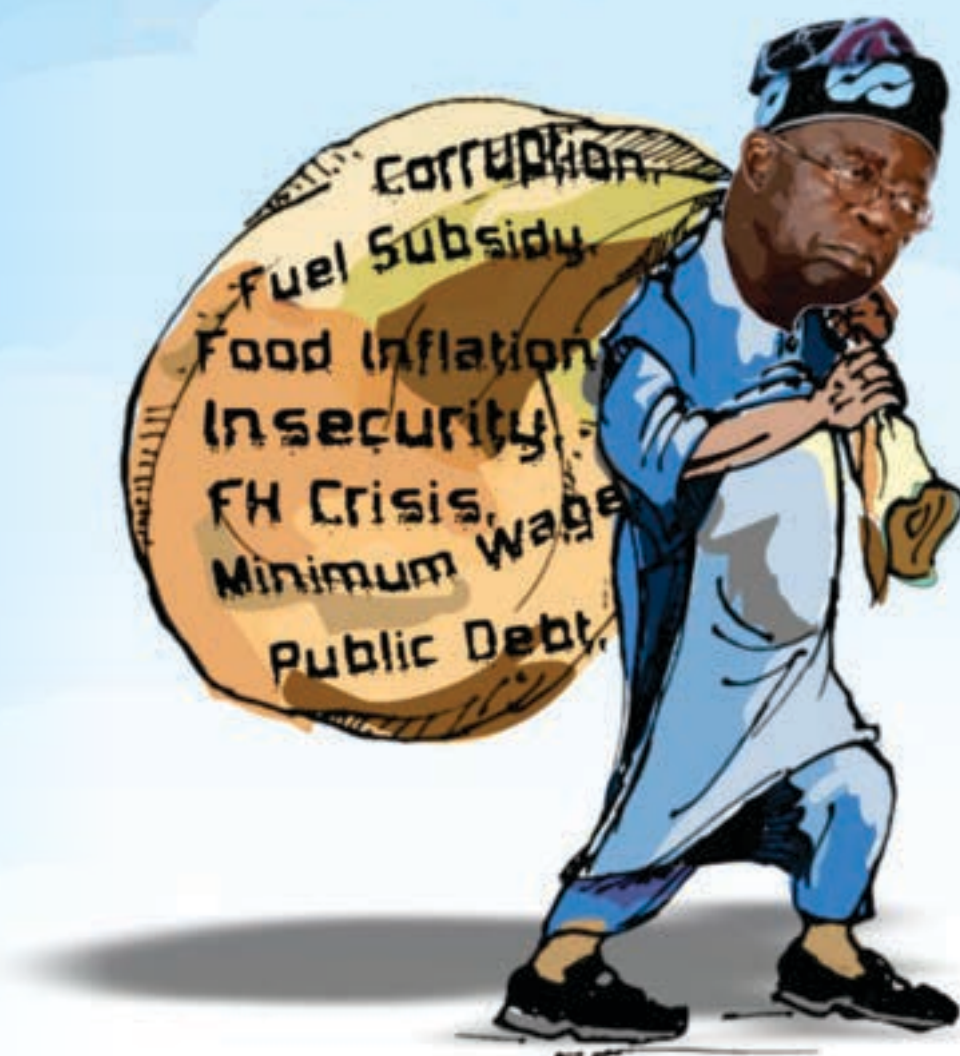




Vol 2 Issue 1 June 2024

- Economic policies for a renewed hope
- Inflation targeting and the challenge of cbn's independence
- Sub-optimal manufacturing performance in nigeria and possible solutions
- Tinubu's food security agenda 2024-the good, the bad, the ugly of the renewed hope!
- Curbing Food Inflation in Nigeria



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CONTENTS

THE EDITORIAL SUITE

The Nexus Between Monetary Policy and the Real Sector in Nigeria

01

PANORAMA

Nigeria: The First Half, The New Heights And The Politics

03

VIEWS & OPINIONS

Economic Policies for A Renewed Hope

08

Inflation Targeting and the Challenge OF CBN'S Independence

15

Sub-optimal Manufacturing Performance in Nigeria and Possible Solutions

21

Tinubu's Food Security Agenda 2024 - the Good, the Bad, the Ugly of the Renewed Hope!

29

Nigeria: Agriculture and Food Market: Short-term Outlook Report

32

Curbing Food Inflation in Nigeria

37

Key Economic Indicators

Key Indicators	2023	Jan-2024	Feb-2024	Mar-2024	Apr-2024	May-2024	Jun-2024
Consumer price inflation (av. %)	24.66	29.90	31.70	33.20	33.69	33.95	
Monetary Policy Rate (av. %)	18.38	18.75	22.75	24.75	24.75	26.25	26.25
Exchange rate (N/US\$ (av.))	646.42	941.26	1,506.42	1,510.84	1,236.56	1,435.57	1,481.77
Gross External Reserves (\$'Bn)	32.91	33.35	33.72	33.83	32.25	32.69	34.19
Bonny Light Crude Oil (\$/barrel)	85.27	82.18	86.08	88.80	92.79	83.87	83.53
Purchasing Managers' Index (PMI)	50.4	54.5	51.0	51.0	51.1	52.1	50.1
Unemployment rate (%)	5.0						

The Nexus Between Monetary Policy and the Real Sector in Nigeria

The interplay between monetary policy and the real sector is critical to the management of the Nigerian economy on one hand and the harmonization of monetary and fiscal policies on the other hand. The Central Bank's interventions with monetary policy instruments have not had the desired impact on the real economy comprising industries, businesses, and everyday Nigerians. Understanding this nexus is crucial for navigating the economy away from the complex web of growing uncertainties that we are in today.

We are concerned that monetary policy interventions have not shown desired impact on the persistent rise in inflationary pressures within the Nigerian economy in the last twelve months. Recent data released by NBS indicates a worrying trend, with the headline inflation rate reaching 31.70% in February 2024, marking a significant increase from the previous month's rate of 29.90%. The seemingly ineffective interventions by the government in curbing the rising trend of the headline inflation is disturbing to the business community. The unabated inflationary pressures have continued to distort the workings of the economy and making business and investment planning a huge challenge.

Monetary policy, primarily executed through interest rates, money supply, and exchange rates, plays a pivotal role in shaping economic activities within the real sector. The decisions made by the Central Bank are expected to impact various sectors, influence investment, boost production, manage consumption, and create jobs.

One of the primary objectives of monetary policy is price stability, often pursued through inflation targeting. However, the pursuit of low inflation can sometimes conflict with the goals of stimulating economic growth and reducing unemployment. Striking the right balance is essential, especially in an economy like Nigeria's, where structural challenges persist alongside the need for growth. Beyond the policies, there is the need for targeted interventions in the similitude of the recent provision of fertilizers to farmers by the Central Bank. Another form of subsidizing agricultural production and manufacturing would be the application of lower import duty exchange rate for the importation of agriculture input and raw materials for manufacturers.

The transmission mechanism of monetary policy to the

real sector in Nigeria faces several hurdles. The effectiveness of policy decisions can be hindered by factors such as weak financial intermediation, underdeveloped capital markets, and infrastructural deficiencies. Moreover, the transmission channels are often blurred by structural rigidities, including supply-side constraints and regulatory inefficiencies.

In recent times, Nigeria has witnessed various monetary policy measures aimed at addressing economic challenges and fostering growth. These include adjustments in the monetary policy rate, reserve requirements, and liquidity management strategies. While these measures aim to influence lending, investment, and overall economic activity, their impact on the real sector is not yet felt or obvious.

Furthermore, the real sector itself presents unique dynamics that can influence the effectiveness of monetary policy. Key industries such as agriculture, manufacturing, and services have distinct sensitivities to monetary variables. For instance, the agriculture sector may respond differently to changes in interest rates compared to the manufacturing sector due to variations in input requirements, market structures, and external dependencies.

In navigating the nexus between monetary policy and the real sector, policymakers must adopt a holistic approach. This entails not only addressing immediate economic challenges but also implementing reforms that enhance the resilience and competitiveness of the real economy. Improving financial inclusion, enhancing infrastructure, promoting technological innovation, and fostering a conducive business environment are integral components of such a strategy.

The Chamber is optimistic that if the government harmonizes its fiscal and monetary instruments to tackle cost of agricultural production, enhance food processing, and sustain the fight against insecurity, inflationary pressures may soon begin to abate, and other economic variables can begin to record positive indicators. By implementing targeted interventions and fostering a conducive policy environment, Nigeria can overcome the current inflationary challenges and chart a path towards inclusive growth and prosperity for all.

Sunnie Omeiza-Michael, Ph.D.



Nigeria:

The First Half, The New Heights And The Politics

By Kehinde Ayanbadejo,
Madara Essien

The Nigerian economy in the first half of 2024 presents a weak picture across indices-policy, output, inflation, investment, agriculture and manufacturing performance, monetary policy, national debt and budget, employment and global conditions. The severe economic costs of policy direction – the hiking of rates by a combined 750 basis points this year, lifting the key lending rate to 26.25%, a volatile foreign exchange market situation, low and suboptimal GDP growth rate and a weak consumers' disposable income resulting in mass exodus of multinationals and closure of SMEs as well as increase in unemployment and poverty levels.

All major macroeconomic indices are trending negative! Inflation has reached 33.95% in May and rising; FX markets remain under pressure-in spite of high policy rate in a bid to narrow the negative real returns on the naira assets; public debt increased by N24.33 trillion in Q1 2024 to N121.67 trillion; capital markets performance is mixed reflecting investors' reactions to ongoing economic adversities including heightened inflation, currency depreciation, and security challenges. Given a large stock of debt, governments are tempted or forced to tax private activity, including introduction of expatriate employment levy and cybersecurity levy on electronic transactions which have all been suspended due to widespread condemnation by Nigerians.

MACROECONOMY: GLOBAL TRENDS AND LOCAL DRIFTS

Meanwhile, the global economy is stabilizing, following several years of overlapping negative shocks – persistently high interest rates, continuing geopolitical tensions, and increasing climate risks. According to the World Bank in its recently released Global Economic Prospects June 2024, global economy is now



According to the National Bureau of Statistics (NBS), Nigerian real GDP growth dropped to 2.98% in Q1 2024, from 3.46% in Q4 2023 and when compared to the Q1 2023 GDP growth of 2.31% and annual GDP growth of 2.74% in 2023, it is evidence of rebound and improving economy.

projected to grow by 2.6%, instead of 2.4% projected at the beginning of the year and at the same level as in 2023. This largely reflects better than-expected performance of the United States economy and some improvement in the outlook for several large emerging economies including Nigeria. Growth in Nigeria is projected to pick up to 3.3% this year and 3.5 percent in 2025. The report notes that "...after the macroeconomic reforms' initial shock, economic conditions are expected to gradually improve, resulting in sustained, but still-

Nigeria: Quarterly GDP Trend: 2022-2024



Source: NBS & LCCI Research

modest growth in the non-oil economy". Also, the oil sector is expected to stabilize as production somewhat recovers. However, risks to Nigeria's growth outlook are substantial, including the possibility that the tightening of monetary policy stops short of reining in inflation. Similarly, the UNCTAD's World Investment Report noted that Nigeria's foreign direct investment (FDI) inflow grew to \$1.87 billion in 2023 from \$0.90 billion in 2022, reflecting investment policies particularly in the electricity market and renewable energy.

