

Chatham House Report

Leena Koni Hoffmann and Paul Melly

Nigeria's Booming Borders

The Drivers and Consequences of Unrecorded Trade



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Acronyms and Abbreviations

ACP	African, Caribbean and Pacific countries	NAIDP	Nigerian Automotive Industry Development Plan
AMATO	Association of Maritime Truck Owners	NATCOMS	National Association of Telecommunication Subscribers
BCEAO	Banque Centrale des Etats de l’Afrique de l’Ouest	NBS	National Bureau of Statistics
BCMRS	Biometric Central Motor Registry Scheme	NCC	Nigerian Copyright Commission
CBN	Central Bank of Nigeria	NCS	Nigeria Customs Service
CCECC	China Civil Engineering Construction Corporation	NDLEA	National Drug Law Enforcement Agency
CEMAC	Central African Economic and Monetary Union	NEPA	National Electric Power Authority
CET	Common External Tariff	NEPAD	New Partnership for Africa’s Development
CFA	Communauté Financière Africaine	NEPC	Nigeria Export Promotion Council
CFTA	continental free-trade area	NEPZA	Nigerian Export Processing Zone Authority
CILSS	Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel [Permanent Interstates Committee for Drought Control in the Sahel]	NEXIM	Nigerian Export-Import Bank
CRCC	China Railway Construction Corporation	NEXTT	Nigeria Expanded Trade and Transport
ECOWAS	Economic Community of West African States	NIPC	Nigeria Investment Promotion Commission
EEG	Export Expansion Grant	NIS	Nigeria Immigration Service
EFTA	ECOWAS Free Trade Agreement	NNPC	Nigerian National Petroleum Corporation
EPA	Economic Partnership Agreement	NPA	Nigeria Ports Authority
ETLS	ECOWAS Trade Liberalization Scheme	NSC	Nigerian Shippers Council
FIRS	Federal Inland Revenue Service	PAAR	Pre-Arrival Assessment Report
FRSC	Federal Road Safety Corporation	SMEs	small and medium-sized enterprises
GBI-EM	Government Bond Index – Emerging Markets	SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
GIZ	German Agency for International Cooperation	SONACOP	Benin national fuel distributor
IBFC	International Business Finance Corporation of Nigeria	STOAN	Seaports Terminal Operators Association of Nigeria
IGR	Internally generated revenue	TEU	20-foot equivalent units
IMF	International Monetary Fund	UEMOA	West African Economic and Monetary Union
ITRSP	Informal Trade Regulation Support Programme	UNIDO	United Nations Industrial Development Organization
LAKAJI	Lagos–Kano–Jibiya corridor	USAID	United States Agency for International Development
LSIRS	Lagos State Internal Revenue Service	USTC	United States International Trade Commission
NAFDAC	National Agency for Food, Drug Administration and Control	WAMA	West African Monetary Agency
		WTO	World Trade Organization

Executive Summary and Recommendations

Nigeria's economy is of a complexity and dynamism unparalleled in West Africa. With a domestic market of perhaps 180 million people and a manufacturing base far outstripping that of any neighbour, it has the scale and weight to become the engine of trade growth across the entire region. Despite the modest personal spending power of Nigerian consumers, the weakness of transport and technical infrastructure, financial and administrative hurdles and the gradual pace of regional economic integration, Nigeria already generates vast cross-border trade involving networks of sophisticated activity across a diverse range of commodities. At the end of 2014, Nigeria's recorded external trade stood at ₦24,435.3 billion (\$135.8 billion). Yet official statistics paint only part of the picture and cannot capture the massive volumes of informal export and import activity.

The scope for sustained regional growth in trade remains significant. Across West Africa, output and consumption have been growing steadily for over a decade, accelerated by rapid urbanization and almost impervious to the global financial crisis and repeated Sahelian droughts. The region's economies are still expanding, with 4 per cent growth in real GDP projected for 2015, despite the decline in international prices for the oil, minerals and tropical crops that West Africa sells to the world. It is highly probable that this positive trend will continue – as it undoubtedly needs to if the 15 countries of the Economic Community of West African States (ECOWAS) are to reduce poverty, malnutrition and underemployment and generate better, more diverse livelihoods for their growing populations.

And for no country are these imperatives greater than for Nigeria, which is not only Africa's largest economy, accounting for well over half the GDP of ECOWAS, but also the most populous sub-Saharan country. It is the unmistakable giant in this regional narrative, a nation with extraordinary potential, opportunity and transformative capacity.

Informal trade: a pragmatic response to today's realities

Despite this positive picture, there are powerful reasons why Nigeria's vast external trade remains largely informal, unrecorded and untaxed – and this fact leaves much of the country's economic potential unrealized.

A substantial proportion of Nigeria's cross-border trade currently flows through informal channels. There are strong indications that unrecorded flows through the key economic corridors between Nigeria and its neighbours are several times greater in volume than the amount of trade that is officially reported. This of course also reflects the scale of domestic informal business within Nigeria itself:

one estimate is that unrecorded or informal activity could account for as much as 64 per cent of Nigeria's GDP.

There is a temptation to view informal trade as a marginal, grassroots cultural phenomenon, a throwback from a traditional way of life before national boundaries were drawn, or as something quite detached from the realm of formal trade relations. Such perceptions are reinforced by the apparent vibrancy of day-to-day economic life. Trucks line up at official border crossings and bump over muddy back-roads, motorbikes stutter along laden with fuel tanks, barges slip through coastal creeks, and battered cars with raised axles weighed down by sacks of grain or cement trundle along border tracks. In crowded city markets and remote villages, across Lagos and the animated streets of Kano, and all along Nigeria's 4,047 km of land borders, deals are done and goods and money change hands.

But this bustling – and growing – resourcefulness needs to be firmly interpreted within the context of the economic challenges confronting Nigeria today. Given the country's current sobering economic outlook, this critical perspective is even more urgent. Reduced revenues from crude oil, Nigeria's main export and the source of 80–90 per cent of its government's foreign-exchange earnings, have once again put the country under pressure to insulate itself better from the perennial cycles of oil-market boom and bust and improve the socio-economic stability of the country. A deeper understanding of the unrecorded side of Nigeria's non-oil external trade is key to this process and can offer its government a critical opportunity to pursue a path of economic growth that is less volatile and more sustainable.

Nigeria's context of booming unrecorded trade flows, the networks that operate them and the financial flows that underpin them are, in fact, a response to the obstacles and complications that impede trading through formal, monitored channels. The dynamism of this flourishing and growing informal traffic is the cumulative result of current economic and governance conditions. The result is to damp down constantly the potential growth in Nigeria's formal external trade.

Economic actors of many kinds respond to this context in different ways. Large companies do persist with formal trading, because the scale of their operations makes their activity more visible and because they have the money and skilled resources to overcome logistical barriers, satisfy labyrinthine administrative procedures and soak up additional costs. Still, some large companies can be found combining formal and informal channels to get business done in Nigeria, and in many respects the boundary between the formal and informal is blurred.

For small and medium-sized economic operators, estimated in 2012 to account for almost half of Nigeria's GDP, the

cost of importing or exporting formally is considerable and going under the radar is a compelling alternative. The sheer practical difficulty of trading through the officially regulated channels can be enormous, and in very many cases insurmountable. Rules and procedures designed to impose structure and supervision are in fact applied in a manner that creates difficulties for entirely legitimate business operations.

Between cost, regulatory and capacity hurdles, today's environment for cross-border trade ends up serving as a strong disincentive to formalization. This is not to say that trading informally is without costs or challenges; but long-established systems provide a practical alternative to officially regulated channels.

Drivers of informality

By accident rather than design, Nigeria and neighbouring countries have built up a formal economic and governance framework that drives the vast majority of exporters and importers into informality. It is a picture of staggering complexity, but a number of significant factors can be highlighted.

- Formal processes for clearing customs are slow, complex and expensive. Nigerian businesses must produce at least nine documents in order to send an export shipment and at least 13 documents in order to bring in an import consignment – in both cases this is significantly more than in many other emerging economies. Procedures are complex, and ports and border crossings have too few modern technical installations such as large scanners capable of scanning whole containers on vehicles.
- Foreign-exchange and banking regulations are enforced in a manner that is so rigid and dysfunctional that it serves merely to push most smaller traders into the incompletely regulated parallel exchange market – because this is the only practical and affordable way that Nigerian importers can use their holdings of local currency, the naira, to exchange directly into CFA francs to make local-currency payment to their suppliers in the neighbour countries in the franc zone.
- Corruption and unofficial 'taxation' are a heavy burden on traders; major border highways have become rich sources of revenue for illegal patronage networks within state agencies. Customs officials act both as assessors of duties and as collection agents, multiplying opportunities for graft and creating a culture in which they are able to set up unnecessary 'checkpoints' to extract unauthorized 'taxes' from

traders and transporters on main roads in border areas. This type of corrupt activity means that supposedly formal channels of doing business are replete with informal practices and delegitimized. Traders often prefer to use smuggling routes, where they may be stopped less frequently and will therefore pay fewer bribes.

Hobbled economies, lost opportunities

This situation is not cost-free – for Nigeria as a society and trading economy, for its business people, or for the government at federal and state level. Nor, over the longer term, is it good for West Africa as a whole. The effects of informality are complex, but a number of specific impacts can be identified.

