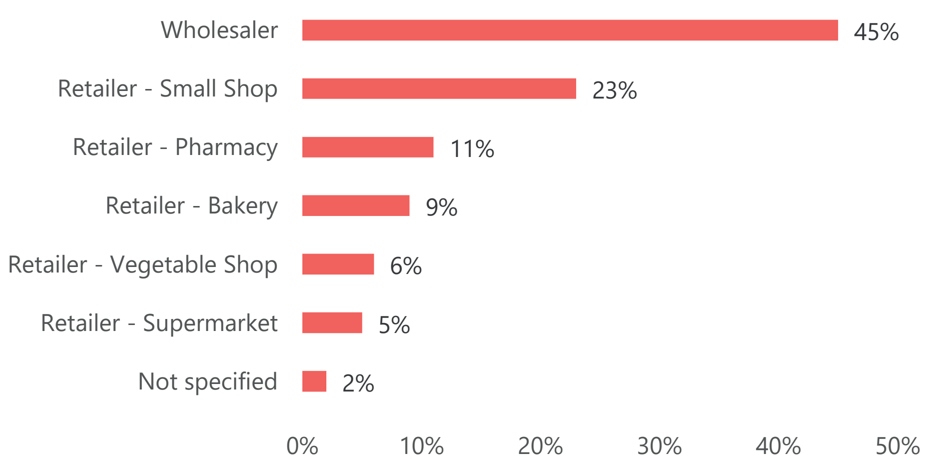
Context

In addition to conflict, Libya saw a further dramatic deterioration of its economy driven by the concomitance of COVID-19 restrictive measures and the discretional oil ports and terminals blockade in the Eastern region between January and September 2020. COVID-19 constituted a threat to food, sanitary, and medical supplies, production inputs and raw material's availability and accessibility, eventually damaging Libyan households' economic welfare.[1]

On the other hand, oil ports closure, with a reduction of oil production from 1,169 million Barrels per Day in 2019 to an average 228 000 barrels per day in the first nine months of 2020, resulted in a loss of the government's revenue of USD 11 billion.[2] In a hydrocarbon-dependent economy such as Libya's, where oil still accounts for about 43% of GDP, 95% of export earnings and 55% of the total revenues,[3] this reduction had a significant impact on the Government's spending, debt, and in turn, on foreign currency availability.

Finally, in January 2021, the Central Bank of Libya (CBL), further devalued the official exchange rate from 1.4 to 4.48 USD/LYD in an effort to renew the competitiveness of Libya's oil exports and boost the government's income.[4] Yet, this maneuver made it more expensive for the private sector to import goods, with the risk of an additional price spike of imported goods; a price spike whose burden impacts all actors of the Libyan supply chain, from importers to the final consumers.

Profile of the interviewed traders



Methodology

The objective of the assessment was to improve the qualitative understanding of the operational, namely physical, financial, administrative, barriers faced by Libyan small traders from a supply perspective, enquiring the potential impacts of COVID-19 and the official currency devaluation implemented in January 2021.

Qualitative data was collected through a series of key informant interviews (KIIs) conducted in-person and remotely by phone with 1) financial service providers (bank employees), 2) importers, and 3) small traders. Data collection took place between the 24th of May and 10th of June 2021, with 159 key informants (KIs) (24 financial service providers, 13 importers, 122 small traders,) interviewed across 6 Mantikas (Benghazi, Al Kufra, Tripoli, Sebha, Ghat, Murzuq).

The categories were purposefully selected as such to capture the perspectives and experiences of actors working in the key professional nodes along the supply chain, while the criteria of individual eligibility to the surveys were built around the sector of employment as well as the dimension of the business of employment.

Profile of respondents (bankers and importers)

All interviewed financial services providers were bank employees. Concerning the profiles of the interviewed importers, most of the respondents (12/13) reported importing for wholesalers. The type of imported items are mostly food items as specified by 12 KIs, mainly imported from Turkey (10/13), Europe (4/13), Egypt (3/13) or India (3/13). The graph shows the profiles of the interviewed traders (see opposite).