On the other hand, New York Times released a report June 11, 2024 titled, "Nigeria Confronts Its Worst Economic Crisis in a Generation" narrating how people are suffering as the price of food, fuel and medicine has skyrocketed out of reach for many; how workers grapple with very low minimum wage of around \$20 a month; and Nigerians struggling to generate their own electricity, source their own water, defend their communities due to high insecurity and negotiate with kidnappers when family members are abducted. The report noted that the worst is the absence of clarity, and where the economy is headed.

According to the National Bureau of Statistics (NBS), Nigerian real GDP growth dropped to 2.98% in Q1 2024, from 3.46% in Q4 2023 and when compared to the Q1 2023 GDP growth of 2.31% and annual GDP growth of



2.74% in 2023, it is evidence of rebound and improving economy. In Q1 oil sector output grew by 5.70% while the non-oil sectors collectively grew by 2.80% producing overall economic growth of 2.98% for the quarter. Though, the outlook shows signs of improvement but are limited to high crude oil price while the policy outlook remains uncertain and a looming shut-out of FDI.

Analysis of growth in Q1 by sectors showed that the growth of the agriculture sector slowed in the first quarter to 0.18% from 2.10% in the fourth quarter. The recovery in the oil sector continued but slowed in the first quarter with growth rate of 5.70% compared to 12.11% in the fourth quarter of 2023, implying a decline of 6.41%. The growth in the sector reflects slight increase in average daily production of 1.57 million barrels per day compared to 1.55mbpd and 1.51mbpd in Q4 2023 and Q1 2023, respectively.

In the non-oil sector, growth was largely driven by solid minerals, finance and insurance (financial institutions), information and communication (Telecommunication), oil and gas, utilities, arts, entertainment & Recreation and Trade.

However, the growth recorded in the trade sector remained low at 1.23% in the first quarter compared to 1.40% in the previous while manufacturing remained weak with real growth of 1.49% in Q1 compared to 1.61% in corresponding quarter of 2023, with policy developments regarding inflation and worsening FX outlook.

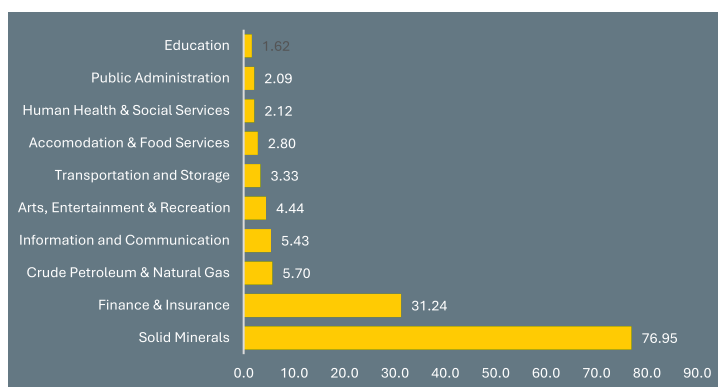
FISCAL DEVELOPMENTS

The fiscal space remained tight in the first six months of 2024 with high levels of public debt, rising subsidy costs, persistently rising inflation, and exchange rate depreciation. In the second half of the year, despite high crude oil prices, public spending pressures is expected to increase intensely with the pending new minimum wage and debt service challenges.

NIGERIA: THE STATE OF ITS DEBT PROFILE

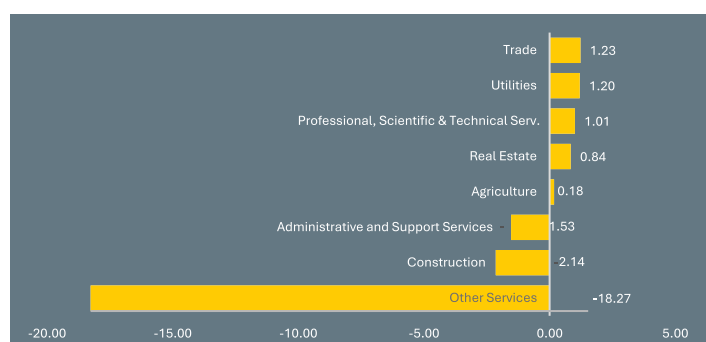
Nigeria's total debt stock increased by N24.33 trillion in the first quarter of 2023 to N121.67 trillion from N97.34

Top 10 Fastest Growing Sectors in Nigeria: Q1 2024



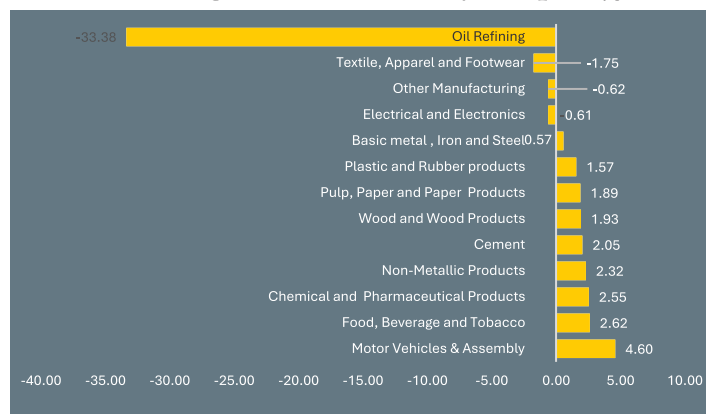
Source: NBS & LCCI Research

Slowest Growing Sectors in Nigeria: Q1 2024



Source: NBS & LCCI Research

Manufacturing Sector Growth by Output: Q1 2024



Source: NBS) & LCCI Research

trillion in December 2023, according to Debt Management Office (DMO) figures.

A breakdown of the debt profile showed that domestic debt rose to N65.65 trillion (\$49.35 billion) from N59.12 trillion (\$65.73 billion), while total external debt was N56.02 trillion (\$42.12 billion) compared to N38.22 trillion (\$42.50 billion) at the end of 2023, reflecting new borrowing to

partially finance the 2024 Budget deficit and securitisation of a portion of the CBN's N7.3 trillion Ways and Means Advances.

Further analysis of the domestic debt profile revealed that the country's FGN bonds grew by N4.16 trillion to N48.42 trillion, treasury bills grew by N3.92 trillion to N10.44 trillion, FGN savings bonds grew by N4.69 billion to N43.88 billion, and promissory notes grew by N240.22 billion to N1.57 trillion. While the dollar component of Nigeria's external loans fell to \$42.12 billion from \$42.49 billion, its naira equivalent rose drastically to N56.03 trillion from N38.22 trillion due to devaluation of the exchange rate.

MONETARY POLICY DEVELOPMENTS

In the first half of 2024, the monetary policy environment was influenced by external and domestic factors. Some of the global factors include escalating geo-political tensions in the Russia-Ukraine war that triggered a global energy and food crisis, and persistently high interest rate. On the local scene, surge in inflation, inflation expectations, and consistent depreciation of the exchange rate

During the period, the CBN announced the recapitalization of banks as a major drive to attract foreign direct investment in the economy, improve foreign reserves and stabilise the foreign exchange market.

According to the CBN, international banks should increase their capital base to N500bn, national banks up to N200bn, regional banks (N50bn); merchant banks (N50 billion); and N20 billion for non-interest banks operating nationally and N10 billion for those operating regionally. The deadline for the recapitalization is March 31, 2026.

New Capital Base by Bank

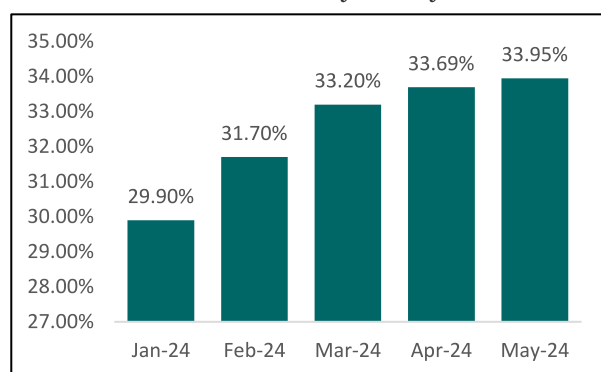
Type of Bank	Authorisation	New Minimum Capital (N'Bn)	Old Minimum Capital (N'Bn)	% Change
Commercial	International	500	50	900.0
	National	200	25	700.0
	Regional	50	10	400.0
Merchant	National	50	15	233.3
Non-Interest	National	20	10	100.0
	Regional	10	5	100.0

Source: CBN & LCCI Research

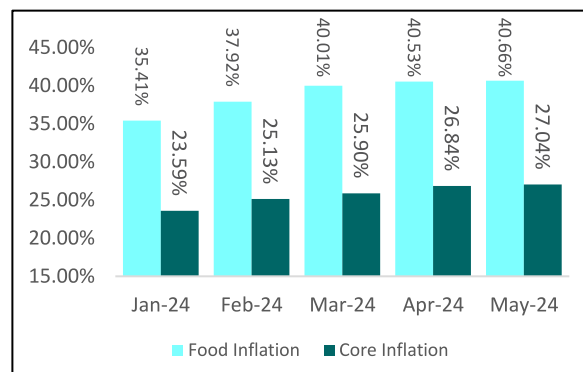
Inflation

Inflation remained persistently high in the first half of the year. Between January and May 2024, consumer price index increased by 405 basis points to 33.95% from 29.90%. The CPI is mostly driven by food inflation, which is at 40.66%, up from 35.41% in January and implying that a greater proportion of household income was spent on food. For individuals, businesses and government, inflation have significant impact on their real income.

