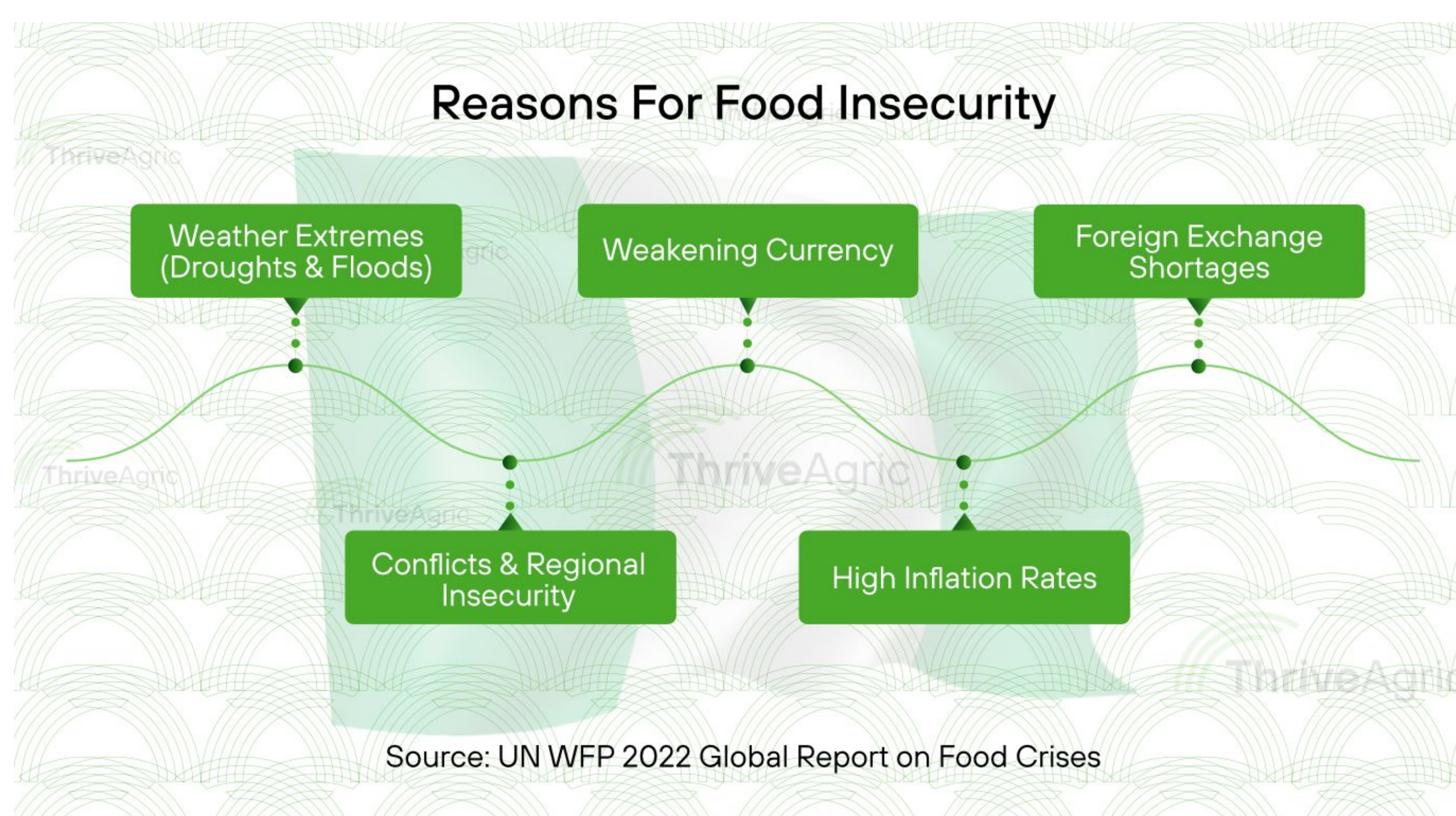


## The Impact of Foreign Exchange on Nigeria's Food Supply

In their [2022 Global Report on Food Crises](#), the World Food Programme listed Nigeria among the African countries experiencing some level of food insecurity.

There are many reasons for this: weather extremes with droughts and floods affecting harvests; conflicts and regional insecurity disrupting agricultural activities in the north-west and north-central regions, both integral to grain cultivation in the country. Another reason was macroeconomic shocks, “notably a weakening currency, foreign exchange shortages, and high inflation rates.”



### What does this mean for staple foods in Nigeria?

Wheat is a particularly important product as it is the base for a lot of Nigerian staples foods such as bread, pasta, noodles, and cereal. Yet, **domestic wheat production meets only 1% of the country's annual consumption**, ranging between 5 to 6 million metric tons.

