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REGULATORY CONVERSATIONS 4.0
COMMUNIQUE

The Regulatory Conversations held on September 24th, 2019 with the Theme **'Foreign exchange restrictions on food imports and implications for regulating and growing the Nigerian Economy** is the fourth in the series held in collaboration with Action Aid, Nigerian Economic Summit Group, NESG, Lagos Chamber of Commerce & Industry, LCCI, Business Day Newspapers and Proshare Nigeria Limited. The event provided a unique platform for regulators and representatives of the private sector to discuss the implications of the Foreign Exchange restrictions policy of the present Administration and its immediate impact on consumers, key players in the food sector and the Economy in the long run.

The CEO of the Convention on Business Integrity Mr Soji Apampa highlighted two schools of thought around the CBN FX restrictions on Food Imports.

For School of Thought A, he noted that the following were possible reasons for driving the policy; the ***Conventional Neo-Classical School:***

- Backward Integration
- Reduced Pressure on FX Demand in the country
- Job Creation
- Improving market access for the Herdsmen/Farmers in the Dairy Industry value chain

For School of Thought B, the ***Contrarian Monetarist School***, the key concerns around policy included the following;

- The FX restrictions will inflict accentuated pain on the working class and poor population in Nigeria, as 84% of Nigerians live on below $2 per day and 50% of poor people in the country live in rural areas, preoccupied with food production.
- The FX restrictions will create super profits for special interest groups (Allocative Inefficiencies): The argument covers concerns over exchange rate subsidies in the areas of Fuel, Hajj/Christian Pilgrimage and Waivers to large corporates that have led to FX round-tripping.

The following questions were posed for discussion:

- Is FX restriction for food importation in the public interest?
- Is the barrage of policy actions by the CBN and other regulators coordinated and mutually supporting of one another to give effect to desired economic outcomes?
- Will the FX restriction policy be consistent will the underlying economic and social principles of equity and in a market economy that should be regulated by the "blind" rules of market efficiency and effectiveness in resource allocation?
- Are the policy actions targeted properly at solving problems in ways that minimize unintended consequences or what has been called the "Cobra effect"?

- Were the communications around the CBN's policy actions open and honest and designed to bring about solutions that attempt to meet Nigeria's long-term strategic food interest?
- Will the CBN be held accountable for its policy decisions and actions or will monetary the regulator resist accountability and deeper public scrutiny of their actions? Is the CBN prepared to justify its actions in the light of adverse consequences that will result from food scarcity, such as domestic price increases and a reversal in the downward trend of inflation?
- Is the CBN approach to regulation flexible enough to keep up with the pace of the needs of affected industries and the likely rise in unemployment domestic food price inflation?

The following points were mentioned:

- The fact that governance is not easy was not in doubt but the principle of FX restriction is often confusing, and conflicts with underlying economic principles of efficiency and effectiveness in production which serves as the bedrock for competitiveness and the much talked about "food self-sufficiency".
- The CBN's decision affects a very vulnerable segment of society and policies should take into account this vulnerable group. There should be more consultations and a consensus should be reached on the appropriate set of policy actions as well as enough time be given for people to make revised investment decisions based on a reassessment of a variety of cost benefit scenarios and cost recovery expectations (Private Sector - Feasibility studies etc.)
- It was noted that regulatory Risk was the largest challenge to doing business in Nigeria, participants recalled that several businesses had been incapacitated or simply ruined by frequent regulatory revisions that were unmindful of the consequences on operational sustainability and profitability of private business entities.
- Participants called for greater stakeholder inclusion in the policy formulation process to ensure that they have a clarity on the intent of policy and that adequate time is given for a realignment of investment plans and production scaling and scheduling.
- It was generally agreed by participants that the FX restrictions be reviewed immediately and that consumer protection should be given higher priority in policy implementation.
- Participants emphasized the point that to attempt a credible strategy at food self-sufficiency would require time to build local capacity and content and that in the specific case of milk production, the government should be aiming at a time horizon of 5 years at the minimum. This would allow for the growing of Napier grass in adequate quantity, building of a domestic milk storage ecosystem, training of extension workers and farmers in milk technology and cattle husbandry as well as developing a local supply chain that is robust and competitive to match those of Argentina, Brazil and Australia.
- Conversation analysts noted that key regulatory organs of government should be made aware of the realities of the recent FX restriction policy and regulators should be brought to understand the production inputs required to meet minimal required levels of domestic output across consumer commodity lines such as milk and other restricted

food products. For example, Nigeria has an annual milk demand of 1.7bn litres of milk but produces only 600m litres annually leaving an annual supply gap of 1.1bn litres of milk. The supply gap cannot be filled instantaneously as milk collection is only 70,000litres per day during wet season and 20,000 litres per day during the dry season. The current specie of milk producing cows in the country cannot meet the domestic milk demand. A modest milk factory would require at least 1m litres of milk per day to breakeven, not to talk of remaining profitable.