Trend in Inflation: January – May 2024



Source: NBS & LCCI Research

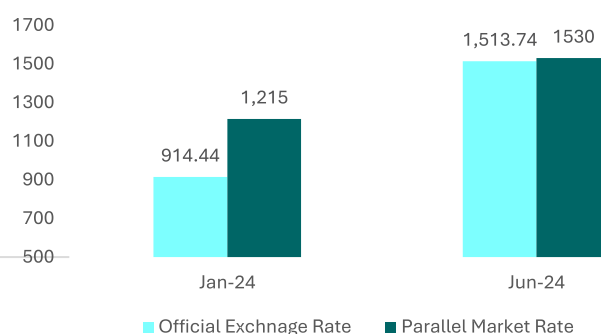


According to the NBS, the upward trajectory in inflation was due to a basket of factors such as energy prices, housing, transport, education, and health. Others include insecurity and imported inflation.

Exchange Rate

Against the dollar and the other major international currencies, the consistent depreciation of the Naira continued in the first six months of the year 2024. Between beginning-January and end-June 2024, the Naira averaged about N1,344.18/ USD at the official window, depreciating by 65.6% in value. The volatility was however weaker in the bureau de change (BDC) segment, where it depreciated by 25.9% to N1,530/USD in June against the value of N1,215 as at beginning-January. Consequently, the premium (the gap) between the official and the parallel markets closed from N300.56 (32.9% of

Exchange Rate (N/\$) Performance in H1 2024



Source: CBN & LCCI Research

the official rate) at the beginning of the year to N16.26 (1.1% of the official rate).

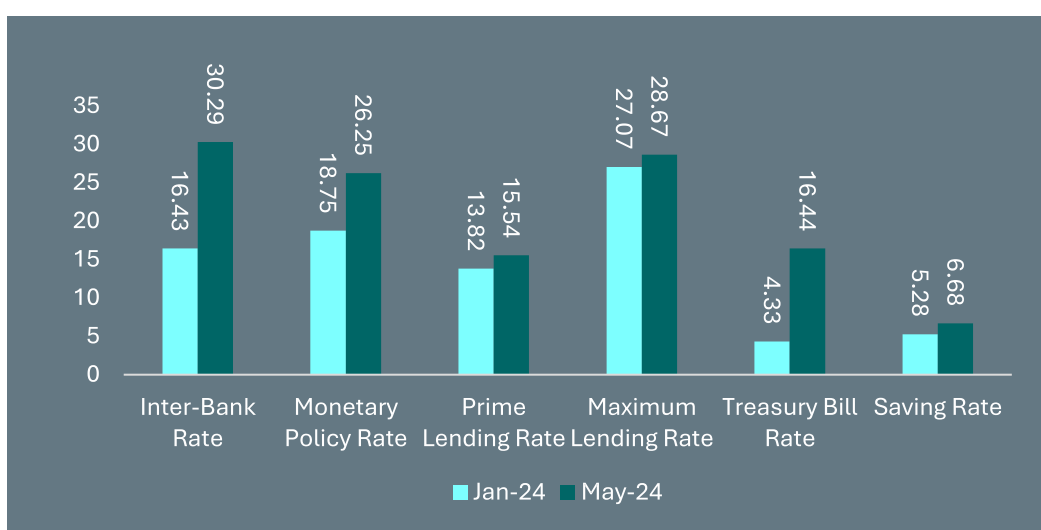
Interest Rate

Relatively, the interest rates in the sub-prime market trended with the hikes in MPR and the other usual liquidity conditions. On the whole, while MPR was moved by about 750 basis points in the first half of the year to 26.25% in June from 18.75 % in January, 2024, inter-bank rate moved upwards to 30.29% from 16.43 percent - that's by 1386 basis points. Prime lending rate and maximum lending rate increased by 172 and 160 basis points respectively to 15.54% and 28.67% respectively. Beyond MPR, the existing interest rate was also impacted by the corridors around the MPR, liquidity and cash reserve ratios. Whereas the corridor was +100/ -300, cash reserve and liquidity ratios were 45.0% and 30.0%, accordingly.



On the whole, while MPR was moved by about 750 basis points in the first half of the year to 26.25% in June from 18.75 % in January, 2024, inter-bank rate moved upwards to 30.29% from 16.43 percent - that's by 1386 basis points.

Interest Rate Movement in H1 2024



Source: CBN & LCCI Research

ECONOMIC POLICIES

for A Renewed Hope

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I. New Policy Directions the Tinubu-Shettima Regime Should Explore

Our current economic crisis originated from global shocks that depressed commodity prices and export revenues for all countries since 2015, exposing our economy into depleted foreign reserves, recessions, devaluation episodes, and bouts of inflation.

More painfully, falling government revenue, rising debt stocks, and debt costs, have weakened fiscal capacity, just as dwindling foreign reserves and exchange rate volatility have eroded monetary policy autonomy, leaving the country and its citizens defenseless in the face of deteriorating economic outcomes. The Tinubu-Shettima regime now faces the dual challenge of: (i.) undertaking urgent reforms to sufficiently rebuild the fiscal, foreign exchange, and monetary spaces, and (ii.) midwife even more urgent reforms to reverse the deterioration in the country's growth, exchange rate, inflation, interest rate, livelihoods, and security experiences.

The major insights that must guide the economic strategy of the Tinubu-Shettima regime are:

1. Eight years must have been long enough for Nigeria to accept that the decline in our revenue from commodity exports is permanent, not temporary,
2. We have also learned that debt accumulation, which is the way out of temporary income shortfalls, becomes a perilous trap in times of permanent income shortfalls.
3. Despite income, revenue, and foreign exchange shortfalls since 2015, Nigeria remains extraordinarily



The financial improvements Saudi Arabia has made since the issuance of a 1.9 percent Initial Public Offering (IPO) for ARAMCO four years ago to figure out its market value can only be like the financial gains of owners of corporate assets listed in leading stock exchanges worldwide.

rich in state-owned corporate, real estate, and infrastructure assets.

4. Given the bright global foreign direct investment climate, we should now harness our assets to open new streams of revenue, non-debt financing, and foreign exchange.
5. We have seen the limits of income-centrism and must now embrace asset-centrism to unlock funds we can use to rebuild policy capacity and deliver better outcomes.

II. Nigeria Has Vast Hidden State-Owned Asset Clusters!

There are three assets clusters that Nigeria should tap

into for quick wins.

1. Corporate Assets

Nigeria is rich in potentially valuable but unvalued state-owned corporate assets whose market values are not known, much less optimized, or exploited for creating liquidity through capital gains and securitization against market values—a case of buried talents.

The financial improvements Saudi Arabia has made since the issuance of a 1.9 percent Initial Public Offering (IPO) for ARAMCO four years ago to figure out its market value can only be like the financial gains of owners of corporate assets listed in leading stock exchanges worldwide.

Nigeria should not continue to shun opportunities to create similar gains by further delaying the listing of all state-owned corporate assets in stock markets.

2. Real Estate

Nigeria is rich in potentially valuable but unvalued state-owned real estate portfolios, including land,



wealth beneath the ground, and built structures, whose market values are not known, much less optimized, or exploited for creating liquidity through capital gains and securitization against market values- another case of buried talents.

The liquidity countries are creating by attracting significant global FDI liquidity into repurposing, redeveloping, renewing, and regenerating real estate in leading cities worldwide are clear.

Nigeria should not continue to shun opportunities to unlock similar gains by further delaying the liberalization of state-owned military and civilian real estate portfolios to allow the entry of valuers, developers, and facility managers into the state-owned real estate value chain.

A quick way to generate significant immediate revenue for the country would be to gather government real estate assets into a securitizable pool where we can compare use values with market values in alternative uses. Examples include:

- i. Military base realignment for various military, paramilitary, and police barracks
- ii. We must rationalize and move uneconomic government activities (e.g., the Ikoyi prison, the old Federal Secretariat, abandoned stadiums NIPOST, NITEL, PHCN. Police, military, and railway premises nationwide) from prime commercial locations to more economic sites to free prime locations for repurposing and redevelopment for lease revenue generation through public-private-partnerships, joint ventures, build, run, and transfer.

3. **Infrastructure**

Nigeria is rich in potentially valuable but unvalued state-owned

large infrastructure networks whose market values are unknown, much less optimized, or exploited for creating liquidity through capital gains and securitization against market values- one more case of buried talents.

The liquidity created from the liberalization of Nigeria's GSM telephony and Liquefied Natural Gas sector for the entry of foreign investors should be instructive enough to encourage the government to liberalize rail transport and pipelines, power transmission, fibre-optics, and other network infrastructure assets for the entry of foreign investors. Nigeria should not continue to shun opportunities to create liquidity by further delaying the liberalization of state-owned infrastructure networks.

There are key infrastructure assets with huge revenue-generating potentials that Nigeria is underutilizing or not using at all. Airports should easily generate up to 40% revenue at the points of arrival if we attract adequate private investment in terminals that would unlock wealth from hospitality, shopping, and other services that will create value for arriving and transit passengers.

Other transit systems like road, rail, and seaports also have diverse income channels such as bus stations, train stations, ports, which should unlock wealth and value for the nation- relying on public-private partnerships or joint ventures. This would help capture indirect wealth and the inter-modalities between road, rail air, and seaports.

These assets should henceforth serve as the magnets that will attract lumpy FDI investment into Nigeria to close yawning infrastructure gaps and recharge forex, fiscal, and systemic liquidity that we can anchor for exchange rate stability and diversified growth on.

NCP, the repository of considerable technical ability, institutional knowledge, and history on commercialization, liberalization, and privatization transactions, should spearhead the efforts in close collaboration with MOFI, the newly reconstituted custodian of all assets owned by the Government of Nigeria.

III. **Nigeria Owns Far More Than She Owes!**

We must put what Nigeria owns and how to profit from them in 2024 in reform/news headlines. The fact that Nigeria owns much more than she owes means she is economically solvent.

The fact that Nigeria's debts are financial, being third-party

claims with known market values, while her assets are non-financial, with unknown market values in the absence of third-party claims, means she is financially insolvent or illiquid.

The path to financial solvency is to unlock liquidity or financialize (i.e., take steps to generate enough third-party claims to reveal the market values of) more assets than the total value of her financial liabilities.

We must take immediate steps to financialize all eligible non-financial assets. We must compile a list of financializable assets across government owned enterprises (GOEs), Real Estate, Infrastructure find their market values.



We must stop issuing income-based securities, stop issuing IOUs or promissory notes against future income streams and give less prominence to what Nigeria owes in policy pronouncements to avoid further issuer risk downgrades.

We must announce a programme for securitizing, liberalizing, and privatizing them to finance all funding gaps with asset-based securitization (investment grade bonds or outright equity issuances) or liberalization.

Nigeria's only problem is illiquidity. All other seeming problems like volatile exchange rate, inflation and recession are mere symptoms of illiquidity that will fizzle out on their own once Nigeria is able to unlock adequate levels of forex, fiscal, and systemic liquidity from state-owned assets.

