IMPACT ASSESSMENT REPORT ON CBN FOREIGN EXCHANGE POLICIES

- The foreign exchange market has no doubt been under pressure in the last couple of months, following oil price decline. The situation posed significant challenges to the Central Bank of Nigeria [CBN] with regard to the stability of exchange rate and the protection of foreign reserves.
- However, the Lagos Chamber of Commerce and Industry [LCCI] and the business community are concerned about the consequences of the CBN approach to the management of foreign exchange market over the last few months. We have engaged the CBN through a dialogue session to draw attention to the implications of Forex policies on Businesses and the economy.

CBN RECENT FOREX POLICIES:

1. Directive on the exclusion of 41 products from access to the foreign exchange market (interbank foreign exchange market and Bureau de Change)
2. Restriction on the utilization of Export Proceeds for the 41 prohibited items.
3. Prohibition of foreign currency cash lodgment into domiciliary accounts.

SUMMARY OF IMPACTS

1. **Financial Services Sector**

Effects of forex restriction on the 41 items	Effect of restriction of use of Export proceeds	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Reduction in volume of trade transactions leading to a lower income from trade related activities. • Negative Country Risk Perception by foreign banks leading to restrictions on foreign credit lines • Loss of customers to dealers in the parallel markets since banks are unable to source for forex for their customers' trade transactions. • Waste of management time in addressing customers complaints and frustrations	• This affects the availability of Forex for importation of goods on the exclusion list. • Bank customers are affected as they are not allowed to use export proceeds in one bank account to settle importations transacted through other banks. • Difficulty to settle customers import bills • Fall of revenue (non-interest income) of banks due to loss of transactions from businesses	• Online purchases of items (small items that do not require the rigors of Form A documentation are no longer as seamless as they used to be. • Repayment on foreign-denominated credit cards has become very difficult since the inception of this policy

2. Manufacturing Sector-Food and household products

Effects of forex restriction on the 41 items	Effect of restriction of use of Export proceeds	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Inability to manufacture due to lack of Forex to import raw materials • Delays in the processing of Form 'M' to import and meet demands. This has led to loss of market share. • Slower consumer demand and lower profits • Job losses is inevitable as the bottom line is adversely affected • Inability to settle foreign creditors on account of items imported prior to the CBN policy. • Palm oil for instance is needed for production of some consumer goods and since local supply cannot meet industrial usage, the inability to import it has caused some difficulties for manufacturers in such sectors. Prices of such products have to increase at least marginally. There is a supply gap of about 600,000 metric tonnes annually in Nigeria. • Form M opened for items on the list prior to the CBN policy are not processed for payment leading to credit defaults with foreign suppliers. • Vegetables and processed vegetable products used by Quick Service Restaurants are included in the list and this has affected negatively the availability of forex to import these materials. Sourcing these locally will mean lower standards than international levels.	• Sourcing of forex at exorbitant rates from alternative sources eroding already thin margins • Export proceeds can become idle while in need of forex to import through other banks. • Companies in the Fast Moving Consumer Goods sector are unable settle outstanding obligations to foreign suppliers which has slowed down their ability to get fresh supplies for production. • Export business is hugely affected as they are unable to sponsor and pay marketing activities outside the country. • They also experience payment delays.	• Delays in sourcing forex to import spare parts to meet breakdown of production machinery. Spares that were picked off the shelves before will now need to undergo series of processing before forex is made available to import them. • For suppliers that need to be paid in advance to arrange for supplies, it has become impossible to do so.