- The state loses direct tax revenues that would be generated by formal cross-border trade. This is not just siphoned into the informal economy; some is lost entirely. For instance, the expense and difficulty of using Nigeria's own ports leads many shippers to opt for Cotonou in Benin or Lomé in Togo, thus paying customs duties and tariffs on landing in those countries, instead of paying them to the Nigerian authorities.
- Informal trade undermines the social contract. Traders feel the government provides no services in return for any taxes they might pay, so they have little incentive to formalize and pay tax or duties. This in turn means that the state lacks the resulting resources to pay its officials, improve physical infrastructure or implement reforms.
- There is a further knock-on effect that removes non-trade business activity from the reach of federal and state domestic taxation. That is to say, having stayed outside the formal process for importing or exporting, businesses will often find it easier to keep other affected areas of their activity, including value addition and processing, also in the informal, and thus untaxed and unregulated, space.
- Informal trade helps to sustain a permissive environment for mismanagement and corruption. Illegal payments to smooth the trade are part of a process in which graft by government officials becomes commonplace and extremely difficult to uproot. Every day tens of thousands of these unofficial payments are made, none of them destined for the government's coffers. Money paid as cash bribes is a resource that should either be retained by businesses as legitimate profit or paid in taxation to federal or state authorities.

- Informal trade is beyond the reach of Nigerian national or ECOWAS regional policy-making. A huge slice of private-sector activity is unmeasured and poorly understood. This lack of information and transparency undermines effective policy planning for almost every sector of the economy, including agriculture, fuel supply and manufacturing. It affects issues ranging from foreign-exchange payments to technical standards. Being outside the regulatory framework, informal trade does not comply with health, safety or environmental standards, or with international technical norms, and has no incentive to do so, as the main competitive pressure is to hold prices low. This traps economic activity at the low-quality, low-tech end of the scale, just at a time when rising labour costs in Asia are creating competitive scope for Nigerian manufacturers to produce a wider and more sophisticated range of products.
- Nigerian-made goods are already competing with Chinese products across West Africa. But many of these goods are exported through informal channels, thereby excluding manufacturers from most support on offer, whether from government – for example, through the Export Expansion Grant (EEG) – or from institutions such as the Nigerian Export-Import Bank (NEXIM). The Nigeria Export Promotion Council (NEPC) tries to fill the gap, but its scope for action is limited where trade is informal. Because of the general difficulties faced by most manufacturers and other informal traders in demonstrating equity and a healthy balance sheet, this exclusion from financial support also inhibits their access to finance from the formal banking sector.

Policy recommendations

There is keen engagement and interest within government and the business community in exploring how to create an environment more conducive to formal trading activity, as evidenced in research interviews with senior policy-makers in Nigeria, Benin and Niger. From northern to southern Nigeria, the response of business people was that they would welcome the opportunity to pay taxes, but only if they received assurance that these payments represented a contract with government guaranteeing that conditions for business would be improved.

If Nigeria is to fulfil its real potential as the trading engine of the West and Central African regional economy, policy-makers need to create an environment that encourages trade to flow through recorded channels. They should seek to understand the needs of business and take the steps that will allow exporters and importers to operate formally and thus enhance the long-term efficiency and quality competitiveness of the Nigerian and wider West African economy.

The issues addressed in this report concern business and the wider private sector in Nigeria and across the ECOWAS region. However, as the largest economy and biggest market in West Africa, Nigeria is strategically placed to take a lead in addressing these challenges.

The government of Nigeria can make the greatest impact in developing a more functional trading environment within Nigeria and shape the business landscape across the region.

Therefore, the recommendations that follow are in large part within the domain of the responsibilities of the government of Nigeria but also draw in other partners, private and public, domestic and international, who all have important contributions to make in enabling Nigeria to build a competitive economic future.

Recognize informal realities

The Federal Government of Nigeria should recognize the dynamic informal business community as a fundamentally positive national asset. But only when this recognition manifests itself in the implementation of reform will it be truly meaningful. The government should view its taxi drivers, wholesale and retail marketers and distributors, private educators, hairdressers, mobile phone card vendors, transporters and shop owners as economic partners who can help to build growth, prosperity and employment prospects.

The Nigerian government must also be realistic and transparent about the drivers of informal activity. Nigeria cannot seal its borders; nor can it abolish West Africa's parallel currency market. If the conditions for trading formally are too difficult or expensive, business people will simply move their goods by informal routes instead. If small traders cannot make or receive cross-border payments easily and cheaply through the officially regulated financial system, they will simply turn to the unregulated parallel market. They cannot be stopped from doing so.

Facilitate formal trade

The government should therefore give absolute priority to measures that simplify formal trading procedures and make it easier and less costly for exporters and importers to move their activity into the formal realm. The current environment in which trade issues are reviewed and policies are formulated is fragmented and disorganized. Numerous practical measures, some costly but many quite inexpensive, could help formal trade flow more smoothly and assist businesses in the transition from informal to formal operation. Key steps should include measures to:

- **Strengthen the resources and capacity of the newly enlarged Federal Ministry of Industry, Trade and Investment.** This would create a clear policy lead and expert focal point for tackling trade issues. It would help to coordinate action across all key government ministries, departments and agencies, as well as public and private stakeholders. It would also advance reforms that will make it easier for exporters and importers to operate formally. The NEPC is already doing much to assist exporters, but there is a need for better coordination across all branches of government in collecting, consolidating and sharing trade information, reviewing trade policies and creating incentives for traders to formalize their activities. Nigeria's National Bureau of Statistics (NBS) also has a significant role to play over the coming years in measuring and capturing more of Nigeria's external trade, and its capacity to do so depends heavily on increased funding and technical support.
- **Improve basic facilities that support traders.** This could include improving the efficiency of existing single-window (one-stop) border posts and expanding their number to handle formalities at key crossings, installing truck parks, internet and basic office premises in markets, all-weather surfacing on market access roads, online booking for trucks to enter ports, and so on.
- **Simplify bureaucratic procedures imposed on business.** These must become less of a deterrent to smaller traders. For example, the procedures and criteria for accessing the EEG could be simplified.

Minimize opportunities for corruption

It is beyond the scope of this report to offer solutions to the challenge of corruption in Nigeria. But it is incumbent on the government to design and implement systems that minimize opportunities for graft by officials. In particular, it needs to:

- **Reorganize institutional responsibilities for assessing duty/tariff liabilities and revenue collection.** Customs and tax administration services should be integrated in a way that transfers the official responsibility of customs revenue collection to the Federal Inland Revenue Service (FIRS) only, while the Nigeria Customs Service retains authority for the control of consignments, ensuring compliance with the law and regulations, and assessing the liability of shipments for duties and tariffs. This would improve efficiency and information-sharing, and mitigate against informal payments at border crossings; in this way each service would act as a check on the other. Greater cooperation and coordination between both services would also be fostered through this arrangement, and there is the potential for revenue enhancement as a result of joint strategies to address tax fraud and evasion.

Approve a simple system between commercial banks for cross-border payments

The current arrangements are a massive disincentive to trade formalization, and one of the most consistent causes of complaint from business. West Africa's integration and the development of formal trade within the region should not be kept waiting for the distant day when a single currency may be set up. The urgent priority for regional central banks should be to ensure that cross-border trade payments can be easily made under the monetary regimes that exist now in Nigeria and in the member countries of the West African Economic and Monetary Union (UEMOA).

- **The Central Bank of Nigeria and BCEAO, the central bank of UEMOA, should urgently conclude the revision of cross-border commercial banking regulation** to allow banks to operate simple services for small and medium-sized businesses to make trade payments directly from naira to CFA francs and vice versa.

Foster stronger and deeper neighbourly relations

There is a tendency to see informality as something that benefits neighbouring countries while causing problems for Nigeria. But in reality there are benefits and downsides in both directions and there is a readiness among neighbouring states to promote formalization. This goodwill can be matched by Nigeria. Workable solutions can be achieved through the various directorates of ECOWAS and bilateral commissions such as the Nigeria–Niger Joint Commission for Cooperation and the Nigeria–Benin Joint Commission.

ECOWAS is gradually constructing a framework for West Africa's international trade. This should improve conditions

for business to operate formally, through measures such as the Common External Tariff (CET) and the draft Economic Partnership Agreement (EPA) with Europe. As the implementation of these measures reaches the final crucial stages, Nigeria will need to engage more fully with a mindset of enlightened self-interest. Germany, Europe's biggest economy, is engaged at the highest levels in shaping European Union policy in a way that protects its national interests and strengthens its global influence. Nigeria has a similar weight in ECOWAS and capacity for influence. Therefore, Nigeria should:

- **Give high priority to engaging in the shaping of ECOWAS trade policy and the community's stance in international negotiations. Prioritize the incorporation of ECOWAS trade policy into Nigeria's national legal and policy framework.** Civil service and diplomatic posts dealing with these issues and in the ECOWAS secretariat itself should be categorized as senior prestige roles requiring expertise and thus viewed as an avenue for promotion. Public officials in these positions should be fully trained to analyse technical aspects of trade issues using modern techniques.
- **Take the lead specifically through the Nigeria Immigration Service (NIS) and Nigeria Customs Service (NCS) in fully incorporating into domestic law and promoting the ECOWAS Protocol on Free Movement of Persons.** This would assist formalization of cross-border trade, deepen

regional economic integration and strengthen domestic economic growth. Harassment at the border is a major complaint of Nigerian traders and their West African counterparts. Border management agencies should prioritize procedural overhauls and staff training to reduce the time spent by citizens of ECOWAS member countries in going through formalities at Nigeria's borders.

- **Collaborate with fellow ECOWAS countries to develop an ECOWAS trademark.** This would promote consumer awareness of products of regional origin and, potentially, bolster demand, notably in sectors such as cotton textiles, where local design and quality are viewed as positive selling points. The attraction of securing the trademark and the authentication this can offer would give businesses and manufacturers an incentive to formalize their activity.
- **Implement the ECOWAS Informal Trade Regulation Support Programme (ITRSP).** This was budgeted at €65 million in 2013 but is yet to be launched due to a lack of funds. Because of its critical importance to the economies of all member countries of ECOWAS, it could be funded on a cost-sharing basis between regional members and international partners. Alternatively, the €6.5 billion pledged by the European Union, its member states and the European Investment Bank for activities linked to West Africa's EPA Development Programme for the 2015–20 period could be a source of funding.