We must stop issuing income-based securities, stop issuing IOUs or promissory notes against future income streams and give less prominence to what Nigeria owes in policy pronouncements to avoid further issuer risk downgrades.

There should be an aggressive drive to gain equity investors locally and globally. We must play to Nigeria's strength by prioritizing assets with the largest absorptive capacity for investment like

energy (electricity, gas, solar, and wind) and transport (rail, road, air, and water), digital (fibre-optics) infrastructure, and real estate. These are also the biggest sources of growth and employment.

Directives from the NCP and/or MOFI can set the ball rolling in the following ways:

- § All government-owned enterprises should enlist on the stock market.
- § Cluster real estate and infrastructure into securitizable pools and create SPVs for harnessing them as may be necessary.
- § Embark on roadshows to drive domestic investments, foreign investment, and diaspora investment, as well as public-private partnerships.
- § Learn from past mistakes e.g., not listing NLNG and all state-owned companies in the market makes them unsecuritizable non-financial assets.

IV. Nigeria Must Create a One-Stop



Online Deal Room Immediately!

It is time for Nigeria to immediately set up a one-stop online deal room that will serve variously as:

- a. Project Hatchery or Investment Incubator where MDAs can upload opportunities.
- b. Clearing House where all government agencies responsible for investment facilitation, acceleration, and transaction management can interact to de-risk the investment opportunities and make them more attractive to investors.
- c. Investment Platform where investors would register as deal consummators.

This deal room, is the key platform that MOFI must establish (aside from the national asset register) to be a project hatchery and an abattoir for asset deals and the mode of implementation can take any accepted form such as public-private partnerships (PPP), build operate and transfer (BOT), private organizations direct sales, project financing, sukuk, brownfield and greenfield foreign direct investment (FDI) and Domestic Direct Investment (DDI), engineering, procurement, and construction (EPC) contracts, etc.

As Nigeria will be embarking on this route for the first time, like Brazil, India, and Saudi Arabia, who are already doing the same with impressive results, we must offer guidelines and roadmaps for the three groups of players in the value chain.

1. MDAs' Deal Origination Guidelines and Roadmap

- a. Streamline Deal Origination Protocols

2. Government's Deal Facilitation/Acceleration Roadmap

- a. Streamline Deal Facilitation/Acceleration, Transaction Management Protocols

3. Investors' Deal Consummation Roadmap

- a. Streamline Deal Consummation Protocols

4. Deal Counts

- a. Brownfield, M&As, IPOs (Privatization)
- b. Greenfield, startups, new entrants (GSM) or JVCs (NLNG) (Liberalization)
- c. Project Financing, BOT, BOOT, (Public-Private-Partnerships (PPP))
- d. Investment Grade Foreign Currency Bonds, Sukuks or Diaspora Bonds

The deal room platform will ensure transparency of the process with the aid of automation technology and artificial intelligence for on-time real-time data. No deal can take place outside the platform.

The presence of international investment partners such as the International Finance Corporation (IFC), the World Bank, and other Development Partners on the platform will give credibility to the process.

Professionals will conduct feasibility and valuation to inspire the confidence of all stakeholders. The governance principle that rules NGX and FMDQ bonds will apply to the deal room process and regulated by the Security and Exchange Commission (SEC).



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INFLATION TARGETING AND THE CHALLENGE OF CBN'S INDEPENDENCE

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Introduction

According to the National Bureau of Statistics, headline inflation rate in Nigeria climbed to 28.92% in December 2023 with food inflation above 33%. This is by far higher than the Central Bank of Nigeria (CBN) target inflation rate band of 6%- 9%. It is also many percent points shy of the government's target of 21.4% contained in the 2024 Budget. The consequences of double-digit inflation on the economy have been well documented in literature: high rate of inflation is inimical to economic growth, weakens purchasing power, increases unemployment, and fuels poverty. Besides distorting prices, rising inflation erodes savings, discourages investment, stimulates capital flight, and makes economic planning difficult. Within the banking system, it has negative implications on asset quality and solvency ratios.

In addition to the supply-side factors driving inflation in Nigeria such as insecurity, climate change, inadequate power, energy and transport infrastructure, there is equally the demand-pull component associated with fiscal dominance and growing fiscal imbalance. Over the years, budget deficits have widened beyond the limit of 3% to GDP stipulated in the 2007 Fiscal Responsibility Act (FRA). The bulk of this deficit has been financed via borrowing. As shown in table 1, total public debt increased by over 680% between 2014 and 2023. Regrettably, a significant proportion of this debt is direct financing by the CBN which helped to fuel inflation.

Against the backdrop of the monumental distortions in the macroeconomy partly occasioned by the huge Ways and Means (W&M) which contributed to rising inflation and exchange rates, the CBN Governor had in his speech at the Chartered Institute of Bankers of Nigeria's annual dinner in Lagos on November 24, announced the adoption of Inflation targeting as the major thrust of monetary policy. According to Mr Yemi Cardoso, in line with the strategy to refocus on the Bank's core mandate, "the CBN has just approved the adoption of an explicit inflation-targeting framework to enhance the effectiveness of our

Table 1: Nigeria's total debt stock in naira: Dec 2014 Vs Sept 2023

Debt Category	Dec 2014 NTn	Sept 2023 NTn	% Change
External	1.63	31.98	1,862
Domestic	9.61	55.93	482
Total	11.24	87.91	682

Source: DMO

monetary policy”.

Concept of Inflation Targeting

Inflation Targeting (IT) is a monetary policy strategy in which a central bank forecasts and makes public a target inflation rate and then, attempts to steer actual inflation towards the target through the use of key monetary policy instruments. It is, therefore, a framework in which the primary goal of monetary policy is to achieve price stability consistent with an inflation target. Under an IT framework, a central bank forecasts the future path of inflation; the forecast is compared with the target inflation rate; the difference between the forecast and the target determines how much monetary policy has to be adjusted.

The instruments used for this purpose are similar to those used by central banks in pursuit of their monetary policy objectives under other frameworks. These include, monetary policy rate, reserve requirements, open market operations, and discount window operations. A major precondition for implementing an IT regime successfully is the independence of the central bank.

Concept of Central Bank Independence

Central bank independence (CBI) refers to the freedom of central banks to conduct monetary policy in accordance with their set mandates without direct political influence or government interference. The purpose of CBI is to enhance the effectiveness of monetary policy. The most common dimensions of CBI are goal independence, instrument independence and operational independence. Goal independence refers to the liberty to set its own policy goals such as inflation target. Instrument Independence is the freedom to determine the best way of achieving its policy objectives including the types of instruments to be used and the timing of their use while Operational independence is the freedom to run its operations (including setting budgets) without the overbearing influence of the



Inflation Targeting (IT) is a monetary policy strategy in which a central bank forecasts and makes public a target inflation rate and then, attempts to steer actual inflation towards the target through the use of key monetary policy instruments.

government. It also includes the existence of systems preventing central bank direct lending to government. A major consideration in CBI is the danger of fiscal dominance- a situation in which a central bank is pressured to create money to finance fiscal deficits. Printing money to finance government spending exacerbates inflationary pressure.

Primarily, there are two major parameters for measuring CBI namely legal independence and actual independence. Whereas legal or de-jure Independence refers to the legislative framework safeguarding CBI, actual or de-facto independence signifies the practical enforcement of these legal provisions. The challenge lies in ensuring that legal independence does not diverge from actual independence since legal independence does not guarantee actual independence as the recent experience in Nigeria has shown.

Legal Vs Actual Independence of the CBN

As earlier noted, the independence of a central bank is a major precondition for Inflation Targeting. While legal independence is a necessary condition, it is not sufficient as it must be supported by actual independence. The CBN Act of 2007 has made provisions for the independence of the central bank in Nigeria and the objective of price stability is explicitly stated as the core mandate of the Bank. So, to a large extent, the CBN possesses legal independence. For example,

Section 1(3) of the CBN Act states that “to facilitate the achievement of its mandate and in line with the objective of promoting stability and continuity in economic management, the Bank shall be an independent body in the discharge of its functions”. In the same vein, Instrument independence is provided under Section 30 of the Act which empowers the Bank to carry out open market operations, issue other forms of securities including treasury bills, as may be deemed necessary for liquidity management.

Further, in order to guard against the dangers of fiscal dominance, Section 38 stipulates that where temporary advance to the federal government (FG) becomes necessary, ‘the total amount of such

advances outstanding shall not at any time exceed five per cent of the previous year’s actual revenue of the Federal Government’. Also, ‘all advances made shall be repaid by the end of the FG financial year in which they are granted and if such advances remain unpaid at the end of the year, the power of the Bank to grant such further advances in any subsequent years shall not be exercisable’.

But this independence as provided in the CBN Act has been called into question in recent years following the extensive use of Ways and Means beyond statutory limits which have widened the gap between the Bank’s legal and actual independence. In other words, the actual or de-facto independence of the CBN has come under

Table 2: Selected Price Stability Indicators under the previous 3 CBN regimes

Period	Inflation (%) Average	Exchange Rate (N/\$)	W&M (N'Trn)
2015 - 2023	14.26	285.35	26.9
2009- 2014	11.3	155.78	0.104
2004-2008	11.2	128.3	0

Sources: NBS, CBN

serious threat. Table 2 indicates the magnitude of this threat with outstanding CBN Ways and Means (W&M) accumulating in excess of N26 trillion as of 2023.

This quantum leap in W&M explains in part the relatively high inflation and exchange rates recorded on average between 2015 and 2023.

Inflation Targeting and the challenge of CBN Independence

The success of an Inflation Targeting framework being adopted by the CBN will depend on the ability of the Bank to conduct monetary policy with a high degree of independence and be free from fiscal dominance. By implication, government

borrowing from the central bank should be nil or very low. The challenge here is that it presupposes that the government has a strong and diversified revenue base in order not to rely on the CBN for deficit financing. Another challenge stems from the fact that under an IT framework, the CBN is not expected to target any other indicator such as the level of economic growth, employment or even the exchange rate.