I. MANY OF THE CHALLENGES ENCOUNTERED ALONG THE SUPPLY CHAIN OF IMPORTED GOODS ARE STRUCTURAL AND MAINLY DUE TO EFFECTS OF THE TEN YEARS OF CONFLICTS AND POLITICAL FRAGMENTATION BETWEEN THE WEST AND THE EAST.

1. Political division and nepotism are creating institutional issues, lack of trust and reducing access to financial services

Libya has been undergoing liquidity shortages following massive sales of foreign currency from banks to their clients.[5] This prompted the authorities to protect foreign currency reserves. Difficulties in issuing certified letters of credits (LCs) and its uneven access to importers were highlighted by some KIs and reflect the limited access to foreign currency. **Eight out of 13 interviewed importers reported relying on the black market to obtain access to foreign currency** because of the fluctuating nature of the LYD against USD and its unequal access, fueled by corruption and financial mismanagement, further damaging confidence in the banking sector. Some bankers KIs that took part in the assessment explained that **the political division reflected in the institutional fragmentation of the CBL represents a major obstacle to ensure the availability of cash and functionality of banking services.**

The lack of liquidity at the banking level was also reportedly caused by the difficulty to physically transport cash across the country from the CBL, the unfair and uneven distribution of cash across the country as well as **the mistrust of traders to deposit their cash in the bank**. As shown in the Libya Country Report published by the Bertelsmann Transformation Index (BTI), the increased customers' preference for cash led to a decline in deposits, falling by 7.5% in 2019.[6]

"In the last period the dollar was adjusted to 4.48 dinars for one dollar. Access to foreign currency was possible for big companies, but it was shortly stopped for unknown reasons."

Importer KI in Benghazi

According to 15/24 interviewed financial services providers, the liquidity crisis is caused by the **lack of trust in banking institutions and the consequent reluctance of small traders to deposit cash in banks.** The BTI report explains that corrupt practices in the banking system include, amongst others, "smuggling via the manipulation of letters of credit, (...) phantom imports, and the overextension of credit".

Access to other financial services such as credits and loans also appear to be limited and often made on the basis of personal connections (rather than business plans). All 122 traders that took part in the assessment reported not relying on bank loans to run their business. Furthermore, 20 out of 122 specified that the bank in their region does not offer loan services at all, and 14 out of 122 respondents reported that their alternative source of loan services was informal and came from fellow traders or friends. This does confirm the observed trend among bankers, whereby banks have reduced the pool of financial services they provide and have drastically reduced the degree of risk they are willing to absorb. Geographical disparties also exist in terms of availability of banking institutions. In Murzuq, a considerable number of KIs mentioned that there's a **lack of financial institutions in the region** and that financial services such loans are not available (14/32).

"There is no bank in the region, only in Al Gatroun city center and it does not provide loans."

Trader KI in Al Gatroun, Murzuq

2. Prevalence of the parallel market and cash-based payments to the detriment of formal banking services and payment modalities

According to the traders KIs, the most used payment modalities to suppliers are cash (98/122) and cheques (48/122). Some disparities can be noticed according to the assessed location. In Sebha, the primary means of payment is cheques (25/30) and cash was reported by 16 KIs in the same Mantika.

Some interviewed traders, especially in Murzuq, specified that **payments can also be done through informal money transfers** (parallel market money transfer).
In this sense, a KI reported that: "*We pay in cash if it is in the region, and if it is from outside the region, we transfer through special offices for this matter on the black market and this is done in cash.*" The prevalence of payments through the parallel market in Murzuq can be partly explained by the **high migration flows in the region and the presence of human smuggling networks.**
The United Nations Interregional Crime and Justice Research Institute revealed in a research paper published in 2021[7] that the average annual financial loss in Libya stands at $1.2 billion and is partly caused by the human smuggling networks that generate approximately up to 236 million dollars annually. The same report explains that: "*Overland routes have become a significant source of income for many borderland regions, where local populations have begun to provide services to both the smugglers and the smuggled. The abrupt loss of this collateral industry would impact on the sustainability of those towns*".