A report from the National Bureau of Statistics showed that [in 2021, Nigeria imported N1.295 trillion worth of durum wheat](#). That figure rose from N730.9 billion in 2020, a 77% increase, and 2022's figure is projected to rise even further. This reliance on imported food products can lead to national food inflation if the price of, say, wheat as a commodity is affected by inflation on the global market. This inflation has been present in the global food market since the outset of the pandemic and eventually the Russia-Ukraine conflict, with the two countries being among the world's largest exporters of wheat.

Supply chain disruptions and shortages have driven the value of food commodities sharply upwards, with the price of wheat per ton rising as much as [130%](#) between June 2019 and June 2022.



## Fertilizers are also not left out!

Food products like wheat and fish are not the only products whose importation might affect the price of food. Agricultural products such as fertilizers, pesticides and machinery like tractors are also imported and used widely by both small and industrial-scale farmers. As these are mostly imported, it is inevitable that the exchange rate will also affect those costs.

Fertilizer prices have especially risen sharply. [World Grain](#) reported that between 2021 and 2022, the price of anhydrous ammonia fertilizer rose 102.3% from \$726 per ton to \$1,469 per ton; potash rose 79.2% from \$481 per ton to \$862 per ton, and diammonium phosphate rose 42.9% from \$688 per ton to \$983 per ton.

In recognition of the negative effect fertilizer imports have on the naira, the Nigerian Federal Government added fertilizers to the list of products which are ineligible for foreign exchange in 2018 and eventually banned foreign exchange for fertilizer imports in 2020. However, the country still needs to import diammonium phosphate and potash as blending raw materials in domestic production.

**Nigeria is a net importer: it spends more on imports than it derives from exports.** This creates the conditions that leave it susceptible to a shortage in foreign reserves, also known as a dollar shortage. The country has taken steps to curtail the demand for the US dollar in the country such as reducing the amount of dollars individual citizens can access through the banking system.

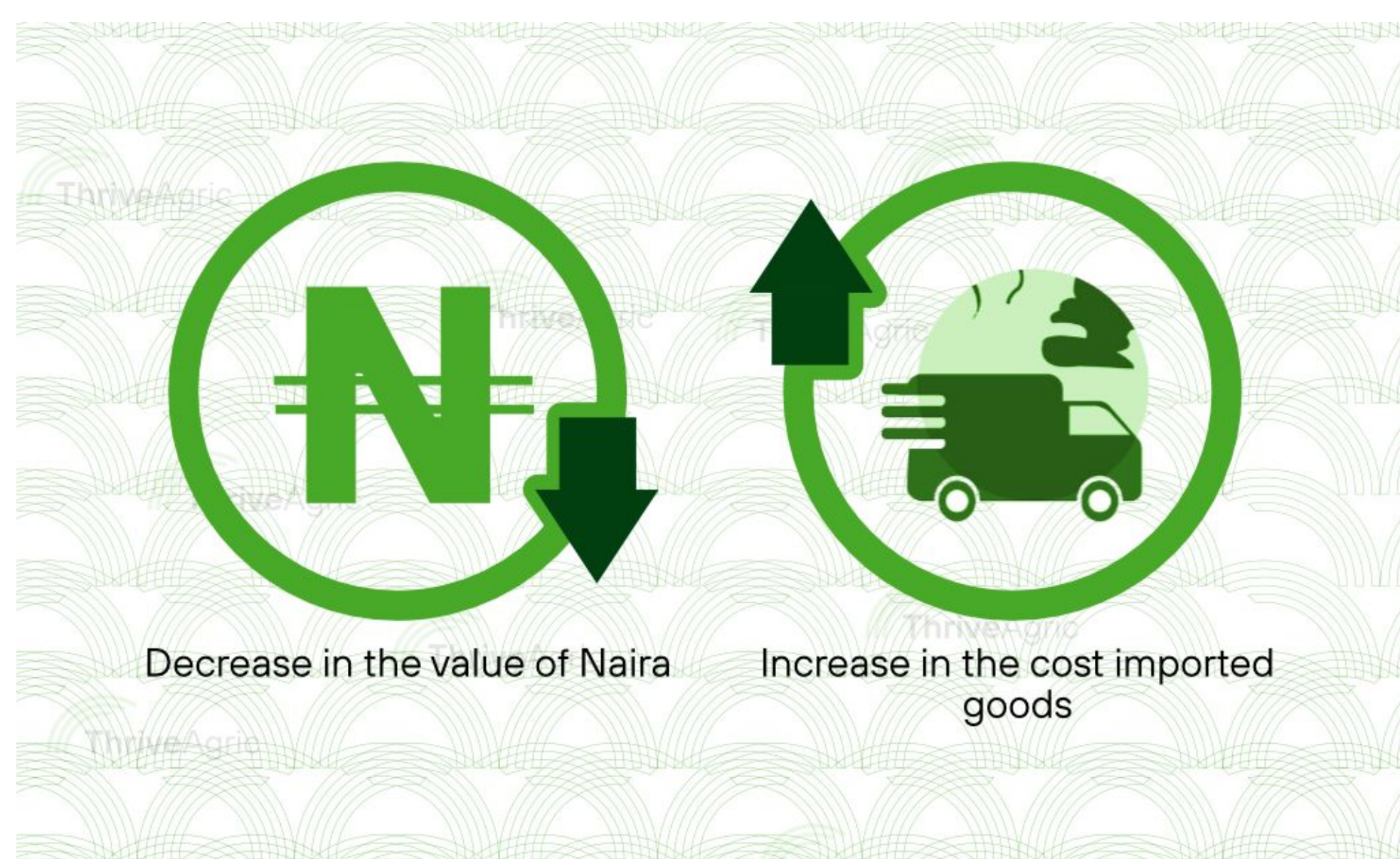
For a currency which is pegged at varying levels to the dollar to maintain stability, the difficulty in accessing the US dollar officially often leads small-scale importers to use the parallel market. Apart from the potential for arbitrage, either system still sees large amounts of naira exchanged for the dollar regularly. This does nothing to slow down the naira's continual loss of value; foreign exchange on the parallel market will still affect the official National Autonomous Foreign Exchange (NAFEX), which is used in the Investors' and Exporters' foreign exchange window.