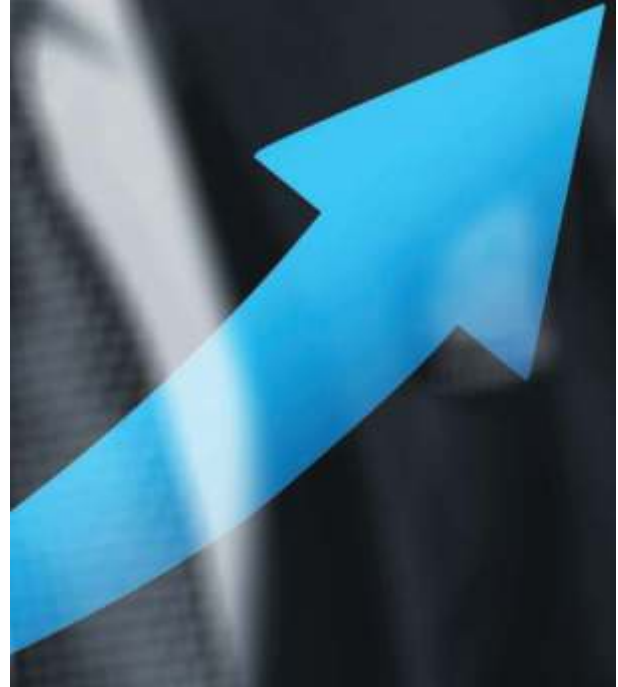
The CBN Governor would seem to have admitted this challenge in his speech when he stated that “in recent years, the continuous decline in Nigeria’s crude oil production has further weakened our already inadequate economic diversification. This has led to a decline in government revenue and



foreign exchange inflows, while simultaneously witnessing a growth in public expenditures and a deterioration in macroeconomic indicators, which has constrained our policy options. Consequently, we have seen the fiscal deficit and public debt increase, placing additional strain on external reserves and contributing to exchange rate instability". It goes without saying that the twin reforms involving removal of petrol subsidy and the adoption of a floating exchange rate, at same time, will continue to weigh on economic growth in the near term. Over the recent years, the GDP growth rate has remained tepid, declining to 3.1% in 2022 from 3.4% in 2021. The CBN projects GDP growth for 2023 at 2.9% while the government is projecting 3.76% in the 2024 budget. All these point to the fact that in the near term the economy will continue to experience high inflation amidst weak GDP growth which will pose a major challenge to Inflation targeting. As a matter of fact, demand containment measures, which invariably drives up interest rates, might prove counter-productive in periods of stagflation and the CBN may come under pressure to support growth which runs counter to inflation targeting.

Understandably, President Bola Tinubu is reported to have expressed a desire for a low interest rates environment in order to accelerate economic growth. The President's concern stems from the fact that the real sector of the economy would suffer and many small businesses would suffocate under a harsh environment occasioned by the high interest rate regime leading to loss of jobs. Nevertheless, the expectation of achieving low inflation, low exchange rate and low interest rate by the CBN simultaneously is practically not possible. The reason lies in what has been described as the "policy trilemma" which expresses the limited options available to central banks in setting monetary policy. According to this theory, credited to Robert Mundell and Marcus Fleming, a country cannot achieve the free flow of capital, a stable managed exchange rate and independent monetary policy simultaneously. By pursuing any two of these options, it necessarily sacrifices the third. Like every other Central Bank, the CBN faces this classic "policy trilemma".

Therefore, in the context of inflation targeting, it will be near impossible for the apex bank to pursue lower inflation and interest rates, maintain exchange rate stability and shore up foreign exchange reserves all at the same time. Hence the



public expectation with respect to these three prices presents a major challenge to the CBN independence to implement inflation targeting that will involve, in the main, policy tightening measures. Not a few agree that the Nigerian economy has shown little evidence of a positive response to monetary policy tightening in times of declining output. For example, in response to the uptick in headline inflation to 11.4% in February from 9.6% in January, the MPC had in March 2016 voted to review the MPR upward from 11% to 12% as well as the CRR from 20% to 22.5%. In spite of this, headline inflation continued an upward trajectory rising to 12.77% in March and 13.72% in April. In fact, the weak response of inflation to monetary policy tightening since 2016 suggests that indeed prices are "sticky downwards", to borrow from Keynesian economics.

Conclusion

In order to facilitate the success of an IT framework in pursuit of the CBN's primary mandate of maintaining monetary and price stability, there is the need to shield the CBN from fiscal dominance. Safeguarding the independence of the Bank is crucial to enable it fulfil its mandate. To this end, the Bank should resist any pressure to provide direct financing to the government above the legal ceiling. On its part, the government must ensure that its revenue base is diversified so as to withstand financial shocks and not overly depend on the CBN. The task of taming the rising inflation should not be left to the CBN alone which can only address the monetary factors driving inflation in Nigeria. There is equally the need for complementary fiscal measures aimed at removing the supply-side constraints.



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SUB-OPTIMAL MANUFACTURING PERFORMANCE IN NIGERIA AND POSSIBLE SOLUTIONS

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1.0 Introduction

In general terms, the performance of the manufacturing sector globally has not been impressive in recent times, due to unstable macroeconomic environment, geo-political tensions and other externalities. Notwithstanding, countries with stronger economic resilience and robust policy support system are still able to ensure non-stop but meagre manufacturing growth.

Similar trends abound in the African Continent. For instance, in 2022, despite the prevailing economic externalities, South African manufacturing export revenue was fourteen times more than Nigerian export earnings. This is attributed to intentional production and export-oriented policies. Clearly, the aforementioned shows that the drive for manufacturing exports has significantly reduced in Nigeria (World Bank, 2022).

In Nigeria, the performance of the manufacturing sector has been largely oscillatory and dwindling. Aside from externalities, the sector performance is worsened by the unstable domestic macroeconomic environment, high-cost operating environment, unfriendly policies, and inadequate support from the Government. As a result, Nigeria is not on the list of top five industrialised economies in Africa as it ranks behind the likes of South Africa, Morocco, Egypt, Tunisia and Mauritius (African Development Bank, 2022).

The waning impact of the manufacturing sector on industrialisation and socio-economic development of Nigeria has contributed largely to the poor state of its economy. The sector which once boasted of an average GDP contribution of 22.3 percent in 1980s has shrunk to an average of 9.2 percent in the last decade [National Bureau of Statistics (NBS), 2023]. The prospect of the sector also looks gloomy due to a stunted average growth of 1.61 percent between 2014 and 2023 (NBS, 2023).

The socio-economic performance of the sector in terms of employment generation has also dwindled from 73,189 in 2010 to 16,300 in 2022 [Manufacturers Association of Nigeria (MAN), 2022]. This

underperforming state of the sector has questioned its capacity to transition the economy into one of the top industrialised nations of the world. Hence, it is imperative to identify the constraints responsible for the sub-optimal manufacturing performance and proffer possible solutions to revive the sector.

2.0 Binding Constraints of the Nigerian Manufacturing Sector

Several factors account for the significant contraction and suboptimal performance of the sector in Nigeria. Among the prevalent obstacles are the issues of unstable and high rate of foreign exchange to procure raw materials, machines and spares that are not locally available; inadequate energy supply and high cost of self generated power; poor state of infrastructure; poor access to credit, multiple taxation, and policy inconsistency.

2.1 Forex Crisis and Multiple Taxation

Forex scarcity and exorbitant exchange rates continue to escalate input costs and distort manufacturing value chain. Despite attempts to unify the exchange rates, liquidity remains a major challenge. In the last one year, the financial statements of 17 manufacturing companies revealed currency devaluation losses of about N470 billion. The prolonged forex crisis has frustrated several manufacturing investments out of the country. Additionally, more than 50 payable taxes and levies have diminished the competitiveness of operators within the sector (MAN, 2022).

2.2 Poor Access to Credit

This is a major threat to investment and the growth of the manufacturing sector. Financial inclusion in the Nigerian credit market has been lopsided over the years with several manufacturers unable to access credit due to poor allocation, exorbitant interest rates and strict lending requirements that are imposed by financial institutions. With an average lending rate of 28 percent, which is one



of the highest globally, no indigenous manufacturer can compete effectively. The exorbitant interest rate is the leading driver of high cost of production and largely responsible for the continuous decline in capacity utilisation from 73.26 percent in 1981 to 56.4 percent in 2022 (CBN, 2022; MAN, 2022).

2.3 Energy Insecurity

The unencouraging level of energy insecurity, evidenced by inadequate supply is also responsible for the poor performance of manufacturing in Nigeria as companies depend more on self-generation off-grid electricity at exorbitant cost. The high cost of procuring and maintaining alternative sources of power daily exacerbate operational costs and erode profit margins of companies. Expenditure on alternative sources of energy is two or three times more than power supplied from the national grid [International Renewable Energy Agency (IRENA), 2023].



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According to a 2023 survey by the Manufacturers Association of Nigeria, manufacturers spent over N770 billion on alternative energy between 2015 and 2022. The high incremental cost has made Nigerian products 33 percent costlier than imported ones (IRENA, 2023). This is impacting manufacturing performance negatively evidenced by over N470 billion inventories of unsold products in 2022 alone (MAN, 2022).

2.4 Dearth of Infrastructure

The poor state of infrastructure has been identified as one of the reasons for the uncompetitive status of manufacturing sector. Poor port infrastructure has become the albatross of trade facilitation and aborted the country's dream of becoming Africa's maritime hub. Other constraints like high turnaround time of vessels and haulage trucks, delayed container dwell time, lack of automation

and inadequate port facilities and equipment (such as scanner, cranes, berths) have contributed largely to exalated price of raw materials and finished goods. Poor transport network is a major obstacle to the ease of doing business as freight cost for a 40ft container from China to Nigeria is 183 percent and 143 percent higher than to Lome and Ghana respectively. This has contributed to the country's poor Ease of Doing Business ranking at 131 out of 190 countries.

2.5 Policy Misalignment

Over the years, Government has not been able to effectively align monetary, industrial, trade and fiscal policies to stimulate manufacturing. Border closure directives meant to curb imports are not effectively policed. Announced tax holidays and export incentives are oftentimes poorly implemented and disrupted by untoward bureaucratic bottlenecks, leading to distrust. There is also little coordination between agencies responsible for stable power, foreign exchange, standardization and skills development to create an enabling environment for industries.

3.0 Possible Solutions for Optimising the Performance of the Sector

Successive governments have announced policies aimed at reviving manufacturing, but the sector continue to struggle for survival due to familiar problems such as macroeconomic instability, inadequate electricity, poor transport infrastructure and difficult access to credit. Going forward, new policy initiatives must commit to the following actionable strategies to address the



binding constraints within the sector.

3.1 Improving Credit Access

- Increase BOI's current capital base by over 3 times from around \$800 million to \$3.8 billion in order to enhance concessionary loans.
- Address constraint to finance through provision of specialized SMEs funding windows with single digit interest rate.
- Channel Sovereign Wealth Fund through the BOI towards the provision of long-term funds manufacturing MSMEs
- Establish and strictly follow up on Credit Guarantee schemes and subvention policies for manufacturers
- Ensure the strict implementation of Movable Assets Collateral initiated by CBN

3.2 Addressing Insecurity

- Fast-track the passage of the Police Reform Bill
- Invest significantly on data platforms, surveillance systems and community policing.

