FOUNDATION FOR PARTNERSHIP INITIATIVES IN THE NIGER DELTA

Market Development Programme in the Niger Delta

INTRODUCTION

The Foundation for Partnership Initiatives in the Niger Delta (PIND) and Department for International Development (DFID)'s Market Development (MADE) Program have collaborated to produce a report from their study on the effect of naira devaluation on agricultural value chains in the Niger Delta. The report outlines the impact of the devaluation of the Naira and the Nigerian government trade restriction policies in response to pressure on the Naira and its foreign reserves. While having broad implications for the impact of naira devaluation on agriculture, the study specifically covers value chains that both organizations cover, namely: aquaculture, cassava, palm oil, and poultry.

This study achieves the following:

- Highlights challenges and opportunities the changing economic conditions present market actors and the two organizations' approaches to addressing them.
- Provides actionable recommendations for PIND and MADE on how they can restructure their existing intervention programs, or design future ones to mitigate the negative effects of exchange rate movements for the market actors they work with, and help them take full advantage of the opportunities.
- Relies on previous analyses of these value chains conducted by PIND and MADE, and identifies the points in the value chains most susceptible to exchange rate movements.
- Highlights the general market trends in the relevant value chain, as opposed to a detailed analysis of the markets concerned. The implications for programming are considered, particularly, general impact on current interventions and some recommendations on the direction of these interventions are shared:

BACKGROUND

As the global crude oil price fell from above $100 per barrel in early 2014 to below $30 per barrel by the beginning of 2016, Nigeria's oil revenues and foreign exchange reserves dropped. The decline in reserves exerted pressure on the Naira against the dollar, and meant the Central Bank of Nigeria (CBN) was unable to defend the Naira's peg to the Dollar. Following this, the CBN devalued the Naira twice between November 2014 and February 2015. However, even with the two devaluation episodes, the pressure on the Naira continued, as shown by a widening spread between the official and parallel exchange rates, eventually forcing the CBN to float the Naira in June 2016.

To reduce imports and conserve its diminishing foreign exchange reserves, the CBN implemented a ban on access to foreign exchange at the CBN official window for a list of 41 items. This list includes rice, poultry and palm oil products. Additionally, the Federal Government increased import levies on these goods and other agricultural products, and even banned imports of some entirely.

IMPACT OF DEVALUATION

The impact of this ban differ from one agricultural value chain to another, however there are concurrences. The devaluation has also led to significant increases in costs of major inputs over the last two years which influence costs across all the value chains. Energy prices, including power and diesel, are largely driven by foreign exchange costs, and are a significant cost component for processors along the aquaculture, cassava and palm oil value chains, and for some primary producers in the poultry value chain. The cost of credit has also increased sharply since the Naira's devaluation as the CBN increased interest rates to curb rising inflation. This has constrained actors in the agricultural sector as they have found it increasingly difficult to obtain credit to expand their operations. Agricultural inputs such as fertilizers and crop protection products, which are of special interest for PIND and MADE, have also seen large price increases. In addition to price increases, farmers are also experiencing difficulties accessing these products as local production capacity is currently inadequate.

In **the aquaculture value chain**
, farmers have faced large increases in the price of both imported
and locally produced fish feeds. Local feed companies have seen their costs increase following increases in the prices of imported inputs such as fish meal and maize. The increase in the price of feed, and the reduced availability, particularly of starter feed may have caused many weaker catfish farmers to close their ponds. Catfish prices have increased as consumers turn to it as an alternative to more expensive imported fish and poultry, meaning that the farmers who have stayed in business have seen their revenues increase. For processors, the increase the price of smoking kilns has led to reduced adoption of smoking kilns.

In **the cassava value chain**, increases in the price of fertilizers and other crop protection products have increased input costs for farmers, while processors have faced increased energy costs. In addition to the increase in production costs, devaluation has also led to an increase in cassava demand, and therefore prices. Demand from the food sector has increased as the price of imported rice, a major substitute for cassava food products, more than doubled between 2015 and the beginning of 2017, and imports have dropped by about 2 million tons since the devaluation. Even with the increased industrial demand, the price for cassava on the food market is still higher than on the industrial market leading producers and processors to allocate even more cassava to producing cassava derivatives for the food market. This study found that the increases in the prices that market actors in the Niger Delta receive for their products is higher than the increase in input prices, meaning that the Naira's devaluation has been positive for most market actors.

IMPACT OF DEVALUATION

The palm oil subsector

has also seen increased demand for both Technical Palm oil (TPO) and

Special Palm Oil (SPO) as imports of refined palm oil are banned while crude palm oil imports are subject to combined import tariffs of 35%, and are invalid for official foreign exchange access. The increase in demand has led to increased prices for palm oil and the fresh palm fruit which has been higher than the increase in prices that producers and processors have faced when purchasing inputs. The biggest challenge in the palm oil value chain is that producers have been unable to increase supply quickly enough to meet the increased demand, leading to low capacity utilization by processors who are unable to purchase enough fresh fruit branches to operate at full capacity.

Our analysis of **the poultry value chain** found that the devaluation, which has caused significant price increases of vaccines, has caused a drop in the demand for preventive vaccines and a constant demand for treatment vaccines, as poultry farms adjust to the increased cost of production. Although this protects margins for pharmaceutical companies, it exposes poultry farms to viral attacks and losses.