

# IMPACT OF MACROECONOMIC POLICIES ON FOOD ACCESS AND AFFORDABILITY IN NIGERIA

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## Executive Summary

**F**ood access and affordability are critical components of food security, which is essential for the well-being of Nigeria's population. Macroeconomic policies, encompassing fiscal, monetary, and trade policies, significantly influence these

components. This white paper examines the impact of Nigeria's macroeconomic policies on food access and affordability, identifying the challenges and opportunities they present. It also provides recommendations to enhance food security through more effective macroeconomic policy interventions.

## Introduction

**F**ood security, defined as the availability and access to sufficient, safe, and nutritious food, is a major concern for Nigeria, a rapidly growing population of about 225,733,532 (World Poverty Clock, 2024). The world's undernourishment remains an issue of concern due to the increasing number of hungry people globally (Matthew *et al.*, 2019). The Food and Agriculture Organisation (2017) reported that the number of undernourished people globally remains significantly high, increasing from 777 million in 2015 to 815 million in 2018 (FAO, 2018). Moreover, with a global hunger index that increased from 27.8% in 2015 to 28.3% in 2023, Nigeria has a severe level of hunger (Global Hunger Index, 2024). About 59.46% of the

Nigerian population is food insecure (World Hunger Clock, 2024). Rapid population increase has been recognized as one of the main reasons for heightened food insecurity and slow economic growth in African countries including Nigeria (Anser *et al.*, 2021; Oyawole *et al.*, 2020). Macroeconomic policies, which include decisions on taxation, government spending, interest rates, and trade regulations, play a crucial role in shaping the economic environment that determines food access and affordability. Understanding these impacts is essential for designing effective strategies to improve food access and affordability.

Subsequent sections discuss three major macroeconomic policies and their impact on food access and affordability

### 1. Fiscal Policy

Fiscal policy involves government spending and taxation, which directly affect household incomes and the price of food. Public investment in agriculture, infrastructure, and social protection programmes can enhance food production, reduce costs, and improve access to food.

Moreover, government subsidies on agricultural inputs such as fertilizers, seeds, and equipment can lower production costs, making food more affordable. Mbabazi Moyo *et al.*

(2015) also pointed to the need for increased investments in infrastructure (including irrigation) and improved access for small-scale farmers to inputs. Druilhe and Barreiro-hurlé (2012), however, noted that the success of any subsidy scheme is highly dependent on implementation and sustainability, as Takeshima and Liverpool-Tasie (2015) opine that fertilizer subsidy alone constitutes nearly 68% of Nigerian government agricultural expenditure.

Other areas of fiscal policy are:

- a. **Infrastructure Development:** Investment in rural infrastructure, including roads, storage facilities, and irrigation systems, can improve market access, reduce post-harvest losses, and enhance market efficiency. Poor road system is one of the core factors affecting the agricultural sector, drastically reducing efficiency in agricultural value chain performance (Yirga *et al.*, 2019). Moreover, deficiencies in infrastructure are critical bottlenecks for future growth in agriculture, economic output, and poverty alleviation. Norton *et al.* (2021) posit that severe rural infrastructure deficiencies undermine the huge potential of the agriculture sector in developing countries to contribute to growth and poverty reduction.
- b. **Social Protection Programmes:** Social protection interventions provide cash transfers and food aid programmes to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalised (Hagen-Zanker and Holmes, 2012). The main aim of these interventions is to reduce poverty, vulnerability, and risks. At the Federal Government level, the Ministry of Humanitarian Affairs, Disaster Management, and Social Development (FMHADMSD) oversee social protection programmes in Nigeria. An agency under the FMHADMSD is the National Social Safety Net Coordinating Office (NASSCO) which uses the National Social Register in the distribution of funds to poor and vulnerable households in Nigeria (National Social Safety Nets Coordinating Office, 2017).
- c. **Import Tariffs:** High import tariffs on food products can protect domestic agriculture but may also lead to higher food prices and low disposable incomes of households. Zhu (n. d.) noted that protectionist policies have impacted the food supply and diversity. In 2018, the government levied higher tariffs on certain staple crops, such as rice, cassava, wheat, and tomatoes, and outright prohibited certain imports, including poultry, pork, beef, eggs, refined vegetable oils, sugar, and fertilizers containing phosphorus, nitrogen, or potassium (Nigeria Customs Service, 2019). Martin (2016) and FAO (2016) outline that changes in imports and exports impact domestic food availability, demand, and pricing while the effects of trade on producers and consumers in the domestic market are changes in the prices of goods produced and consumed.
- d. **Value-Added Tax (VAT):** VAT on food items can increase prices, and the cost of food, reducing affordability for low-income households. Otemu (2020) and Bank-Ola (2021) believe that with the increase in VAT, household consumption suffers a major decline and that VAT is detrimental to business activity. Going further, Iqbal *et al.* (2019) added that when taxes are levied on basic needs, the less fortunate segments of