Map 1: Nigeria and its neighbours



1. Introduction

Nigeria's economy is unparalleled in Africa for its complexity and dynamism. It is potentially the engine of growth for an entire region, both as a centre of production and as a consumer of neighbouring countries' exports. On account of its size and its location between Central and West Africa, the country is at the core of the economic transformation of the sub-Saharan region.

Situated on the Gulf of Guinea between Benin in the west, Niger in the north, Cameroon in the southeast and Chad in the northeast, and with an 853-km coastline and 4,047-km land border,¹ Nigeria is directly connected to a burgeoning global market.² Its population of perhaps 180 million,³ the largest on the continent, acts as a magnet for transnational flows of goods and people in the region. For the many communities that straddle the country's long and porous land borders with neighbouring states – and for which shared ethnic, linguistic and cultural ties transcend national boundaries – cross-border trade is a fact of life. A large volume of goods from around the world enters Nigeria across these borders. Such trade movements, as well as those in the opposite direction, are mostly unrecorded, untaxed, informal and difficult to regulate, as are the flows of money that finance them.

The prevailing socio-economic conditions offer a critical opportunity to create incentives for pursuing less volatile, more sustainable economic growth.

This level of opacity presents serious policy challenges for Nigeria as the government finds itself grappling with reduced revenues in the wake of the decline in global crude oil prices – down by about 60 per cent since June 2014 – and the weakening of the local currency, the naira. The prevailing socio-economic conditions offer a critical opportunity to create incentives for pursuing less volatile, more sustainable economic growth. But Nigeria's capacity to design policies and strategies to boost its economy, and specifically to promote development of the non-oil sectors, is hindered by the absence of balanced and reliable information on the pattern, scale and impacts of unrecorded economic activity. Nigeria's borders, and those of its neighbours, cannot be closed or totally controlled, so

efforts to record more of these trade transactions must tread a fine line between liberalization and excessive regulation.

This report highlights some of the main drivers and consequences of Nigeria's unrecorded external trade for the country's economic management, accountability, governance and development. It draws on extensive face-to-face interviews – conducted between February and October 2015, mainly on a non-attributable basis under the Chatham House Rule of confidentiality – with a broad range of interlocutors in Nigeria, Benin, Niger, Belgium, France and the United Kingdom. Sources included figures from the business community; the transport and services sector; the commercial banking sector; government ministries, departments and agencies; central bank authorities; domestic and international technical and financial partners; and specialist research circles. Interviews were held over the course of three research trips during 2015 and complemented by additional interview research in both 2014 and 2015 in Nigeria, Niger and Chad. Although there is also significant trade with Cameroon, research into Nigeria's eastern border did not fall within the scope of this study, which focuses on trade flows within the Economic Community of West African States (ECOWAS) region.

Critical context

Context is key to a proper understanding of the unrecorded side of Nigeria's external trade. The country's current business environment acts as a major driver of informality and a barrier to greater legality in operations. Unforgiving economic conditions, institutional shortcomings and the cost and difficulty of doing business through formal channels encourage a culture of adapting and improvising rather than of following the rules. Particular aspects of Nigeria's trade and monetary policies – for example, those relating to trade payments, measures to counter smuggling and money-laundering, and regulation of the financial sector – contribute to increasing the volumes of trade activity taking place 'under the radar' of the regulatory bodies. Capacity shortfalls and trade-related infrastructural deficiencies are further factors in the prevalence of informal trade.

¹ Nigeria shares land borders of 773 km with Benin, 1,497 km with Niger, 87 km with Chad and 1,690 km with Cameroon.

² For further analysis of Africa's trade relations with the world, see Margaret C. Lee, *Africa's World Trade: Informal Economies and Globalization from Below* (London and New York: Zed Books, 2014); and Ilda Lindell (ed.), *Africa's Informal Workers: Collective Agency, Alliances and Transnational Organizing in Urban Africa* (London and New York: Zed Books, 2010).

³ Nigeria's census data have been a controversial subject since the 1950s. The most recent census in 2006 showed the country's population had reached 140 million, but its accuracy is debatable owing to the increasing politicization of the process and its implications for state revenue sharing. Based on this figure, however, the UN Department of Economic and Social Affairs (UN DESA) estimates that Nigeria's population in 2014 was 177.5 million. 'World Population Prospects, the 2015 Revision', UN DESA, <http://esa.un.org/unpd/wpp/> (accessed on 24 November 2015).

As a result, many traders in Nigeria operate apart from or at best on the margins of the formal economy – for instance, paying lower or no taxes and not owning or using bank accounts for business transactions.⁴ While a largely complex and opaque cash economy undergirds this environment, unrecorded or unofficial trade exists as part of a much larger whole and is actually inseparable from the formal economy.⁵ Many observers even argue that in today's world the lines between formal and informal are often blurred: the informal economy is not limited to small-scale trade but is also a space in which those engaged in medium-sized and in some cases quite large business activity operate.⁶ In this context, this report emphasizes that it is erroneous to assume that all activity is illegal or criminal by virtue of its unrecorded nature: while crime and malicious tax evasion⁷ undoubtedly exist in Nigeria, a large proportion of the country's informal trade is entirely routine and legitimate economic activity that simply takes place outside formal administrative and fiscal arrangements.

The prevalence of a large informal sector⁸ has several main interrelated consequences for the Nigerian economy. The first, and perhaps most obvious, is the loss of government revenue from taxes, customs duties and tariffs. The second is that Nigeria's previous over-reliance on oil revenue has left a legacy of failure by successive governments to understand and develop the non-oil tax base and thereby diversify the economy. The lack of government focus on the development of non-hydrocarbons activity has been accompanied by a burgeoning volume of unrecorded non-oil trade. Yet despite the resilience of the non-oil sector, periods of political and economic uncertainty have exposed its fragilities – and the limitations associated with developing on an informal basis without the support of government economic strategy or public services. Although unofficial trade has grown even during episodes of economic crisis, this cannot mask underlying weaknesses in the functioning of the economy, its supporting services, and the operation of public administration and border management.

The third, and critical, consequence of having a large informal sector is that it impedes the expansion and deepening of formal trade with the rest of the world. By definition, informal trade is hard to measure. Yet the current lack of clarity on its extent makes it difficult for the new government of President Muhammadu Buhari to develop effective economic policies that could enable Nigeria to insulate itself better from the perennial cycles of oil-market boom and bust, thus improving socio-economic stability. High levels of informality also hinder efforts to address broader governance challenges – such as developing policies and programmes to strengthen the agricultural and manufacturing sectors, strategically address infrastructural deficits, and diversify and expand the country's non-oil exports and non-oil fiscal receipts.

A basis for policy debate

This report's findings, particularly in relation to the nuances of trade data and a clearer understanding of how the informal economy works, are intended to complement the work of the Nigerian government and its agencies – including, among others, the ministries of industry, trade and investment; agriculture; transport; power, works and housing; labour and employment; finance; budget and national planning; the Central Bank of Nigeria (CBN); the National Bureau of Statistics (NBS); the Nigeria Customs Service (NCS); the Nigeria Immigration Service (NIS); the Nigeria Ports Authority (NPA); the Nigeria Export Promotion Council (NEPC); the Nigerian Export-Import Bank (NEXIM); the Nigerian Export Processing Zone Authority (NEPZA); the Nigeria Investment Promotion Commission (NIPC); the Federal Inland Revenue Service (FIRS) and Inland Revenue Services in the 36 federal states and the Federal Capital Territory of Abuja; and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

⁴ Lee, *Africa's World Trade*, p. 2. In addition, a survey by Enhancing Financial Innovation & Access, a financial-sector development organization, showed that only 33.9 million Nigerian adults (36.3 per cent of adult population) are banked while 36.9 million adults (39.5 per cent) are financially excluded. Those categorized as 'excluded' have no access to or do not use deposit money accounts or other formal financial institutions or products such as pension schemes. They also do not use informal services such as savings clubs/pools (known locally as *esusu*, *ajo* or *adashe*) or money-lenders. See 'EFinA Access to Financial Services in Nigeria 2014 Survey', Key Findings, 2 December 2014, <http://www.efina.org.ng/assets/ResearchDocuments/A2F-2014-Docs/Updated/EFinA-Access-to-Financial-Services-in-Nigeria-2014-Survey-Key-FindingswebsiteFINAL.pdf>.

⁵ Gustavo Lins Ribiero, 'Conclusion: Globalization from below and the non-hegemonic world system', in Gordon Matthews, Gustavo Lins Ribiero and Carlos Alba Vega (eds), *Globalization from Below: The World's Other Economy* (London and New York: Routledge, 2012).

⁶ Ilda Lindell, 'Introduction: The changing politics of informality – collective organising, alliances and scales of engagement', in Ilda Lindell (ed.), *Africa's Informal Workers: Collective Agency, Alliances and Transnational Organising in Urban Africa* (London and New York: Zed Books, 2010).

⁷ For an analysis of tax evasion and trade mispricing practices and their contribution to illicit financial outflows from Nigeria and the developing world, see Dev Kar and Joseph Spanjers, *Illicit Financial Flows from Developing Countries: 2003-2012*, Global Financial Integrity Report, December 2014, <http://www.gfintegrity.org/report/2014-global-report-illicit-financial-flows-from-developing-countries-2003-2012/> (accessed on 30 March 2015).

⁸ 'Informal economy' and 'informal sector' are used interchangeably in this report. The International Labour Organization defines 'informal' as 'all economic activities that are – in law and practice – not covered or insufficiently covered by formal arrangements'. 'Extending the Scope of Application of Labour Laws to the Informal Economy', International Labour Organization (2010). See also Ralf Hussmans, 'Defining and measuring informal employment', Bureau of Statistics, International Labour Office, 2003.