3. Tyre & Rubber Industry

Effects of forex restriction on the 41 items	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Defaults in repayment agreements with foreign suppliers and banks. • The Bills for Collection opened in respect of the 41 items prior to the CBN policy have suffered non-performance. • Tyre is a composite product of more than 200 raw materials. It is therefore technically wrong to classify tyre as rubber instead of being termed an automotive part. Tyre business operators cannot source for to remain in operation • Prices of tyre have increased by 25% since July 2015	• Increasing spate of smuggling into the country with implications for loss of revenue from import duty and risk of increased accident from fake vehicle tyres

4. Pharmaceutical Sector

Effects of ban on the 41 items	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Some raw and packaging materials that are required in manufacturing process are on the exclusive list. These materials are not available locally and have to be imported. • There are issues with the ambiguous classification of the items on the list. For instance, glassware and glass bottles (especially different small sizes needed for packaging of medicines). The glass bottles have been classified as glassware and as such cannot access forex market to import them. Local bottlers do not produce the small sizes as local requirements are not large enough to attract them into producing small glass sizes. • Scarcity of Pharmaceuticals package materials such as glass and plastic bottles • Industry operators have almost run out of key packaging input with implications of shot down and job losses in near term • Loss of job and rinsing cost of production • It takes up to two months to get FX for even products that are not in the prohibited list. This is waste of time and lead to loan of opportunities.	There is about 10% to 15% increase in the cost of transfers. There are also security issues with such transfers.

5. Oil & Gas Sector

Effects of ban on the 41 items	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Though Oil & gas products are not in the exclusion list, but getting forex for settlement of obligations has become so difficult and as such huge cost on post negotiation bank charges are being incurred.	• Local importers without export inflow cannot pay bills or dues to foreign partners.

6. Free Trade Zone Sector

Effects of ban on the 41 items	Effect of restriction of use of Export proceeds	Effect of prohibition of foreign currency cash lodgment into domiciliary accounts
• Companies operating in Free Trade Zones operate under statutes that exclude them from CBN Foreign Exchange regulations. The CBN has disregarded these provisions as companies operating in Free Trade Zones are meant to comply with forex restrictions.	• Operators at free trade zones are regulated/legislated out of business • Breach of the law/status that establish the Free trade zone as a country within a country.	• There is about 10% to 15% increase in the cost of transfers. There are also security issues with such transfers.

7. **Furniture Manufacturers**	✓ Restriction of the following key input/raw materials: 1) Wood Particle boards and panels, 2) Wood fibre boards and panels, 3) Plywood boards and panels, 4) Woven Fabrics ✓ There are no local producers of these basic raw materials that could have served as alternative to the import. ✓ Capacity utilisation now stand at 50% from 70% in December 2014 as a result of non-availability of these basic raw materials. ✓ If this policy should continue in the next 2 to 3 months, the factories are likely to shut down and disengage all the workers.
8. **Foam Manufacturers**	Restriction of key input/raw material which is fabrics for covering the foam blocks

SUMMARY OF CONCERNS

- Many of the products on the list of the 41 products are intermediate goods which are critical inputs for many manufacturing firms as well as other critical sectors of the economy.
- The list is prone to multiple definitions and discretionary interpretations by agencies and institutions responsible for implementation.
- The HS codes of the items are not indicated in the CBN circular. Discretionary interpretations create room for corruption.
- Breach of right of the entrepreneur to utilize export proceed on legitimate goods/services which falls within the 41 banned items
- Difficulties and delay of getting Forex for products/items not prohibited by CBN
- Impact on Bills for Collection for ongoing transactions
- Many SMEs are now force to wire their transactions from neighboring countries.
- Stimulation of Forex “transfer market”
- Sovereign risk and poor perception of the country. Closure of credit lines as a result of credibility crisis by foreign partners.
- Loss of confidence on Nigerian business operators by their foreign partners due to their inability to fulfil their obligations especially in ongoing transactions before the new forex policy
- Anxiety among Foreign investors as repatriation of investment proceeds may not be guaranteed
- Lack of notice and appropriate timelines before introducing the policy
- Challenges of foreign banks honoring letters of credit from Nigerian banks and long delay of banks in Nigeria before honouring their obligations relating to letters of credit even after the goods have been delivered.
- several investments at risk with implications for job losses.
- Quality of loan assets in the banking system and sustainability of many enterprise are at risk.
- Many parents are currently faced with the predicament of how to remit funds for the upkeep of their children abroad especially those in schools.