The connection between foreign exchange and Nigeria's import expenditure can be outlined in one over-simplified sentence: **when Nigeria purchases from other countries, it does so in dollars, the currency in which the country holds its foreign reserves.** While a country may possess enough foreign reserves to cover food imports, individual businesses may drive high demand for the dollar. Further exchanges of naira to dollar may devalue the naira with respect to the dollar. This creates a spiral: the higher value of the dollar means a food importer has to spend more naira for a dollar, ensuring that the naira stays weak as more and more of it is exchanged for the currency of trade. An increase in the value of the naira will decrease the cost of imported goods and a decrease in the value of the naira will increase the cost of imported goods.

All of these show up in both food supply and prices. A £1 million shipment of wheat will contain fewer tons in 2022 than it did in 2020 due to the hike in the global price of wheat leading to a decrease in supply. However, the effect of foreign exchange rate fluctuation might be even more drastic.





A businessperson who imports a fixed amount of wheat or spends a fixed amount of dollars on wheat imports per year (let's assume 50,000 tons and \$5 million respectively) will find themselves spending more naira in 2022 to acquire the dollars needed to purchase 50,000 tons of wheat or \$5 million naira. It will not be unusual for the importer to reduce the amount of wheat from 50,000 tons to 35,000 tons, thus reducing supply. In the other instance and assuming wheat prices had stayed consistent, the importer may find that his naira can now purchase \$800,000 worth of wheat instead of \$1 million.

### The result is the same: the wheat supply reduces.

Another scenario is that the importer decides to still import \$1 million worth or 50,000 tons of wheat. Having spent significantly more naira acquiring the dollars needed to trade, the importer passes the added cost to the domestic producer. The producer, possibly a baker, may then purchase less wheat than he usually does, leading to the production of fewer loaves of bread. **This is where the consumer comes to be impacted as there will be fewer loaves of bread on the shelves of supermarkets.**

This is the situation in countries such as Sudan, where the devaluation of the Sudanese pound led to bread shortages and price increases of more than 100% in **2018**. Much of Sudan's wheat imports is done by private traders, and they directly blamed foreign exchange shortages for a dip in flour availability. Some complained of having to buy foreign currency on the black market to finance imports at a higher rate than the country's official rate, a situation similar to Nigeria's NAFEX rate differing from the "Bureau de Change" black market rate.

**While the impact of foreign exchange on food supply is currently dire, local production presents a solution if certain measures are implemented.**

### What To Do?

It is clear that Nigeria's foreign exchange woes have contributed greatly to its issues with food supply. In the shorter term, the country could make it easier for traders to acquire dollars from banks at the official I & E window rates instead of having to resort to the black market. The other option is subsidising food importers to cover for the losses caused by foreign exchange fluctuations, but that might lead to further government spending. **However, the most important step to fixing this must be to reduce or eliminate the need for foreign exchange in the country's food supply.**

Nigeria must find both policy and technological solutions to increase domestic production for both large and small-scale farmers. Some of these means include supporting farmers through monetary or feed grain grants, education, as well as equipment.

It could also include harnessing technology to monitor agricultural data, researching grain, and creating access to finance for smallholder farms or potential farmers – **all of which ThriveAgric has done over the last four years and continues to strive to deliver to Nigeria and Africa at large.**