By providing a better picture of how goods are traded between Nigeria and its neighbours and beyond, and of the often informal payment arrangements that support this trade, the report highlights particular risk areas in need of focused attention and identifies potential levers for effecting positive change.

Nigeria's current economic situation presents opportunities for reforms that could encourage millions of business people to move into the formal sector. There are also clear opportunities for diverse business growth, more advanced manufacturing and greater regional self-sufficiency in areas such as grains and cotton textiles. Ultimately, a better understanding of Nigeria's non-oil sector would enable a more productive and mutually beneficial interface between government and the business community.

Structure of the report

The report consists of five chapters. Chapter 2 weighs the importance of the recent exercise in recalculating Nigeria's gross domestic product (GDP), which highlighted the existence of largely overlooked sectors with high levels of informal activity. It goes on to frame the regional economic context and outlines important transformations and factors affecting the operating environment. It also defines and explores the various contextual drivers of Nigeria's unrecorded trade, the reasons for the existence of a large parallel economy and the challenges of capturing this in statistics. Chapter 3 goes on to explore the strengths and weaknesses of current systems for supporting the formal

economy. It documents emerging efforts to formalize more of Nigeria's external trade, examines efforts to promote regional economic integration and assesses the prospects for success of different initiatives. Chapter 4 analyses in greater depth some of the specifics of Nigeria's trade: the principal types of activity that often go unrecorded owing to the regional context, the predominant channels and direction of such trade flows, and the messy payment systems that underpin them. Supplementary case studies throughout the report help to provide a more textured picture of the realities of Nigeria's external trade.

The report concludes in Chapter 5 with recommendations for policy measures and other initiatives to encourage entrepreneurs to formalize their activities and to boost the competitiveness and efficiency of Nigeria's non-oil export and import trade. It proposes a range of measures to remove or reduce the current deterrents to formalization, and to foster an environment in which it is easier for traders to operate formally. It also advocates measures to enhance the effectiveness and transparency of trade-related fiscal revenue collection, and to create a more favourable and competitive regional context for formal trade.

The report also takes into account the fact that the regional context for trade is set to change rapidly as the 15 members of ECOWAS implement their new Common External Tariff (CET) regime and finalize an Economic Partnership Agreement (EPA) with Europe. The report thus offers a timely examination of the current state of intraregional trade in West Africa, and of ongoing policy processes that will have a critical impact on the economic fortunes of Nigeria and its regional and international partners.

2. An Enabling Environment? Context and Drivers of Informal Trade

The economic context

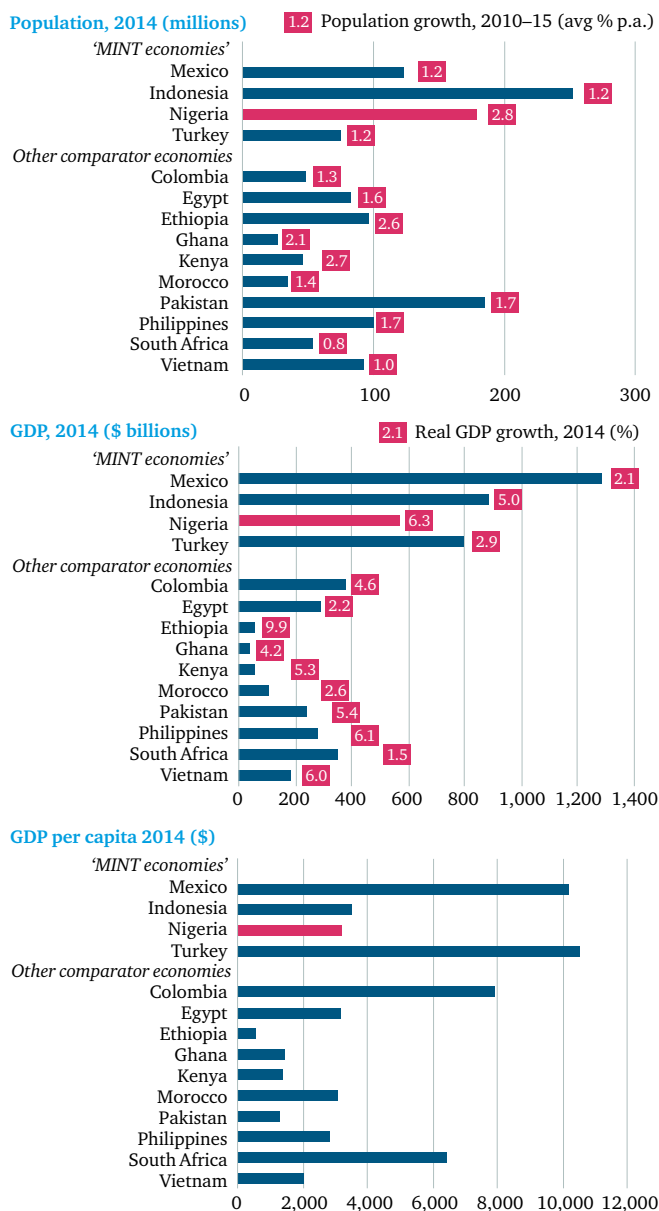
Africa's largest economy

'Rebasing' calculations undertaken in 2013 by the Nigerian government in partnership with the International Monetary Fund (IMF), World Bank, African Development Bank (AfDB) and other institutions sought for the first time to take full account of the diversity and scale of the country's informal and service sectors.⁹ The long-overdue exercise, which updated the methods for estimating GDP and changed the base year for the calculations from 1990 to 2010, resulted in an 89.2 per cent rise in the official estimate of the size of Nigeria's economy. The next rebasing exercise is anticipated in 2016.¹⁰

The new calculation put GDP in 2013 at \$509.9 billion, up from \$285.56 billion the previous year. It also revealed that Nigeria, in fact, now had the largest economy in sub-Saharan Africa, overtaking South Africa's \$366.1 billion.¹¹ Nigeria's share of sub-Saharan African GDP also rose, from 21.3 per cent to 31.7 per cent.¹² The country is projected to account for nearly 80 per cent of West Africa's output in 2015.¹³ The GDP increase for 2013 reflected the inclusion of new sectors of the economy such as telecommunications, retail and the country's fast-growing entertainment industry. On the basis of the updated statistics, Nigeria moved up 12 places to become the 26th-largest economy in the world.¹⁴

While it was critical to measure more accurately the size and performance of the Nigerian economy and to establish a statistically verifiable basis for government planning and decision-making, GDP rebasing has not on its own transformed basic economic conditions. For all its vigour and pulsating energy, Nigeria's economy remains severely hampered by infrastructure failings, administrative hurdles, unreliable power supply, a security crisis in the northeast of the country, widespread corruption, and a history of over-reliance on oil – combined with underinvestment in the rural livelihoods upon which much of the population depends. Living conditions are still poor for many. Wealth remains very unequally distributed, despite the near-doubling of GDP per capita and Nigeria's upgrading to lower-middle-income status.¹⁵

Figure 1: Population and GDP – Nigeria vs other emerging economies



Sources: World Bank; UN Population Fund.

⁹ The rebasing exercise expanded the number of industries assessed, from 33 in the previous calculation to 46. The oil-and-gas sector's share of GDP declined from 32 per cent to 14 per cent, while that of agriculture fell from 33 per cent to 22 per cent. The biggest increase in economic significance was captured in the services sector (26 per cent to 51 per cent), with telecommunications accounting for 8.7 per cent of the sector and 1.7 per cent of GDP. Manufacturing also went up significantly from 2 per cent to 7 per cent of GDP.

¹⁰ 'Nigeria becomes largest economy in Africa with \$509.9 billion GDP', African Development Bank Group News, 8 April 2014, <http://www.afdb.org/en/news-and-events/article/nigeria-becomes-largest-economy-in-africa-with-509-9-billion-gdp-12981/> (accessed on 26 November 2015).

¹¹ South Africa had previously been ranked first, with GDP of \$384 billion in 2012 according to the World Bank, while Nigeria had been rated the second-largest African economy.

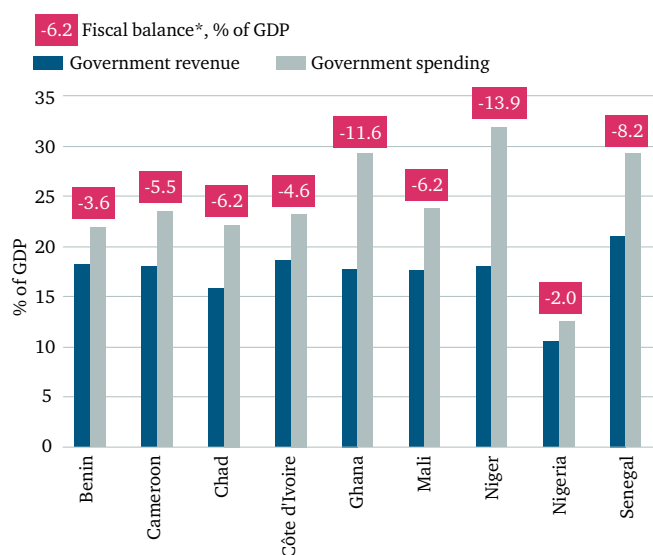
¹² Amadou Sy, 'Are African countries rebasing GDP in 2014 finding evidence of structural transformation?', Africa in Focus, Brookings Institution, 3 March 2015, <http://www.brookings.edu/blogs/africa-in-focus/posts/2015/03/04-african-gdp-structural-transformation-sy-copley>.

