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PROPOSED SOLUTIONS TO FOREIGN EXCHANGE ILLIQUIDITY IN NIGERIA:

NOTE TO FOREIGN INVESTORS AND THE INTERNATIONAL MARKET

INTRODUCTION

The current state of the foreign exchange market in Nigeria has made every investor apprehensive. Cautious foreign investors continue to withdraw their investments, and those daring enough to invest in Nigeria do not have veritable solutions to their concerns on the seamless repatriation of their capital.

According to United Capital's Nigerian Equities Market H1-2022 Review and Outlook, domestic investors maintained domination of activities at the local bourse, controlling 85.3 per cent of total transactions, leaving foreign investors with 14.7 per cent. The report cited uncertainties in the economy such as political risk, inaccessibility of foreign exchange, and other global trends as factors that have contributed to the unprecedented exit of foreign portfolio investors (FPIs), and the reduction of foreign direct investment (FDIs) in Nigeria.

This article seeks to propose solutions to the issue of foreign exchange illiquidity in Nigeria and answers to the concerns of foreign investors and the international market.

FOREIGN EXCHANGE ILLIQUIDITY AND UNRESTRICTED REPATRIATION OF CAPITAL BY FOREIGN INVESTORS

The foreign exchange (FX) market is one where participants trade a currency for another. Its importance in the world economy cannot be over-emphasised, as it affects employment and output through real exchange rates; inflation through commodity prices and the cost of imports; and international capital flows through the returns and risks of different assets.

Forex liquidity measures the degree of availability of forex to investors in the economy as and when needed.

One of the guaranteed assurances for foreign investors and multi-national companies in Nigeria is unrestricted repatriation of their investment capital and proceeds, in any convertible currency, if that capital was brought into Nigeria through an Authorised Dealer, and a Certificate of Capital Importation ("CCI") is obtained, subject to payment of all relevant taxes. The CCI shields the investor from the risk of fluctuation of rates in the FX market and enables seamless repatriation of its funds through the official market at more stable and favourable rates.

Despite importing capital through an Authorised Dealer, the situation of forex illiquidity poses a major challenge to foreign investors in the economy as they experience difficulty in repatriation of profits, income, or dividend repatriation, thereby compelling patronage of the parallel market at a more prohibitive exchange rate.

PROPOSED SOLUTIONS TO FOREX ILLIQUIDITY

In recent times where the economy has experienced shortage of FX, we note that the Central Bank of Nigeria (CBN) has come up with several measures to address this issue, including directing Authorised Dealers to apportion the disbursement of FX required for repatriation and prioritise certain industries which are considered indispensable at the time such as industries which import raw materials for production of necessary goods in Nigeria. It would appear that foreign investors and companies which fall within this category will have access to FX as they are given priority.

In addition, in order to ease the stressed forex market and improve forex supply, the CBN directed all oil and oil related Companies, both national and international, to sell foreign currencies such as US dollar, Euro, British Pound Sterling, Yen and the Swiss Franc directly to the CBN.

An alternative approach open for investors is to partner with entities that generate FX, such as oil companies, enter into an arrangement with such companies for the sale of FX through an Authorised Dealer. Authorised Dealers are lawful buyers, and they are permitted to buy foreign currency from any willing seller, and to sell such foreign currency to any person subject to the fulfilment of the requirement of eligible transaction as contained under the CBN Foreign Exchange Manual 2018. We note that repatriation of investment is an eligible transaction which can be funded via the official foreign exchange market. In this regard, the proposed structure does not breach any extant laws in Nigeria, and investors may seek to embrace it.

We have observed the growing recourse to the parallel market by investors. The parallel market is not an official market and is not regulated. As a matter of fact, it can be argued that the parallel market contravenes the provisions of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act 1995 (the "FEMM Act"), which requires transactions in FX to be conducted in line with the FEMM Act. The parallel market has no legal backing and parties who transact in the market may be held in breach of the extant laws and punished accordingly.

CONCLUSION

Although risks must be taken, the need for stability in the inflow of forex in Nigeria for an investor is major. The growing population of Nigeria is mostly youthful and a potential to a large market. Various factors determine the possibility of repatriation of funds in Nigeria. It is important for current and potential investors in the Nigerian economy to be well informed and guided of the current state of the market and the availability of forex per time, in order to be well guided in decision making.

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i https://www.cbn.gov.ng/out/2017/rsd/foreign%20exchange%20market%20pressure.pdf (last accessed on 30th January,2023)

ii https://businessday.ng/big-read/article/forex-crisis-in-nigerias-economy/(last accessed on the 30th of January,2023ii)

iii A Certificate of Capital Importation (CCI) is an electronic certificate issued by an authorized dealers (registered banks) Central Bank of Nigeria on behalf of the Central Bank of Nigeria to a foreign investor as evidence of an inflow of foreign direct capital investment, either as equity or debt; cash or goods

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