- Conference discussants were of the view that the partial closing of the international borders fuels the smuggling of banned products as it led to the increase in undocumented trans-border trade activities, they noted that there was a need for more planning with regards to Policy implementation.
- Participants were of the opinion that the recent naming of Ghana as the Aviation Hub of Africa should be of great concern to Nigeria as well as the fact that car manufacturers seem to prefer to set up factories in other African Countries such as Rwanda instead of Nigeria.
- It was agreed that there was an urgent need for the CBN to review its foreign exchange management framework and allow greater flexibility and market influence in the pricing of foreign currency, thereby relieving the regulator of pressure to use the country's foreign reserves to regularly prop up the domestic currency. This would also relieve the CBN of the burden of "off" market allocation of foreign exchange, which is subject to abuse and the preferential allocation of FX to special interest groups.
- Participants were of the opinion that feedback was lacking in the implementation of regulatory policy making it difficult for a broad-based and objective assessment of the impact of monetary policy actions in respect of FX restrictions. Discussants argued that for the policy authorities to gain public confidence and policy buy-in the regulator should deepen engagement with stakeholders thereby allowing for collaboration in the execution of policy.

RECOMMENDATIONS

- ❖ It was resolved that the Policy Implementation on backward integration be done in phases over a period to allow for adjustments and enable stakeholders participate in a strategic and sustainable manner.
- ❖ The Forum noted that there is need for Regulators to engage all stakeholders from the onset and not midway through the process as is usually the practice.
- ❖ It was advised that The Consumer Competition and Protection Council (CCPC), which is mandated to protect consumers, write a report after the event and submit to the council for consideration, particularly in respect of the perverse consequences the FX restriction on milk will have on child nutrition in the country and the mental health damage that the absence or reduction of milk consumption could have on the mental development of Nigerian children which could prove irreversible (This, participants noted, would be the worst unintended consequence of policy). The CCPC report, it was recommended,

should consider how the FX restriction policy will affect local consumers and advise the monetary policy Regulator accordingly.

- The conversation roundtable urged the CCPC to put in a voice and ensure consumers are treated fairly as it is important that the public sit down and dialogue with Regulators on matters that will affect consumers and domestic manufacturers long term wellbeing.
- It was observed by participants that there is a need for a proper technical economic, social, political, legal and environmental assessment before Government goes into Trade agreements. A broad-based National consensus on the impact and readiness of the Nation for trade liberalization must be achieved before the country is committed to arrangements that could have adverse consequences on local production, employment, skills advancement and technology transfer.
- Participants argued that trade agreements must make the manufacturing sector competitive and Stakeholders must work collaboratively to achieve the goal of enhancing trade revenues and domestic employment.
- Discussants resolved that there was a compelling need to require the administration to bring down the domestic cost of production. Tariff Policies need to be well managed and engagement with authorities must be undertaken to ensure environment is conducive for businesses to survive and grow.
- The attendants at the Conversation 4.0 roundtable on FX restriction on food enjoined the CBN to engage with stakeholders in the food and allied industries – stressing that a collaborative approach would work more effectively than a punitive approach. Discussants recommended that the items on the banned for official FX list should be removed from the list and a more flexible regulatory environment should be adopted to enable manufacturers adequate time to scale up the domestic production of imported food products.
- It was noted by participants that the monetary regulator should engage stakeholders at the point of policy conceptualization and not at the point of execution. The Conversation discussants recommended that the CBN put in place a communication mechanism that allows stakeholders periodic interface with officials of CBN to discuss policy design, implementation and impact. It was believed that this mechanism would lead to policy conceptualization and design being more tactically and strategically poised for success, as stakeholders would have been fully integrated in the process and monitoring for adjustments would be easier to achieve in an open and collaborative rather than confrontational manner. The stakeholders communication platform would also ensure that the language of engagement is interpretative and explanatory rather than combative.