¹³ EY's attractiveness survey, Africa 2014: Executing growth, [http://www.ey.com/Publication/vwLUAssets/EY-attractiveness-africa-2014/\\$FILE/EY-attractiveness-africa-2014.pdf](http://www.ey.com/Publication/vwLUAssets/EY-attractiveness-africa-2014/$FILE/EY-attractiveness-africa-2014.pdf).

¹⁴ Ibid.

¹⁵ GDP per capita rose to \$3,000, albeit still well below South Africa's \$7,336. The World Bank's threshold levels are \$1,045 and below for low-income status; \$1,046–4,125 for lower-middle-income status; \$4,126–12,745 for upper-middle-income status; and \$12,746 or above for high-income status. Source: http://data.worldbank.org/about/country-and-lending-groups#Low_income (accessed on 9 November 2015).

Figure 2: Fiscal indicators of selected West and Central African economies, 2014 (% of GDP)



* Excluding grant aid.
Source: IMF.

Nigeria's rebased economy not only revealed its formidable size, it also exposed institutional and management weaknesses:¹⁶ on the revised basis, non-oil fiscal revenue was under 5 per cent of GDP – low even for a developing country.¹⁷ Despite some efforts at diversification, Nigeria's formal exports have remained concentrated on extractive commodities as opposed to processed or manufactured goods. The problem is illustrated by the fact that nearly 90 per cent of the containers that come into Nigeria through its seaports leave empty.¹⁸ At the same time, petroleum products represent a huge proportion of Nigeria's imports because domestic refining capacity is greatly outstripped by local demand.

The rebasing calculations also showed that the urban economy makes a much larger contribution to national output than previously thought. Yet the incidence of poverty remains strikingly high,¹⁹ particularly in the

north; according to some (but not all) measures, poverty rates in some parts of the country are comparable with those in Niger and Benin. Despite an impressive growth trajectory over the past decade, Nigeria has not fulfilled its true potential, particularly as it has a much richer resource base and a more diverse range of economic activity than its neighbours. Furthermore, there has not been a dramatic increase in jobs or the kind of structural transformations necessary for harnessing the benefits of fundamentally strong macroeconomic indicators.

The new administration will have to address these discrepancies with clear and informed ideas, determination and innovation. The Nigerian economy is at a critical juncture where new revenue streams are essential in order to meet budgetary projections²⁰ and finance bold structural transformations, and where economic diversification is needed to mitigate the problems associated with oil dependency.

The struggles of the manufacturing sector are a case in point.²¹ In recent years Nigeria's exports of manufactured goods have achieved notable growth, but this trend has continued to lag behind growth in imports. Nigeria remains dependent on the rest of the world for the bulk of its manufactured goods, and its share of non-oil global trade remains very low. Oil, gas and related products, solid minerals and agricultural products make up more than 80 per cent of exports, and the recent collapse in global oil prices has exposed the economy's vulnerability to swings in commodity markets. In 2014, the Jonathan administration demonstrated an awareness of these vulnerabilities and the need for economic diversification and responded with a rather robust Nigeria Industrial Revolution Plan (NIRP) strategy document – which took a holistic, all-sector approach and could provide a useful starting point for the development of policies to promote a more diverse industrial economy.²²

¹⁶ Windfalls from high oil prices, particularly between 2011 and 2014, were not directed to investments that would decisively address Nigeria's severe infrastructure and public services needs.

¹⁷ According to Heritage Foundation 2012 data, Tanzania and Burkina Faso have tax-to-GDP ratios of 12 per cent and 11.5 per cent respectively. Taiwo Oyedele, 'Economic and fiscal implications of Nigeria's rebased GDP', PwC Publications, 24 June 2014, <http://www.pwc.com/ng/en/publications/gross-domestic-product-does-size-really-matter.html> (accessed on 20 November 2015).

¹⁸ Author's interview under Chatham House Rule in Lagos, March 2015.

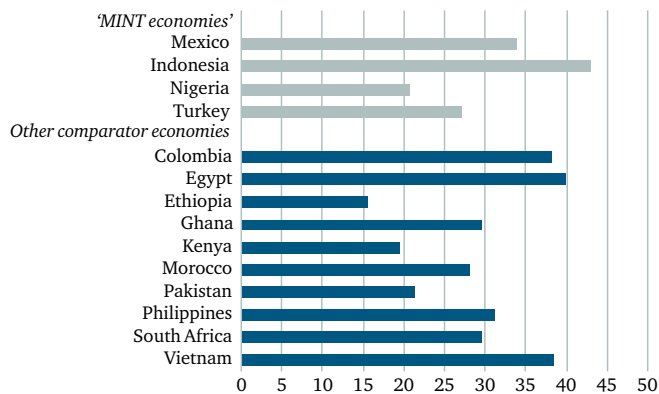
¹⁹ According to Nigeria's National Bureau of Statistics (NBS), the incidence of poverty rose from 54.7 per cent in 2004 to 60.9 per cent in 2010, with almost 100 million Nigerians living on less than a \$1 a day. Levels of poverty appear more striking in the north. In the northwest, poverty rates were recorded at 77.7 per cent, compared with rates of 76.3 per cent and 59.1 per cent in the northeast and southwest respectively. *Nigeria Poverty Profile 2010*, National Bureau of Statistics, January 2012.

²⁰ Nigeria's government is proposing a budget of ₦7–8 trillion for 2016, almost twice that of 2015 at ₦4.4 trillion. See Wale Odunsi, '2016: Buhari proposes ₦8trn budget', *Daily Post*, 7 November 2015, <http://dailypost.ng/2015/11/07/2016-buhari-proposes-n8trn-budget/>.

²¹ For an analysis of Nigeria's prospects of industrialization, economic transformation and competitiveness among developing countries, see Dirk Willem te Velde, 'Supporting Economic Transformation in Nigeria – Sections 2 and 3' Report, Supporting Economic Transformation (SET) Programme, March 2015.

²² Nigeria Industrial Revolution Plan, NIRP-Release 1.0, January 2014, <http://www.nac.org.ng/NIRP.pdf> (accessed on 11 November 2015).

Figure 3: Industry value-added, 2014 (% of GDP)



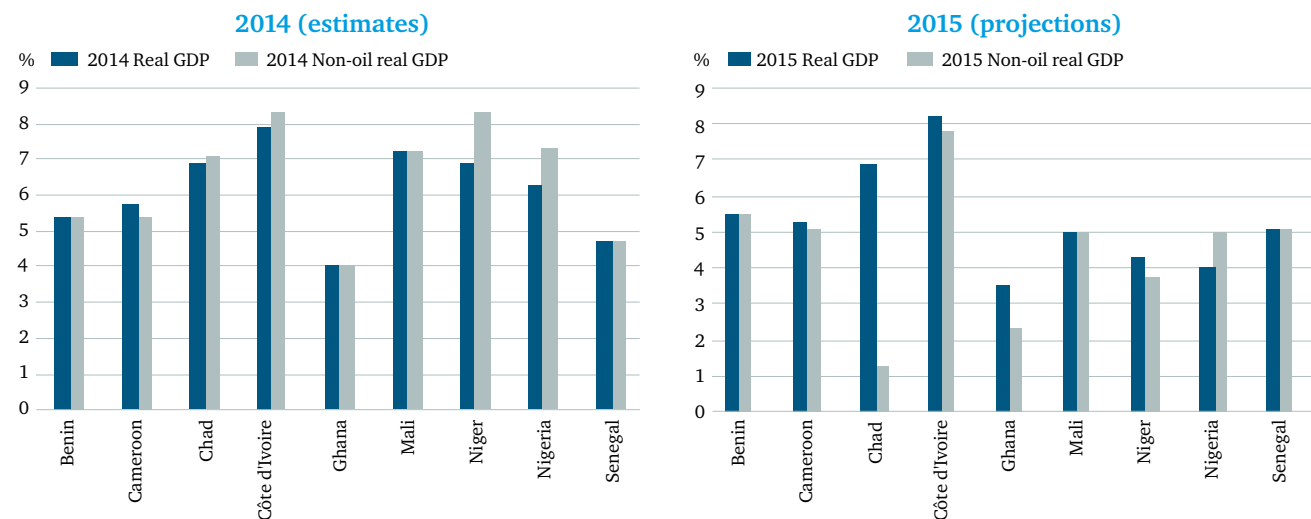
Source: World Bank.

Concerns about security and political stability have also impeded coherent policy-making. The conflict with Boko Haram in the northeast of the country, and the uncertainty that surrounded the 2015 presidential election and the formation of a new government team, consumed attention and resources, and prompted the postponement of key decisions on strategic economic policy issues.

The underlying flow of productive and trading activity has continued despite episodes of political uncertainty and

economic strain due to the downturn in crude oil prices. None the less, the developments in global oil markets since mid-2014 pose serious challenges for the economy. In particular, the fall in Brent oil prices²³ to below \$50 a barrel and the naira losing 25 per cent of its value over a period of 12 months since 2014²⁴ will make it harder for President Buhari to keep the government running. Oil exports account for 80–90 per cent of the government's foreign-exchange earnings, and it is unlikely that oil earnings in the immediate future will be high enough to meet the government's planned expenses.²⁵ Modest crude oil prices are likely to be the 'new normal'²⁶ for some time. A quarter of Nigeria's foreign-exchange reserves were wiped out between July 2014 and August 2015 following the fall in the naira's value against a stronger US dollar.²⁷ The loss of government revenue from crude oil sales has left the governments of Nigeria's 36 federal states – mostly dependent on federal allocations – struggling to meet their budgetary obligations. In July 2015 President Buhari approved a bailout of \$2.1 billion to enable state governments to clear their backlog of workers' salaries.²⁸ Furthermore, the country is facing a dollar shortage as a result of deposit and trading restrictions by the Central Bank of Nigeria (CBN). This is squeezing businesses even further, with many unable to keep up payments to overseas suppliers.²⁹

Figure 4: GDP growth in selected West and Central African economies (%), 2014 and 2015



Source: IMF.