3.3 Addressing Policy Gaps

- Intensify regular meetings and collaborations among the CBN, the Federal Ministry of Finance and the Tariff Technical Committee (TTC) and other stakeholders.

3.4 Tackling Infrastructure Deficits & Energy Insecurity

- Accelerate ongoing road, rail and power infrastructure projects in partnership with private investors.
- Classify manufacturers as strategic users of gas, prioritize supply of electricity to industries and create friendlier environment for investment in renewables.

3.5 Addressing Forex Crisis

- Enforce swift conversion of dollar payments into naira and mandate banks to transfer domiciliary balances into the forex window within 14 days.
- Prioritise forex allocation to the manufacturers and facilitate the reduction of the number of BDCs into large and well-established operators.

3.6 Addressing High and Multiple Taxation

- Implement all the preliminary recommendations of the Presidential Fiscal Policy and Tax Reforms Committee.
- Provide fiscal incentives for exporters of manufactured products, 5-year tax holiday on corporate income and accelerated capital allowance rate of 50% (up from current 25%)

4.0 Conclusion

The trajectory of the manufacturing in Nigeria is not encouraging as the sector is merely struggling to survive every year. Clearly, the sector needs to be revitalized through comprehensive and integrated support to drive sustainable economic growth. Undoubtedly, the combination of Political will, closer public-private dialogue, policy consistency, specified funding commitments, measurable targets, implementation timelines and transparent scorecards are required to frontally resolve familiar constraints limiting the growth of the sector.

When the aforementioned policy actions are taken together, the manufacturing sector will not only return to the path of recovery, but it will also experience steady improvement in performance, create wealth and contribute meaningfully to sustainable economic growth.



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Lagos Chamber of Commerce and Industry (LCCI) in the News

Impact investment will create jobs, address country's financial challenges

Stakeholders in the public and private sectors have drawn attention to the importance of corporate philanthropy and impact investment.

LCCI expresses worry over declining capital importation

President of the Lagos Chamber of Commerce and Industry (LCCI), Gabriel Idahosa, has said that the continued decline in capital importation into the country as well as its current structure and skyrocketing

Growth of trade, manufacturing sectors remains weak, says LCCI

The Lagos Chamber of Commerce and Industry (LCCI) has argued the growth in both trade and manufacturing has drastically declined in the last six months, adding that urgent steps must be taken

LCCI urges FG to remove bottlenecks, ease import duties to encourage OPS

President of the Lagos Chamber of Commerce and Industry (LCCI), Gabriel Idahosa, has urged the federal government to remove the many obstacles that hinder the organised private sector (OPS) from investing

LCCI urges FG to remove bottlenecks, ease import duties to encourage OPS



Punch Newspapers

LCCI seeks govt support for strategic industries

The Lagos Chamber of Commerce and Industry has urged the Federal Government to provide critical support interventions to encourage investment and

Punch Newspapers

Entourage reduction: LCCI seeks clarification on penalty for non-compliance

The Lagos Chamber of Commerce and Industry has asked the Federal Government to clarify the penalty that would be meted out to government.

Guardian Nigeria

2024 Lagos Trade Fair promises greater business opportunities

Vice President and Chairperson, Trade Promotion Board of the Lagos Chamber of Commerce and Industry (LCCI), Abimbola Oluwalade, has said this year's edition

Vanguard News

Petroleum contractors trade section hosts annual partners dinner
By Etop Ekanem The Petroleum Contractors Trade Section (PCTS), of the Lagos Chamber of

THISDAYLIVE

Hike in Electricity Tariff will Worsen Living Conditions, Cost of Doing Business, Say Afenifere, Lagos, Abuja Chambers

Sans with necessary motivation, military has capacity to end insecurity, Emmanuel

Nigeria News

Price Of Food May Continue To Increase - LCCI

The Lagos Chamber of Commerce and Industry (LCCI) has issued a warning that the

Champion Newspapers LTD

LCCI tasks government on improved budget performance in 2024

The Lagos Chamber of Commerce and Industry (LCCI) has urged Federal Government to improve its budget performance in terms of capital expenditure in 2024

The Whistler Newspaper

Foreign Investors Suspending Projects In Nigeria Due To

245,000 Fynstrists 1 day 1 LCCI

Vanguard News

Multiple taxes won't work for Nigeria, says LCCI President

ABUJA – President and Chairman of Council, Lagos Chamber of Commerce and Industry LCCI, Gabriel Idahosa, has cautioned against the

Lagos Chamber of Commerce and Industry (LCCI) in the News



Guardian Nigeria
<https://guardian.ng/features/education/100-985-488-1>

LCCI gets LASU's nod to commence postgraduate progs

11 Apr 2024 — The Lagos Chamber of Commerce and Industry (LCCI) has received the nod of the Lagos State University (LASU) to commence postgraduate



Punch Newspapers
<https://punching.com/commerce-and-industry-lcci-100-985-488-1>

Interest rate hike will slow economic growth, say LCCI, MAN

24 May 2024 — Interest rate hike will slow economic growth, say LCCI, MAN, 24th May 2024
Interest rate hike Fresh job losses, interest rate hike Fresh job



Vanguard News
<https://www.vanguardngr.com/news/1>

LCCI rules rising cost of doing business

5 Apr 2024 — The Lagos Chamber of Commerce & Industry (LCCI) has expressed grave concerns over the rising cost of doing business in Nigeria occasioned by



THISDAYLIVE

IUC, LCCI Call for Withdrawal of Planned 0.5% Cybersecurity Levy – THISDAYLIVE

Obi criticises FG, senior lawyer, says it will cause more hardship. Chukwura Okechukwu, senior lawyer, says it will cause more hardship. Chukwura Okechukwu, senior lawyer, says it will cause more hardship. Chukwura Okechukwu, senior lawyer, says it will cause more hardship.



NACCIMA

Closure of Dangote Cement Factory by Kogi Govt, Shocking, Hasty – NACCIMA, LCCI, ACCI

Organized Private Sector (OPS) operators under the aegis of National Association of Chambers of Commerce, Industries, Mines and Agriculture.



Leadership News

Again, CBN Adjusts Exchange Rate to N1,413.62/\$1

Amid stakeholders' rejection of the N1,346,883 exchange rate, the Central Bank of Nigeria (CBN) on Saturday readjusted the exchange rate on the Customs.



Punch Newspapers
<https://punching.com/lcci-seeks-govt-support-for-strategic-industries>

LCCI seeks govt support for strategic industries

12 Apr 2024 — The Lagos Chamber of Commerce and Industry has urged the Federal Government to provide special support mechanisms to strategic companies and



Punch Newspapers
<https://punching.com/rising-borrowing-costs-affecting-1>

Rising borrowing costs affecting businesses, LCCI laments

26 Apr 2024 — The Lagos Chamber of Commerce has disclosed that the business community is currently plagued with increased borrowing costs, reduced



THISDAYLIVE

LCCI: Stable Political Environment Crucial for Business Success, Investment Inflow – THISDAYLIVE

Dike Onwuanneze, The Lagos Chamber of Commerce and Industry (LCCI) has declared that a stable political environment is very crucial for



The Whistler Newspaper

Foreign Investors Suspending Projects In Nigeria Due To \$15,000 Expatriate Levy— LCCI

The recent move by the Federal Government to introduce an expatriate levy of between \$10000 to \$15000 has led to the suspension of projects





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TINUBU'S FOOD SECURITY AGENDA 2024 - THE GOOD, THE BAD, THE UGLY OF THE RENEWED HOPE!



Tinubu's Food Security Agenda 2024-The Good, The Bad, The Ugly of the Renewed Hope!

Agriculture as a new frontier of the Nigeria economy requires 100% attention by the current administration. Food availability and sufficiency to the citizens is an inroad to eradicate poverty and National growth. The basic lacuna in all government policies is lack of consistency and inability to follow the blueprint for such economic policy implementation. This is very peculiar with the Nigeria various



administration which has led the nation to under-development and misappropriation of available scarce resources.

THE GOOD!

The significance of the agricultural sector in Nigeria cannot be underestimated. The sector is the second-highest contributor to the real Gross Domestic Product (GDP) among non-oil sectors in the third quarter (Q3) of 2023.

The agricultural sector, ranking among the top 10 ministries with significant earmarks, received N362.94 billion. However, this amounts to only 1.32 percent of the total budget of N27.5 trillion. In contrast to the 2023 budget, which allotted N228.4 billion to agriculture (1.05 percent of N21.83 trillion), the 2024 budget shows a substantial increase of N134.54 billion. As stakeholders in the agricultural sector, we are expressing dissatisfaction with the allocated fund, representing 1.32 percent of the total budget (just 0.27% above 2023).

THE BAD!

The budget allocated did not indicate enough commitment of the present government in ensuring food security. This is quite worrisome.

As stakeholders in the agricultural sector, we are expressing dissatisfaction with the allocated fund, representing 1.32 percent of the total budget (just 0.27% above 2023). Despite challenges, such as heavy importation, climate change, and conflicts between herdsmen and local farmers, stakeholders argue that the allocated budget falls short in addressing critical issues like mechanization, nationwide irrigation, storage, and research and development.

Violence, armed banditry, and kidnappings have

disrupted farming activities, leaving 8.4 million people in the northern regions food insecure. These challenges contributed to a surge in food inflation to 32.84 percent in November 2023, up from 24.13 percent in November 2022, exacerbating poverty.

On food production, we should constantly ask ourselves why are we importing food despite all the natural gifts from the almighty. Nigeria only mass-imports about five food products that includes rice, sugar, wheat, fish, and palm oil. Unfortunately, due to our large population, this costs us about \$2bn a year.

Nigeria can comfortably be self-sufficient in food production as we grow all our main staples foods and can also export to other nations. The topmost action of the government should be on security of farmers so that farmers can return back to farms fully. Many crops waste away as farmers are still paranoid because of experience of kidnapping and activities of Herdsmen destroying crops and attacking farmers.

Nigeria is actually a net producer of food i.e we produce more than we consume. Nigeria is currently the world's sixth largest agricultural producer but about one third of our output goes to postharvest losses because of poor roads, storage facilities, electricity, a lack of refrigeration and no supply chain structure. Probably about 40% of our tomato output gets perished in transit from the farm gates because of the bad roads and lack of appropriate packaging & refrigerated facilities.