the population become more susceptible. The removal of fuel subsidies has led to increased transportation costs, which subsequently raised food prices. Higher fuel costs affected all stages of the food supply chain, from production to distribution, disproportionately impacting low-income households.

## **2. Monetary Policy**

Monetary policy is managed by the Central Bank of Nigeria (CBN) and it affects inflation, interest rates, exchange rates, and overall economic stability, all of which have implications for food security.

specific areas of monetary policy are:

- a. Inflation increases the cost of agricultural inputs, affecting production costs and food supply. High food price inflation erodes the purchasing power, making food less affordable for consumers. Incidences of spikes in food prices are not new in agricultural markets (Echebiri *et al.*, 2022). However, the uniqueness of the current state of agricultural markets in Nigeria is the hike in prices of not only a few selected crops but nearly all major food and feed commodities. Thus, food price fluctuation increases the uncertainty faced by households, farmers, and agribusiness firms.
- b. High interest rates can limit access to credit for farmers and agribusinesses, reducing investment in food production and consequently increasing prices. On the other hand, lower interest rates can stimulate investment in agriculture and related infrastructure, enhancing the food supply. According to Iroh (2012), there is a wide gap between owned and required capital for financing most agricultural activities due to an increase in the cost of borrowing in Nigeria. The lack of access to capital due to high levels of interest rates is one of the major factors hindering the development of agriculture (Tefera, 2004). Moreover, Ali *et al.* (2017) added that one of the major problems responsible for inadequate credit facilities required by farmers for their agricultural activities is the constant and persistent increase in the cost of borrowing, even though these farmers produce the bulk of the food consumed in the country.
- c. Exchange rate policies like depreciation of the Naira can affect the cost of imported food, agricultural inputs, and overall production costs. A weak currency increases the cost of imported food and inputs like fertilizers and machinery, leading to higher food prices domestically while at the same time making Nigerian agricultural products more competitive in international markets, potentially boosting income for farmers. Incidentally, many countries including the Nigerian foreign exchange market have witnessed a series of instability that contribute largely to general uncertainty in the average economy. Ikuemonisan *et al.* (2018) opine that this instability affects food prices, food price inflation, and ultimately, the welfare of both food producers and consumers.
- d. Naira Depreciation: A major implication of Naira depreciation on the Nigerian economy is that the currency becomes less expensive than other currencies (Johnson, 2023). This implies that the country's exports become relatively less expensive for foreigners. Also, foreign food products become relatively more expensive for domestic consumers. An increase in prices of imported goods and services leads to a rise in the cost of living. This

expectedly would decrease consumer spending and can affect economic growth. Businesses that rely on imported inputs will have their profits adversely affected as well. In terms of inflation, it erodes the value of savings. The combined effects of Naira depreciation and inflation affect the Nigerian economy adversely (Adewunmi, 2023).

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### **3. Trade Policy**

Nigeria has several barriers to intra-African trade (Zhu, n.d.). Trade policies including tariffs, quotas, and trade agreements, influence the availability and prices of food products and determine the flow of food and agricultural products across borders, affecting domestic supply and prices in Nigeria. Moreover, a major contributor to food insecurity is Nigeria's lack of trade- particularly, intra-African trade. As of 2018, Nigeria's imports from the African region amounted to only 3.2% of total imports, and exports to the African region were only 13.2% of Nigerian exports (Olapade and Onyekwena, 2021).

Other areas of trade policy are:

- a. **Food Import Tariffs and Quotas:** Limiting exports of certain food items can help maintain domestic supply and stabilize prices but can also reduce farmers' income. Also, high tariffs and quotas on food imports can protect local producers but may also lead to an increase in production cost, reduce productivity, and lead to higher prices of food items if domestic production cannot meet demand and limited variety for consumers.