²³ Brent crude peaked at \$133 per barrel during the middle of 2008.

²⁴ Michelle Faul, 'IMF presses Nigeria to devalue naira currency', Associated Press, 21 October 2015. <http://bigstory.ap.org/article/ea7e4407c01e40998881f993e1d45ede/imf-calls-nigeria-allow-its-naira-currency-drop> (accessed on 26 November 2015).

²⁵ Nigeria's budget of ₦4.5 trillion (\$22.6 billion) for 2014 was planned with a price of \$165 per barrel in view, but oil prices have plunged since then. 'Nigeria's outgoing president approves 2015 budget', Reuters, 20 May 2015, <http://www.reuters.com/article/2015/05/20/nigeria-budget-idUSL5N0YB49M20150520>.

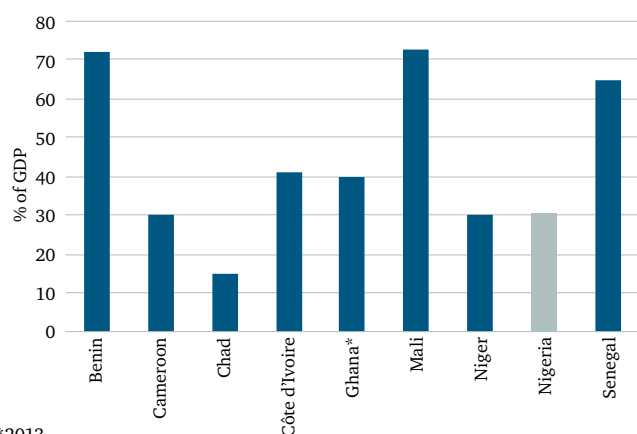
²⁶ For an analysis of the implications of the 'new normal' of low oil prices for African exporter economies, see Giovanni Carbone (ed.), *Africa: Still Rising?*, Italian Institute for International Political Studies (ISPI), 2015.

²⁷ According to Nigeria's Central Bank, foreign-exchange reserves stood at \$30.15 billion on 23 November 2015. Movement in Reserves, Central Bank of Nigeria, <http://www.cenbank.org/IntOps/Reserve.asp?MoveDate=11/26/2015%208:27:15%20AM> (accessed on 26 November 2015).

²⁸ Clifford Ndujihe, Dapo Akinrefon, Levinus Nwabughiohu and Gbenga Oke, 'Unpaid Salaries: Buhari okays ₦804.7b lifeline for states', *Vanguard*, 7 July 2015, <http://www.vanguardngr.com/2015/07/unpaid-salaries-buhari-okays-n804-7b-lifeline-for-states/>.

²⁹ 'Mixed Reactions Trail Banks' Rejection of Dollar Deposits', *THISDAY* newspaper, 4 August 2015, <http://www.thisdaylive.com/articles/mixed-reactions-trail-banks-rejection-of-dollar-deposits/216546/>.

Figure 5: Total banking assets in 2014, selected West and Central African economies (% of GDP)



*2013
Source: IMF.

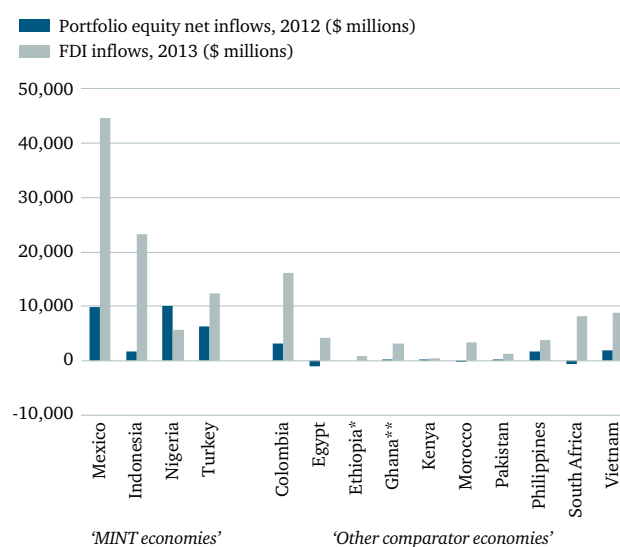
The IMF had projected Nigeria's GDP growth for 2015 to be around 4.8 per cent, but the economy has since slowed considerably. According to the country's NBS, in the third quarter of 2015 real GDP grew by only 2.84 per cent year on year, 3.4 percentage points lower than the rate recorded in the corresponding quarter of 2014.³⁰

It is not only growth numbers, foreign-exchange reserves and crude oil prices that frame Nigeria's sobering economic position. While across the globe population growth is slowing, sub-Saharan Africa's population will more than double by 2050. Nigeria, already the continent's largest and the world's seventh-largest country by population size,³¹ will become the fourth-biggest in the world by 2050. Nigeria's current median age is 17.9 and is projected to remain still relatively youthful at 22.5 in 2050.³² Strong and sustainable job creation is critical to engaging Nigeria's youthful populace and transforming this resource pool into a skilled and innovative workforce.

Despite concerns over slower GDP growth and rapid population growth, at the core of the Nigerian economy lies a remarkable level of resilience, particularly in the non-oil sectors. This remains a constant reminder of how well Nigeria could perform once clearer policy frameworks have

been set and overlaps resolved. There is good reason to believe that carefully targeted reforms could first stabilize and then stimulate higher levels of growth, investment and employment, generating more government revenue to pay for key services, infrastructure and development projects.

Figure 6: Inward investment – Nigeria vs other emerging economies



*Portfolio equity for Ethiopia n.a.
**2011 for Ghana portfolio flows.
Source: World Bank.

Informal trade: the Nigerian context

Some estimates suggest that unrecorded or informal activity could account for as much as 64 per cent of Nigeria's GDP.³³ In addition to the difficulty this implies in terms of capturing meaningful data on which to base economic policy, it illustrates the hardships and challenges of daily life. For tens of millions of people engaged in the informal sector, there are barely any guarantees of income security, employment benefits or social protection.

The base of statistics on Nigeria's informal trade is modest, but all available indicators point to very extensive activity.³⁴

³⁰ *Nigerian Gross Domestic Product Report*, National Bureau of Statistics, Issue 07, Q3, 2015. Nigeria recorded trade losses of \$982 million in the first five months of 2015. The IMF forecasts that economic growth will slow to 4 per cent in 2015, from 6.3 per cent in 2014.

³¹ *Ibid.*

³² 'Nigeria Population', Worldometers, <http://www.worldometers.info/world-population/nigeria-population/>. See also United Nations Department of Economic and Social Affairs/Population Division, *World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*, http://esa.un.org/unpd/wpp/publications/files/key_findings_wpp_2015.pdf.

³³ Jonathan Emenike Ogbuabor and Victor A. Malaolu, 'Size and Causes of the Informal Sector of the Nigerian Economy: Evidence from Error Correction Mimic Model', *Journal of Economics and Sustainable Development*, Vol. 4, No. 1, 2013.

³⁴ According to the NBS, statistically estimating the volume of unrecorded trade in Nigeria is, at present, highly unreliable as a result of the national accounts identity used in computing Nigeria's GDP estimates. This assumes the following: total supply of goods and services at purchasers' prices in the economy + output of goods and services at basic prices (O) + taxes less subsidies on products (T) + imports of goods (M) and total demand of goods and services in purchasers' prices in the economy = intermediate consumption at purchasers' prices (IC) + final consumption expenditure of households and general government at purchasers' prices (C) + gross capital formation at purchasers' prices of all resident producers (I) + exports (E). Because the national accounts identity holds that supply must equal demand, it follows that O + T + M = IC + I + E. Therefore, the difference between (O + T + M) and (C + E) should be IC and I, which is the case, but because the national accounts aggregates are estimated with the above identity in mind, estimates of the volume of Nigeria's unrecorded trade are currently not plausible. Interview and correspondence with Nigeria's statistician general and the statistician general's team of technical advisers, NBS, February to August 2015.

For example, anecdotal evidence suggests that official data on the country's trade with Benin represent only about one per cent of the actual volume, and that at least 70–80 per cent of overall trade between Nigeria and its neighbours is unrecorded.³⁵

A 2012 study published by the German Agency for International Cooperation (GIZ)³⁶ found that informal operators dominate cross-border trade in Ogun state, southwest Nigeria. Ogun, which shares an international border with Benin, is one of 16 federal states in Nigeria that adjoin the country's land borders. According to some estimates, informal cross-border trade constitutes around 75 per cent of Benin's GDP. This is significantly higher than the sub-Saharan average of 43 per cent and further underscores the fundamental informality of Nigeria's trade partnerships in the region.³⁷

The November 2015 NBS quarterly report on job creation showed that while the number of formal-sector jobs fell 71.4 per cent compared to 2014, the contribution of the informal sector was the highest – 90.2 per cent – since the start of the data series three years earlier and had increased by 116 per cent from 2014. According to the NBS, the continued growth in informal-sector jobs was likely driven by fewer opportunities in the formal sector leading job seekers to resort to activities such as trading and catering services to earn a living.³⁸ With the climate of slowed down GDP growth, the growth of the informal sector in Nigeria suggests that it is not only larger than the formal sector but a key source of resilience for the country's economy.³⁹ In the short term, the informal economy helps to meet the need for employment, and can boost household incomes and food security. However, its persistence directly constrains government revenues; although Nigeria has made a number of attempts to harness the benefits of unrecorded trade, these have met with limited success.