It is a very supportive idea that we need to cut food imports but the way to do it is by improving domestic distribution, provision of refrigeration van, and storage. Building silos in every one of our 774 local government areas. However, providing reefer trucks, good and well tarred motorable rural roads, affordable electricity to the farmers, cheaper farm technology will make food more abundant and cheaper.

THE UGLY

The budget made provisions of N5b for construction of FERM Headquarters office complex-Ministry HQ.

This is a misplaced priority when the aims of food sufficiency aren't yet achieved. It will be appropriate for the ministry to shift focus from such inconsequential project which is the highest capital expenditure in the budget, to utilizing the allocation to areas that will have direct impact on the improving food security, such as procurement of mini tractors and tools that will improve production, to subsidizing procurement of seedlings, fertilizers, herbicides, and support of relevant research.

No roadmap for LIVESTOCK Agriculture.

We can't identify a road map and support for this sub-sector. There is no mention of strategy towards livestock and fisheries growth in the food security plan. The government should find ways to ensure we regulate and make available Grandparents and parents stocks that will be used in producing the livestock, fishes, poultry products in order to achieve higher yield.

Recommendation

There should be no ban on any farm product to avoid contravening any signed foreign policy agreement, rather introduction of high tariffs should be explored.

The ugly aspect is that we are not producing enough of some of the products that has been banned. This is counterproductive as this will lead to higher prices and inflation. When you ban imports and do not produce what you have banned locally, you create inflation. The government did not demonstrate to her citizens the strategies to be engaged which to encourage local Agro-investors to increase rice and wheat production nationwide.

Nigeria economy need to learn to be competitive. One problem with government subsidy is that it protects lazy, inefficient, and encourage monopoly of business. Tinubu administration needs to be critically and constructively challenged to totally negotiate Nigeria into self-sufficient in food production by year 2027.

Mechanization: We advise to explore the Asian countries solution i.e. use of small hand held motorized tool, and mini trucks to speed up out farming operations. Most especially in the regions where the soil properties support it.



We need regulation around the quality of inputs available to farmers in the country. Ensure usage of only hybrid seeds available locally (preferably) to achieve the 50% input support contained in the agriculture plan. We advise not the use the less productive open pollination seeds.

We need a feedback mechanism platform like consumer protection in agriculture where farmers complaint can be redressed.

Government must create enabling environment for entrepreneur to venture into cartage processing, Storages, modular refinery etc. to maximize crop yields and to avert post-harvest losses. What is the road map towards achieving the agro hubs in 6 geopolitical zones as contained in the President's manifesto? Likewise, the creation of Commodity Exchanges Boards, and what is the timelines towards achieving these? There are zero answers to these questions.

Recapitalization of BOA and NAIC has been promised over the last couple of years to support higher Agric lending at single digits and insurance to mitigate losses.

Renewed Hope of Tinubu will be more impactful to Nigeria citizens at every nooks and cranny if policies are effectively implemented to alleviate the country from poverty through food security.

Compiled by The LCCI Agro-Allied Sector Think Thank team.



NIGERIA: AGRICULTURE AND FOOD MARKET: SHORT-TERM OUTLOOK REPORT

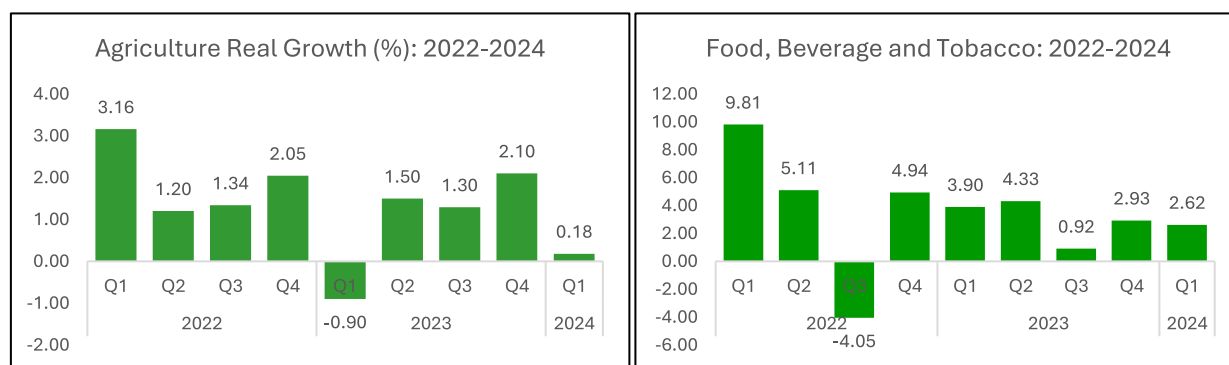
Kehinde Ayanbadejo

The agricultural and food market in Nigeria continued to be impacted by the consequences of fuel subsidy removal and consistent exchange rate depreciation, monetary policy tightening, increasing cost of fertilizer and other input costs and food inflation as well as insecurity in the country. In addition to the continued border closure policy of the Federal Government, Nigeria experienced one of the worst flooding in history in the last quarter of 2023, which significantly affected crops, such as rice, maize and soyabean. The economic conditions have also been difficult for livestock producers and animals who suffered from high cost of feed, herder-farmer crisis etc.

As a result of the obvious challenging conditions, the Federal Government declared a state of emergency on food production to stabilize prices. However, affordable food is still a far cry. According to NBS, food inflation accelerated to 40.66% in May 2024, the highest level since 1995 and 0.13% point higher when compared to 40.53% recorded in the previous month. Agriculture sector output grew by 0.18% in Q1 2024, a significant decline from 2.10% in Q4 of 2023. Similarly, the food, beverage and tobacco sector grew by 2.62% in the first quarter of 2024 compared to 2.93% in Q4 2023.

Further analysis of agriculture sector growth by output revealed that crop production which contributes over 91% of the agriculture sector, grew by 1.71% in the first quarter of 2024 compared to 2.44% in the fourth quarter of 2023 and 1.93% in the corresponding quarter of 2023. The second largest contributor to agriculture output, livestock recorded a higher contraction of -23.3% in Q1 2024 compared to -2.09 in Q4 2023, though slightly moderated when compared to -30.6% in the corresponding quarter of 2023.

Fishing, the third largest contributor to agriculture output contracted by -1.44% in Q1 2024 compared to -0.12% in the last quarter of 2023 and -2.92% in Q1 2023. Forestry exhibited the fastest rate of growth in Q1 2024 with 2.73% compared to 1.69% in the previous quarter.

Figure 1: Real Growth Agriculture and Food Sector in Nigeria

Source: NBS & LCCI Research

**Table 1: Nigeria's Agriculture Sector Real Growth by Output: Q1 2023-Q1 2024**

Agriculture Sector by Output	Q1 2023	Q2 2023	Q3 2023	Q4 2023	FY 2023	Q1 2024
Crop Production	1.93	1.82	1.35	2.44	1.88	1.71
Livestock	-30.57	-2.30	1.18	-2.09	-8.61	-23.29
Forestry	1.24	1.88	2.21	1.69	1.77	2.73
Fishing	-2.92	0.29	-2.33	-0.12	-1.36	-1.44
Agriculture Sector	-0.90	1.50	1.30	2.10	1.13	0.18

Source: NBS & LCCI Research

In addition to the output constraints facing the agriculture sector, the level of inflation describes the influence of the output shortfall on prices. The headline inflation in May 2024 increased to 33.95% compared to 33.69% in the previous month and 22.41% in the corresponding month in 2023. Food inflation surged to 40.66% in the month from 40.53% in April 2023, implying 0.13% point increase. Similarly, core inflation increased to 27.04% compared 26.84% in April 2024 and 19.83% in May 2023.

The urban and rural inflation are 36.34% and 31.82% respectively in the month compared to 36.0% and 31.64% recorded in the previous month.

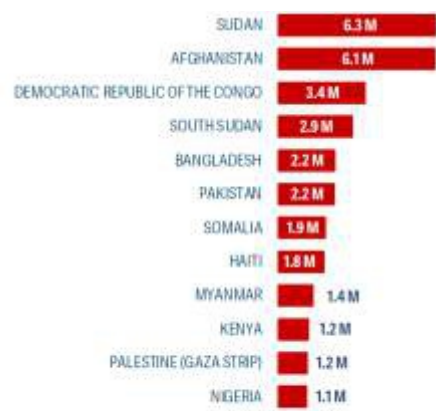
Table 2: Key Inflation Figures

Indicator	Year-on Change (%)			Month-on Change (%)		
	May 2024	April 2024	May 2023	May 2024	April 2024	May 2023
Headline Inflation	33.95	33.69	22.41	2.14	2.29	1.94
Food Inflation	40.66	40.53	24.82	2.28	2.50	2.19
Core Inflation	27.04	26.84	19.83	2.01	2.20	1.85
Urban Inflation	36.34	36.00	23.74	2.35	2.67	2.09
Rural Inflation	31.82	31.64	21.19	1.94	1.92	1.80

Source: NBS

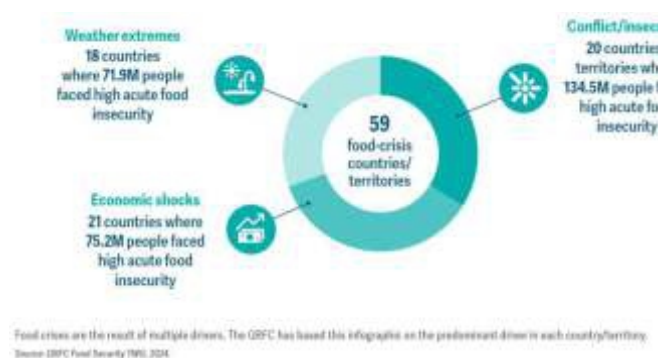
Globally, food prices are elevated in the international market. The FAO Food Price Index (FFPI), a measure of the monthly change in international prices of a basket of food commodities. The index currently stands at 120.4 points in May 2024, and increase of 1.1 points (or 0.9%) from its April level of 119.3 points. The Food Security Information Network (FSIN) in its report listed Nigeria as one of the top 12 country facing food crisis in the category of Sudan, Afghanistan, Democratic Republic of Congo, South Sudan and Palestine (Gaza Strip). According to the report, the key drivers of acute food insecurity are conflict/ insecurity, weather extremes and economic shocks.

Figure 2: Countries/ Territories with over 1 million People in Emergency (IPC/CH Phase 4), 2023



Source: IPC TWGs, 2022; Myanmar pre-analysis conducted under the HNRP; IPC Global Initiative 2022; CH 2022.

Figure 3: Primary Drivers of Acute Food Insecurity in Countries with Food Crises, 2023



Extract from FSIN

Financial Performance of Major players in the Nigerian Agriculture and Food Market.