"Money is transferred through the black market private agencies that provide the service for a fee. It is considered the fastest and safest way and prevents the exposure to road risks."

Trader KI in Al Gatroun, Murzuq

52 out of 122 traders KIs declared using the parallel market to pay suppliers or services among which 11 respondents in Murzuq specified that there is no alternative to it. The use of the parallel market to pay suppliers was particularly reported in Murzuq (43/52). **The parallel market was also reported to be more trustworthy than banks, as well as reliable and sometimes the only way to transfer cash.** Alternative legal payment modalities were rarely considered by KIs in Murzuq because of the lack of financial structures in the region as reported by a trader that confirmed that: "*There are no ways to transfer money other than the parallel market.*" The fact that cheques are not used can be partly explained by the **high presence of migrant workers that are usually working in the informal sector** and their wages are paid in cash due to ther inability to open bank accounts.[8]

In addition, the use of alternative payment methods was reportedly more expensive than cash-based payments and only possible on certain conditions. Seemingly this works as a disincentive to using credit cards and cheques. When asked if customers can buy goods via cheques, most respondents specified that it is possible, except in Murzuq where cash remains the main payment method accepted. However, according to some traders, certain conditions must be met to allow customers to use cheques. Among these conditions, 27/122 KIs specified that it has to be a certified cheque and 14 traders clarified that it is accepted only starting from certain amounts (300 - 500 LYD). On top of this, some KIs reported that using cheques implies an increase of the final price of the goods procured as illustrated in the quote below.

"There is an additional fee of 20% of the original price of goods in case of payment by cheques."

Trader KI in Al Kufra

3. Infrastructure and insecurity affecting the effective transportation of goods and use of alternative payment modalities

Regarding the availability of public services supporting the infrastructure and the functioning of the small trading supply chain, 65 out of 122 traders KIs reported that no public service is available. There are two main gaps reported in public services: **weak road maintenance and unavailability of subsidised goods,** namely fuel and food commodities, predominantly flour.

Results indicate the centrality of the transportation infrastructure and services supporting the small trading sector. Whether these services are public or private, they are of crucial importance for the stability and the functioning of the supply chain, especially in a country importing and moving 90% of its food needs across the entire national territory. Moreover, road infrastructures are important as 93 out of 122 specified that their supplier delivers the goods by trucks.

The availability and affordability of transport services, the state of road and airport infrastructures, the security level along the roads, and the official price of fuel and its availability at official points of sale are all elements that were repeatedly and majorly named as key to the functionality of the trading sector. **The lack of security, the high risks of abduction as well as the dilapidated transportation infrastructure** (19/61) have been specifically highlighted by some KIs as high priorities that the government should be addressing.

"We suffer from the bad road conditions linking Ghat to Ubari, and drivers are harassed and robbed by outlaws"

Trader KI in Ghat

The literature[9] also signals **the persistence of an electricity crisis** across all 2021 all over the country. Hour long blackouts which reportedly occurred daily in Libya, profoundly affecting the functioning of trading businesses. Activities such as the refrigerated stocking of goods and the employment of electronic-based payment modalities are therefore profoundly limited.

However, some (14) KIs (in Tripoli, Sebha and Ghat) specified that the use of this payment method has increased in the last six months, particularly to cope with the lack of cash. To illustrate this, a KI in Sebha mentioned that "the demand (to use this payment modality) increased due to the lack of liquidity, and the card makes it easier for citizens to buy goods" in this context.

The use of credit cards by customers and the number of traders accepting this payment modality were reportedly higher in the mantikas most affected by the liquidity crisis (Sebha, Ghat, Tripoli). Therefore, the **findings may suggest a link between lack of cash and the use of alternative payment methods.**

"The issues negatively affecting business in the last six months are related to the bad road conditions causing a lot of accidents and increasing the prices of fuel."