Regional interstate initiatives such as well-serviced border markets⁴⁰ can help integrate informal trade into the formal economy, improve livelihoods in border areas and communities, and boost security. However, the scale of informal cross-border trade with fellow members of ECOWAS poses numerous challenges:

- It represents a loss of fiscal customs revenue for the government in many sectors, despite the steps being taken to move towards an ECOWAS single market.
- When goods cross the border informally they are not subject to health and safety regulations, or environmental and technical standards.
- Informal businesses are often excluded from access to banking, professional services and the technical support that would help them to improve product quality or make better use of technology.

Under the previous government (2010–15) Nigeria's trade and investment ministry set up a National Coordinating Committee on Informal Trade, with a brief to develop proposals on how to formalize informal activity under the broad heading of an Informal Trade Action Plan. Efforts such as this demonstrated an awareness within government of the importance of the informal sector and need to be sustained if the necessary level of structural change is to be achieved. USAID's Nigeria Expanded Trade and Transport (NEXTT) programme – a four-year initiative to support the government's efforts to expand trade volumes (in agriculture and other non-oil exports) and to enhance efficiency domestically and within ECOWAS – published a study in February 2013 that critically examined Nigeria's trade policy formulation process against international best practices.⁴¹ The study drew, in part, on the *Trade Policy Review of Nigeria* published by the World Trade

³⁵ Authors' research interviews in Abuja, Cotonou and Niamey, March and April 2015.

³⁶ Christopher M. Okafor, *Enterprise Baseline Survey 2012, Add-On on Cross-Border Trade Issues in Ogun State*, German Agency for International Cooperation (GIZ), 2012.

³⁷ Jean-Guy K. Afrika and Gerald Ajumbo, 'Informal Cross Border Trade in Africa: Implications and Policy Recommendations', *African Economic Brief*, African Development Bank, Vol. 3, No. 10, November 2012, p. 8; Constanze Blum, *Cross-Border Flows Between Nigeria and Benin: What are the Challenges for (Human) Security?*, Friedrich Ebert Stiftung, August 2014.

³⁸ Employment (Job) Creation Survey, 3rd Quarter 2015, Summary Findings and Selected Tables, National Bureau of Statistics, November 2015. <http://www.nigerianstat.gov.ng/pages/download/333> (accessed on 25 November 2015).

³⁹ Caroline Lesser and Evdokia Moisé-Leeman, 'Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa, Final Report', OECD Trade Policy Working Paper No. 86, 18 February 2009; Arvil V. Adams, Sara Johansson da Silva and Setareh Razmara, *Improving Skills Development in the Informal Sector: Strategies for Sub-Saharan Africa*, World Bank, June 2013; Oladayo Nathaniel Awojobi, Joyce Ayakpat and Oladimeji David Adisa, 'Rebased Nigerian Gross Domestic Product: The Role of the Informal Sector in the Development of the Nigerian Economy', *International Journal of Education and Research*, Vol. 2, No. 7, July 2014.

⁴⁰ West Africa's border markets (of which there are around 134 between the Atlantic Ocean and Chad) serve as central hubs for local producers and consumers. At these markets, for example, agricultural goods can be exported to neighbouring countries on the basis of local differentials such as changing demand, and price and exchange-rate fluctuations. Manufactured goods can also be moved across adjoining border towns, for instance between Illela (Nigeria) and Birnin N'Konni (Niger) for distribution further afield. Border markets can also offer benefits for large-scale trade, if properly developed to serve as transnational corridors for goods discharged from the various ports along the Gulf of Guinea for transit to the landlocked Sahel countries. With about 46 border markets clustered along either side of Nigeria's borders, the country has the densest concentration of these markets in West Africa (mostly between Nigeria and Benin and Nigeria and Niger). For an analysis of border markets and cross-border functional dynamics, see OECD/SWAC, 'Borders, cross-border co-operation and freedom of movement in the Sahara-Sahel', in *An Atlas of the Sahara-Sahel: Geography, Economics and Security*, West African Studies, OECD Publishing, December 2014, <http://www.oecd.org/swac/publications/an-atlas-of-the-sahara-sahel-9789264222359-en.htm> (accessed on 23 November 2015).

⁴¹ 'The Trade Policy Process in Nigeria and Recommendations for Improvements', Nigeria Expanded Trade and Transport (NEXTT), February 2013, United States Agency for International Development (USAID).

Organization (WTO) in 2011,⁴² and, among other challenges, highlighted serious problems with the structure and consistency of Nigeria's trade policy process.

Trade policy issues affect a wide range of stakeholders. A number of ministries, departments and agencies in Nigeria maintain trade units, but these are not closely integrated into policy-making around trade issues by key ministries such as agriculture, transport, external affairs and finance.⁴³

The success of any campaign to persuade large numbers of people to make the transition from informal business to formalized activity would probably depend in part on a sustained, long-term multi-stakeholder consultation.

In Nigeria, the Federal Ministry of Industry, Trade and Investment has statutory responsibility for policy-making around trade issues. Under the administration of former president Goodluck Jonathan (2010–15), an economic management team led by the minister of finance, and including the minister of trade and investment, coordinated economic policy formulation and implementation – trade policy issues were subsumed into this arrangement. Essentially this did not allow for the main ministry responsible for trade to develop its analytical and coordinating capacity. Nor were any formal channels established for consultation with non-governmental stakeholders.⁴⁴ The result was an unclear environment around Nigeria's trade policy process, weak coordination and, critically, little to no voice for local stakeholders.

A 2011 review of Nigeria's trade policy initiated by the former minister of trade, Dr Olusegun Aganga, aimed to create 'a friendlier environment for business and investment in Nigeria', with the strategy outlined through a draft paper on Nigeria's national trade policy and a broad platform for trade facilitation under the government's Transformation Agenda for 2011–15.⁴⁵ However, the actual process by

which trade policy is formulated and implemented, and the critical issue of inclusion of stakeholders (both formal and informal), remained unaddressed. The success of any campaign to persuade large numbers of people to make the transition from informal business to formalized activity would probably depend in part on a sustained, long-term multi-stakeholder consultation. Yet current approaches provide little room for the government to listen to the real concerns of traders, entrepreneurs and consumers.

Limitations within the formal trade setting

A lack of awareness of the rules that apply to formal trade is a major factor in the behaviour of Nigerian business people – especially those in micro, small and medium-scale enterprises – and their West African counterparts.⁴⁶ This lack of awareness of procedures and requirements extends not only to regulations that would entail costs or impose constraints, but also to those that would actually make trade easier.

For example, many Nigerian exporters do not know that their exports to other ECOWAS markets are exempt from tariffs and duties. The previously mentioned GIZ study in Ogun state found that only 10.5 per cent of exporters knew about the duty and tariff exemption on sales to ECOWAS, and only 1 per cent understood the conditions they had to satisfy to get their consignments exempted.⁴⁷ In Jibiya, an important border market for cereals in Katsina state, northwest Nigeria (see case study, page 34), traders complained of being forced to make payments at unauthorized checkpoints set up by personnel from Nigerian government agencies. However, they were unaware that the 'taxes' imposed on them at the Niger government border post were in fact also illegal and in contravention of ECOWAS rules.⁴⁸

This unawareness of the resolution on regional market integration leaves Nigerian traders and their cross-border counterparts vulnerable to the illicit imposition of unofficial 'taxes' by rent-seeking border officials. Moreover, to avoid

⁴² The fourth review of Nigeria's trade policies and practices took place between 28 and 30 June 2011. It was based on a report from the WTO Secretariat and a report by Nigeria's government. See *Nigeria: Trade Policy Review, Report by the Secretariat*, World Trade Organization, Trade Policy Review Body, WT/TPR/247, 24 March 2011, https://www.wto.org/english/tratop_e/tp_r_e/tp347_e.htm (accessed on 26 November 2015).

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ In December 2009 the National Planning Commission published a blueprint with the aim of bringing Nigeria into the league of the world's top 20 biggest economies by 2020. This document provided the framework for Nigeria's national economic policy under Jonathan's administration. See *Nigeria Vision 20:2020: Economic Transformation Blueprint*, National Planning Commission, December 2009, <http://www.nationalplanning.gov.ng/images/docs/NationalPlans/nigeria-vision-20-20-20.pdf> (accessed on 11 November 2015).

⁴⁶ For example, few traders interviewed for this report who transact business across the ECOWAS region were aware that an ECOWAS Free Trade Area (EFTA) and ECOWAS Trade Liberalization Scheme (ETLS) were established in 1975, adopted on 1 January 1990 and amended in 2003. In 2000 the ECOWAS region was declared a free-trade area. These interventions were introduced with the aim of promoting intraregional trade and creating a common market in the sub-region by eliminating customs duties and related taxes, removing non-tariff barriers and establishing a Common External Tariff (CET) for goods produced in member countries (ECOWAS Decision A/DEC, 119/83 of 20 May 1983). The adoption of the CET is aimed at progressing to the establishment of a Joint Customs Union.

⁴⁷ *Ibid.*

⁴⁸ Authors' research interviews, Jibiya market, March 2015.

making payments from which they are in fact exempt, they often opt for one of the numerous smuggling routes instead.⁴⁹

The interface between formal and informal

In the real economy, the distinction between 'formal' and 'informal' is not clearly defined. Many businesses will move between one sphere and the other at different times, depending on the situation. This complicates the task of measuring informal or unrecorded trade. Looking forward, this situation may facilitate the passage into formal activity for businesses that decide to take such a step. But in today's Nigerian economy, a large informal sector remains a fact of life – and one that many sizeable, formal entities must deal with, since they have to account to tax and customs authorities for their transactions with informal customers or suppliers.

For a typical business, each status has both advantages and drawbacks. Formal status provides a business with a measure of certainty or predictability about the taxes and customs duties it will pay, when these are officially calculated and not informally 'negotiated'. It gives access to formal banking services and to trade support measures such as the Export Expansion Grant (EEG), as well as support from other state institutions. And it leaves a business less exposed to the risk of informal illicit attempts at extortion.