Amid the challenges facing the agriculture and food sectors, it has been a mixed performance for a number of companies. While Okomu Oil Palm Plc and Presco recorded significant revenue and profits, FTN Cocoa Processors Plc and Ellah Lakes Plc are struggling with zero revenue and significant losses as

Table 3: Performance of Major Agriculture Companies by Revenue and PBT

COMPANY NAME	REVENUE (N'MNS)			PROFIT/LOSS BEFORE TAX (N'MNS)		
	Q1 2024	Q1 2023	% Change	Q1 2024	Q1 2023	% Change
OKOMU OIL PALM PLC	43,482.84	24,207.66	79.6%	23,033.21	14,881.48	54.8%
PRESCO PLC	29,523.32	17,246.98	71.2%	23,728.46	12,363.64	91.9%
FTN COCOA PROCESSORS PLC	0.00	0.00	0.0%	-8,885.64	-89.75	9800.4%
ELLAH LAKES PLC*	0.00	0.00		-760.49	-874.9	-13.1%

Source: NGX and LCCI Research & Advocacy

Note */based on 2023 FY vs 2022 FY

However, Ellah Lakes Plc (ELP) has said that it plans to invest \$400 million in capital over the next two years to deliver on its crop processing zone strategy within a Special Economic Zone (SEZ). The company also stated its intention to raise N2.9 billion on the Nigerian Stock Exchange floor.

In the food products, the most recent financial results revealed that BUA Foods Plc and Northern Nigeria Flour Mills Plc recorded significant results as presented in the table below:

Table 4: Performance of Major Food Products and Food Products-Diversified Companies by Revenue and PBT

COMPANY NAME	REVENUE (N'MNS)			PROFIT BEFORE TAX (N'MNS)		
	Q1 2024	Q1 2023	% Change	Q1 2024	Q1 2023	% Change
BUA FOODS PLC	233,787.67	83,675.98	179.4%	34,884.25	25,834.82	35.0%
DANGOTE SUGAR REFINERY PLC	122,727.34	102,224.74	20.1%	- 106,262.14	18,745.15	-666.9%
FLOUR MILLS NIG. PLC.	2,291,561.45	1,539,654.79	48.8%	3,952.45	42,752.11	-90.8%
HONEYWELL FLOUR MILL PLC.	188,311.04	147,350.74	27.8%	- 7,860.04	- 8,907.00	-11.8%
N NIG. FLOUR MILLS PLC.*	16,161.84	15,232.82	6.1%	544.16	261.21	108.3%
NASCON ALLIED INDUSTRIES PLC.	23,618.12	16,901.20	39.7%	1,839.01	2,434.31	-24.3%
CADBURY NIGERIA PLC.	23,695.56	16,563.13	43.1%	- 10,456.68	- 4,933.25	-112.0%
NESTLE NIGERIA PLC.	183,484.16	127,970.32	43.4%	- 196,085.96	24,903.31	-887.4%

Source: NGX and LCCI Research & Advocacy

Note */based on 2023 FY vs 2022 FY

Government Policy Interventions in the Agriculture and Food Market

The government, in an attempt to enhance local trade and exports, has introduced some policies and programmes:

Declaration of State of Emergency on Food Sector

- FG signed MOU with John Deere to supply Nigeria with 2,000 tractors annually in the next five years.
- FG release of 225,000 metric tonnes of fertilisers, seedlings and other critical inputs to farmers across the country.
- CBN allocates N100 billion fertiliser to Federal Ministry of Agriculture and Food Security for distribution to farmers.

Agriculture Promotion Policy**Nigeria–Africa Trade and Investment Promotion Programme****Presidential Economic Diversification Initiative****Zero Reject Initiative****Economic and Export Promotion Incentives**

The Agriculture Promotion Policy (APP) aims to improve access to international markets by:

- Enhancing access to market information through a National Agricultural Information System
- Creating specialised export market support teams to enhance export capacity
- NATIPP is a programme jointly launched by the African Export-Import Bank, Nigerian Export Import Bank and the Nigerian Export Promotion Council
- The aim of NATIPP is to facilitate the expansion of Nigeria's trade and investment into Africa
- The Presidential Economic Diversification Initiative (PEDI) aims to enhance trade capacity in Agriculture by facilitating new investments in the Agricultural and Agroallied industries, reducing regulatory bottlenecks and enabling access to credit
- The Zero Reject Initiative was launched to enhance the acceptability of Nigerian products internationally
- It is aimed at improving Agricultural exports through the institution of global quality standards and product standardization
- The Government has placed trade barriers on select Agric. goods to protect local producers and stimulate growth of the industry
- In addition, several economic incentives are offered to Agric. Investors in Nigeria including income tax relief, zero import duty on equipment, VAT exemptions, etc

Source: LCCI Research & Advocacy

Lingering Constraints of the Agriculture and Food Market

Despite interventions from the government, agricultural and food market remains constrained by several limiting factors including insecurity, transportation and logistics, lack of food storage facilities and processing, information and communication technology, ports and border infrastructure, excessive rainfall, dam water release and flood etc.

Agriculture and Food Market Outlook

The outlook for agriculture and food market varies across outputs but will be largely dependent on key systemic factors like fiscal and monetary policies, security, border control and AfCFTA implementation.

The potential of the market is huge, we expected the challenging macroeconomic headwinds to continue to impact agriculture outputs particularly in crop production, livestock and fishing in the second half of 2024 and 2025. With lingering constraints such as insecurity, flooding and rising inflation and limited access to funding by key players, we believe that the growth of the Nigerian agriculture and food sector will be low-moderate, driven by a series of government policies and support initiatives.



CURBING FOOD Inflation in Nigeria

Dr. Sunnie Omeiza-Michael,
Dr. Danjuma Iyaji

Nigeria is grappling with a severe food inflation crisis, which reached a staggering 40.66% year-on-year in May 2024. This represents a 15.84 percentage point increase from April 2023. The escalating cost of food, coupled with the country's reliance on imports to meet agricultural production shortfalls, has placed immense pressure on households and the broader economy. Key imported items include wheat, rice, poultry, fish, and various consumer-oriented foods, primarily sourced from Europe, Asia, the United States, South America, and South Africa.

Current State of Food Inflation

The National Bureau of Statistics (NBS) report highlights significant price increases across various food categories. Staple items such as Semovita, Oatflake, Yam flour pre-packaged, Garri, Bean, etc. (which are under Bread and Cereals Class), Irish Potatoes, Yam, Water Yam, etc. (under Potatoes, Yam and other Tubers Class), Palm Oil, Vegetable Oil, etc. (under Oil and fat), Stockfish, Mudfish, Crayfish, etc. (under Fish class), Beef Head, Chicken-live, Pork Head, Bush Meat, etc. (under Meat class).

On a month-on-month basis, food inflation slightly decreased in May 2024, falling to 2.28% from 2.50% in April 2024 with a differential of 0.22%. This reduction was driven by a fall in the rate of increase in the average prices of Palm Oil, Groundnut Oil (under Oil and Fats Class), Yam, Irish Potatoe, Cassava Tuber (under Potatoes, Yam & Other Tubers Class), Wine, Bournvita, Milo, Nescafe (under Coffee, Tea and Coco Class)

The average annual rate of Food inflation for the twelve months ending May 2024 over the previous twelve-month average was 34.06%, which was a

10.41% points increase from the average annual rate of change recorded in May 2023 (23.65%).

Nigeria is grappling with a severe food inflation crisis, which reached a staggering 40.66% year-on-year in May 2024. This represents a 15.84 percentage point increase from April 2023. The escalating cost of food, coupled with the country's reliance on imports to meet agricultural production shortfalls, has placed immense pressure on households and the broader economy. Key imported items include wheat, rice, poultry, fish, and various consumer-oriented foods, primarily sourced from Europe, Asia, the United States, South America, and South Africa.

Import Dependency and Costs

Nigeria's food and beverage import bill saw a 30% increase from N1.21 trillion in Q4 2023 to N1.59 trillion in Q1 2024. This represents a 115% year-on-year increase from Q1 2023, highlighting the country's heavy reliance on food imports. The import bill for household consumption of primary food and beverages rose to N186.6 billion, while

industrial imports surged to N540.1 billion. Processed food and beverage imports stood at N865 billion, reflecting a 137% year-on-year increase.

Several factors contribute to Nigeria's soaring food inflation:

- The significant naira depreciation has made imported foods more expensive, exacerbating inflation.
- Events like India's rice export embargo in 2023 have led to supply deficits and price increases in global markets, impacting Nigeria's import costs.
- Despite Nigeria's agricultural potential, domestic production falls short of demand, leading to reliance on imports.
- Rising global food prices and increased import costs have directly impacted local prices.
- Poor infrastructure, including transportation and storage facilities, hampers efficient food distribution, leading to higher costs and wastage.
- Some recent crop diseases have affected some of our crops, particularly tomatoes.

Recommendations on Curbing Food Inflation in Nigeria

Addressing Nigeria's food inflation requires a multi-faceted approach:

- Enhancing the production of key staples such as cassava, yam, maize, and rice can reduce import dependency. Investments in modern farming techniques, irrigation, and high-yield crop varieties are essential.
- Developing better transportation and storage infrastructure will reduce post-harvest losses and ensure more efficient distribution of food products. The government should initiate interventions to ensure food, poultry, and fisheries reach the market and cities.
- Providing incentives for private sector investment in agribusiness can spur growth in domestic food production and processing. Such non-cash interventions like lowering or removing import duties on agricultural input can incentivize businesses in that sector.
- While short-term importation may alleviate immediate shortages, long-term strategies



should focus on self-sufficiency. Revisiting trade policies to protect and promote local production is crucial. The government, through the CBN, should consider lowering the exchange rate of import duties for agricultural input and machinery.

- Establishing price stabilization funds and buffer stock schemes can help manage food prices during periods of volatility.
- Investing in agricultural research and development to improve crop yields, pest resistance, and climate resilience will strengthen food security.
- Providing farmers access to affordable credit and insurance policies will enable them to invest in productivity-enhancing technologies and practices. Access to finance will also support large-scale production and taking advantage of economies of scale.

Nigeria's battle with food inflation is complex and multifaceted, driven by both domestic and international factors. While short-term measures such as opening borders to food imports can provide immediate relief, sustainable solutions lie in boosting domestic agricultural production, improving infrastructure, and fostering an environment conducive to agribusiness investments. With concerted efforts from the government, private sector, and international partners, Nigeria can navigate this crisis and build a more resilient and self-sufficient food system.

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