According to Obayelu *et al* (2024), Nigeria charges several duties on imports in addition to tariffs, which vary from one product to another, and this adds considerably to the cost of business. In addition to facing tariffs and other duties, imports entering Nigeria by road cannot be in containers, which places an additional obstacle to regional trade while doing nothing to reduce congestion in the seaports.

- b. **Trade Agreements:** Participation in regional trade agreements, such as the African Continental Free Trade Area (AfCFTA), can enhance market access for Nigerian agricultural products and improve food availability. Bilateral and multilateral trade agreements can enhance food access by reducing trade barriers and ensuring a steady supply of food products.

According to Olapade and Onyekwena (2021), Nigeria signed the AfCFTA on July 7, 2019, becoming the 34th member of the trading bloc. Under the AfCFTA, the country stands to gain from increased access to cheaper goods and services from other African countries, as its intra-African trade is currently low. As of 2018, Nigeria's imports from the African region relative to total imports was at 3.2% while the share of Nigeria's exports to the African region relative to total exports was 13.2%.

- c. **Non-Tariff Barriers:** Addressing non-tariff barriers, such as stringent import regulations and border delays, can facilitate smoother trade flows and improve food access.
- d. **Regional Trade:** Participation in regional trade blocs like the Economic Community of West African States (ECOWAS) can improve food security by facilitating the movement of food across borders.

The next section examines the implications of these macroeconomic policies on the access and affordability of food in Nigeria:

#### Implications of Macroeconomic Policies on Food Access and Affordability

1. **Economic Implications:** These include effects on inflation and purchasing power and investment in Agriculture. Persistent inflation reduces real incomes and purchasing power, particularly for low-income households, making food less affordable while limited access to credit and high production costs discourage investment in agriculture, reducing food supply and increasing prices.
2. **Social Implications:** These borders around nutrition and health issues and also poverty and inequality. Limited access to food leads to malnutrition and associated health problems, particularly among vulnerable populations such as children and pregnant women. Moreover, high food prices exacerbate poverty and inequality, as low-income households spend a larger proportion of their income on food.
3. **Political Implications:** Social stability and political credibility are the main political implications of limited food access and affordability. Food insecurity can lead to social unrest and political instability, as witnessed in various protests and riots triggered by high food prices. Also, inconsistent and ineffective policies undermine public trust in the government and its ability to manage the economy and ensure food security.

#### Recommendations

1. Fiscal policies that boost public spending on agricultural research, extension services, and infrastructure should be enhanced, as this will improve productivity and reduce costs.
2. Social protection programmes should be strengthened and expanded to support vulnerable populations and improve food access. Overall, fiscal policies should be geared at lowering taxes on inputs, and equipment among other items.
3. Improve monetary policy by adopting measures to control inflation and stabilise food prices, such as prudent fiscal management and targeted subsidies. Also, access to affordable credit for farmers and agribusinesses to encourage investment in food production should be enhanced.
4. Reforming trade policy through lower tariffs and non-tariff barriers on essential food items should be considered. This will improve food supply and affordability.
5. Regional trade agreements that will ensure a stable and diversified food supply should be strengthened.
6. Institutional frameworks that ensure coherence and coordination among different policy areas should be adopted. This will create a comprehensive approach to food security and enhance transparency and accountability in policy implementation to reduce corruption and inefficiency.
7. Fiscal, monetary, and trade policies should be coherent and predictable to create a stable environment for agricultural growth. Thus, the need for continuity, which would allow for long-term planning and investment is essential in improving the performance of the

agricultural sector in moderating the environment and reducing socio-economic challenges confronting agricultural productivity in general and food security.

8. Stakeholders, including farmers, agribusinesses, and consumers should be engaged in policy formulation and implementation.
9. Credit and insurance schemes that will improve access to affordable credit and protect farmers against risks should be implemented.
10. Measures to reduce non-tariff barriers and streamline customs procedures and systems that will provide timely and accurate market information to farmers and traders should be designed.
11. Research and extension on climate-smart agriculture and sustainable farming methods should be embraced.

## Conclusion

Macroeconomic policies have profound implications for food access and affordability in Nigeria. By addressing the challenges and leveraging the opportunities presented by these policies, Nigeria can enhance food security and improve the well-being of its population. Moreover, by enhancing policy coherence, investing in infrastructure, improving access to finance, promoting regional trade, and supporting climate-smart agriculture, Nigeria can create a more resilient and food-secure environment. This requires a coordinated and holistic approach that integrates fiscal, monetary, and trade policies with robust institutional frameworks and effective implementation strategies.

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