Trader KI in Al Gatroun, Murzuq

II. OTHER CHALLENGES ARE RELATED TO THE CURRENT CONTEXT AND SHAPED BY THE EFFECTS OF THE COVID-19 CRISIS AND THE RECENT DEVALUATION OF THE LIBYAN DINAR IN JANUARY 2021

1. Devaluation of the Libyan Dinar in 2021

The official devaluation reportedly had an impact on prices along the supply chain. When asked whether the cost of import has changed since the devaluation of LYD, eight out of 13 importers KIs reported a slight increase, and this had also an impact on domestic retail prices. KIs mentioned various causes explaining the increase in import prices like the instability of the unofficial exchange rate, difficulty to access LCs, fuel shortages and increase of shipping prices.

The official devaluation had also an impact on households' purchasing power according to the interviewed traders that reported that the lower demand in the last six months prior to data collection was one of the main negative factors affecting business (10/25) along with the unstable access to liquidity (11/25). **Almost half of the traders specified that they align with the market prices that can be quite volatile**. According to the JMMI data, "there was a temporary increase from December 2020 to February 2021, where the cost of the MEB rose by 4.7%, due to a number of imported goods increasing in price, such as vegetable oil (+60%), milk (+25%), condensed milk (+20%), flour (+20%), sugar (+20%) and tuna (+14.3%)."[10]

In order to address these difficulties, a governmental decree (537/21)[11] was issued in November 2021 by the Ministry of Economy exempting all food imports from tax duties to minimise the socio-economic effects of the prices' increase (Libya Herald, 2021). **In Tripoli, few respondents (4/24) mentioned access to subsidised goods and the governmental support to the Bakeries Union to cope with the effects of the devaluation.**

In fact, bakeries were particularly affected by the devaluation. The bakeries union reported that "*the new dinar devaluation price had created difficulty opening letters of credits which prevented owners of flour mills from providing ample stock of flour material.*"

2. COVID-19 restrictions and its effects on the local economy:

Importers reported that COVID-19 related restrictions did generate delays and issues along the supply chain (6/13). Specifically, it created disruptions in the frequency of goods movement (resulting in shortages), as well as blockades of goods in ports due to their closure.

On the other hand, **47/122 interviewed traders noticed an increase in the demand in the period of COVID-19**. Factors increasing the demand for basic goods can be different according to the assessed Mantikas. For example, **in Murzuq, almost all KIs noticing an increase in the demand affirmed that it's due to the crossborder geographical context of the region and the revitalisation of migration movements** made possible through the lifting of COVID-19 mobility restrictions. Other respondents especially **in Ghat specified the increased availability of liquidity (9/47).** Another important factor highlighted by some KIs across all Mantikas is **the behavioural change through consumers driven by the fear of running out of supplies (9/47)**. This also reportedly motivated consumers **to buy more health products to prevent the exposure to the COVID-19 virus (6/47).**

ENDNOTES

PAGE 1

[1]FAO, COVID-19 Impacts on Agri-Food Value Chains Libya, 2021

[2]WB, Libya Economic Monitor, 2021
[3]bid.

[4]REACH Libya, Libya's Currency Crisis, 2021

PAGE 2
[5]World Bank Group, Libya Financial Sector Review, 2020

[6]BTI, Libya Country Report, 2022

PAGE 3
[7]UNICRI, Illicit Financial Flows and Asset Recovery In The State of Libya 2021 2021

[8]REACH Libya, Access to cash and the impact of the liquidity crisis on refugees and migrants in Libya, 2018

PAGE 4
[9]Middle East Monitor, The electricity crisis is taking Libya in Iraq's footsteps, 2021

PAGE 5
[10]REACH Libya, Libya's Currency Crisis, 2021

[11]Libya Herald, In an effort to bring prices down, Libya exempts food imports from all duties, 2021

ABOUT REACH

REACH Initiative facilitates the development of information tools and products that enhance the capacity of aid actors to make evidence-based decisions in emergency, recovery and development contexts. The methodologies used by REACH include primary data collection and in-depth analysis, and all activities are conducted through inter-agency aid coordination mechanisms. REACH is a joint initiative of IMPACT Initiatives, ACTED and the United Nations Institute for Training and Research - Operational Satellite Applications Programme (UNITAR-UNOSAT).