However, for many businesses, the benefits of formal status are offset by the disadvantages – and by the cost and sheer practical difficulty of securing formal status and operating on a formal basis. The cost and time required to establish a registered company are a serious deterrent to small entrepreneurs and traders. The 2013 Enterprises Baseline Survey produced in collaboration with SMEDAN estimated that there are over 37 million small and medium-sized enterprises in Nigeria, employing about 59 million workers and contributing nearly half of the country's GDP.⁵⁰ Taxes on small and medium-sized enterprises (SMEs) are not exceptionally high,⁵¹ but in situations where businesses have to compete intensively on cost the additional charges

could be just enough to leave a trader at a disadvantage relative to rivals who have stayed informal.

The difficulties of making cross-border payments for trade with other African countries are a very significant deterrent to formalization. Furthermore, shortages of foreign exchange in official currency bureaux push traders towards the parallel market.

Regulatory costs and inefficiencies are another serious hindrance to the formalization of trade. 'There are very few things you can do in Nigeria which are legal,' complained one exasperated wholesaler, who has tried to operate as far as possible within the formal sector and rejected advice that he should import purely informally. He added, 'Most goods we import are contraband and what is not contraband is [subject to] to NAFDAC [National Agency for Food, Drug Administration and Control] – which is not well administered.'

For many businesses, the benefits of formal status are offset by the disadvantages – and by the cost and sheer practical difficulty of securing formal status and operating on a formal basis.

It is commonplace for businesses to keep two sets of accounts, or negotiate with the tax authorities over how much to pay. One trader interviewed for this report said that a number of clearing agents routinely produce forged documents to facilitate passage through ports and bolster their profit margins.⁵²

Meanwhile, practically every business has to cope with the extra costs imposed by infrastructure problems – such as paying for fuel wasted as delivery trucks wait in traffic jams, or for fuel for generators to keep operations running during frequent power cuts. In rural northern Nigeria, the cost of electricity is so high that people spend 60 to 80 times more on power than residents of New York city or London.⁵³ Additionally a study of

⁴⁹ In 2013, Nigeria's past interior minister disclosed that there were 1,499 illegal/unauthorized routes into the country compared with the country's 84 official border control posts. Victoria Ojeme and Ruth Odinya, 'Nigeria has over 1,499 illegal entry routes – Interior minister, *Vanguard* newspaper, 19 June 2013, <http://www.vanguardngr.com/2013/06/nigeria-has-over-1499-illegal-entry-routes-interior-minister/> (accessed on 30 November 2015).

⁵⁰ *National MSME Survey Report 2013*, NBS and Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), published online in 2015, <http://www.smedan.gov.ng/images/NBS2015/NBS%202013Final%20Copy.pdf> (accessed on 23 November 2015).

⁵¹ While taxes on SMEs in Nigeria are not exceptionally high, the cost of compliance is. The estimated average is roughly ₦108,594 per year, and could range from ₦14,500 to ₦725,000 annually. Smaller SMEs can even find themselves with a higher tax compliance cost (₦725,000) per annum compared with larger SMEs with an average of ₦123,047 per year. For an analysis of tax compliance costs for SMEs in Nigeria, see Emmanuel Eragbhe and Kennedy Prince Modugu, 'Tax Compliance Costs of Small and Medium Scale Enterprises in Nigeria', *International Journal of Accounting and Taxation*, March, Vol. 2, No. 1, 2014, pp. 63–87, http://ijatnet.com/journals/ijat/Vol_2_No_1_March_2014/5.pdf (accessed on 30 November 2015).

⁵² Authors' research interview in Lagos, March 2015.

⁵³ *Power, People, Planet: Seizing Africa's Energy and Climate Opportunities*, Africa Progress Panel Report, June 2015, http://www.africaprogresspanel.org/wp-content/uploads/2015/06/APP_REPORT_2015_FINAL_low1.pdf (accessed on 20 July 2015). At the end of 2010, Nigeria began an ambitious power-sector privatization programme. The country's inefficient Power Holding Company of Nigeria (PHCN) (formerly known as the National Electric Power Authority [NEPA]) was broken up and 17 state-owned generating and distribution companies (six of the former and 11 of the latter) were put up for sale through a \$2.5 billion tendering process – the Transmission Company of Nigeria was excluded from the sale but placed under the management of Manitoba Hydro International (Canada). Improvement in power supply since the sale of Nigeria's power-sector assets to local and international investors has been patchy. For an analysis of the privatization of Nigeria's power sector, see *A Guide to the Nigerian Power Sector*, KPMG Advisory Services Nigeria, December 2013, <http://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/Documents/Guide%20to%20the%20Nigerian%20Power%20Sector.pdf> (accessed on 26 November 2015).

data from Nigeria between 1970 and 2005 established a link between inadequate and irregular power supply to the industrial sector and the high incidence of unemployment in the country.⁵⁴

Despite recent reform efforts and capacity improvements, electricity generation and delivery have not kept pace with population growth and rising demand for power in Nigeria. Generating capacity reached a peak of 4,600 megawatts (MW) in October 2015, but that was still only 100 MW above the capacity available around the same period in 2012, when the World Bank estimated that just 55.6 per cent of the population had access to electricity.⁵⁵ A power tracking poll also estimated that Nigerian households received an average daily cumulative supply of 10.8 hours in September 2015 – the highest since April 2013;⁵⁶ according to another World Bank study, 93 million Nigerians lack electricity and four in every five SMEs have to install their own generators – 40 per cent of the cost of doing business in Nigeria is driven by power supply needs.⁵⁷ Power cuts cost Nigerian businesses dearly in terms of lost activity (in addition to the above-mentioned expense of running generators): on average businesses suffer seven power cuts weekly, each of which typically lasts roughly two hours. Power outages hit the informal sector hardest, because it is least well equipped to cope. Yet at the same time the unreliability of power supply traps the economy in a high degree of informality precisely because the problem is such a deterrent to formal operation, particularly in energy-intensive sectors or those that depend on a steady power supply.

Individually, any one problem may be surmountable. But the combination of several factors adding to the cost of doing business in Nigeria will often push even multinationals into resorting to informal arrangements.

In some respects, the regulation of formal business is adjusted to allow for these realities. For example, a formal-sector import wholesaler will usually ask a buyer who has a registered business to provide a local purchase order. But only businesses with proper accounting software can supply these. Smaller informal buyers will usually just have to produce a business name and address and an invoice for the transaction.⁵⁸

The impact of communication and infrastructural constraints on formal trade and business competitiveness

In spite of current shocks to the country's economy and other long-standing challenges, Nigeria's fundamental macroeconomic and demographic indicators are still strong and will continue to exert a compelling pull on investors. For instance, information collected for the *Wall Street Journal* by Frontier Strategy Group, an advisory firm based in Washington, DC, from about 200 multinational corporations (including Coca-Cola and General Electric) placed Nigeria at the top of the list of most attractive frontier markets, and as the market under the closest watch for potential future investment.⁵⁹ In the 2014 edition of the firm's Frontier Markets Sentiment Index,⁶⁰ Nigeria emerged ahead of major African economies such as Kenya and Ghana, and even Argentina and Vietnam, as the frontier economy most attractive to European and American multinationals.⁶¹ According to an African Development Bank report, Nigeria receives roughly half of the foreign direct investment that comes into the West Africa sub-region (the country accounted for about 45 per cent of inflows in 2012).⁶²

As in much of the rest of the world, China is also a major potential source of capital investment in Nigeria. China's trade with Africa totalled \$13.6 billion in 2013.⁶³ China's increasing investment in Africa⁶⁴ is focused on formal-

⁵⁴ E. O. George and J. E. Oseni, 'The Relationship Between Electricity Power and Unemployment Rates in Nigeria', *Australian Journal of Business Management Research*, Vol. 2, No. 2, pp. 10–19.

⁵⁵ 'Access to electricity (% of population)', World Bank Data Bank, 2012, <http://data.worldbank.org/indicator/EG.ELC.ACCTS.ZS>.

⁵⁶ Power Supply Tracking, Q3 2015 Report, NOI Polls Limited, 20 October 2015, <http://www.noi-polls.com/root/index.php?pid=356&ptid=1&parentid=13> (accessed on 26 November 2015).

⁵⁷ Anton Eberhard, Orvika Rosnes, Maria Shkaratan and Haakon Vennemo, *Africa's Power Infrastructure: Investment, Integration, Efficiency*, World Bank, 2011, <https://openknowledge.worldbank.org/bitstream/handle/10986/2290/613090PUB0Afri158344B09780821384558.pdf?sequence=1> (accessed on 23 November 2015).

⁵⁸ Authors' interviews in Lagos and Abuja, March–April 2015.

⁵⁹ Dan Keeler, 'Nigeria, Argentina and Vietnam Prove Top Picks for Multinationals', *Wall Street Journal*, 6 June 2014, <http://blogs.wsj.com/frontiers/2014/06/06/nigeria-argentina-and-vietnam-prove-top-picks-for-multinationals/>.

⁶⁰ <http://frontierstrategygroup.com/ws-j-frontiers/>.

⁶¹ 'Frontier Markets in Africa: Misconception in a Sea of Opportunities', note prepared by the United Nations Economic Commission for Africa for the US–Africa Leaders Summit 2014, Washington, DC, 4–6 August, in collaboration with the African Union Commission and the African Development Bank, p. 8.

⁶² 'Combined Mid-Term Review and Regional Portfolio Performance Review of the Regional Integration Strategy Paper for West Africa 2011–2015', African Development Bank Group, ORWA/ONRI/ORNG/DEPARTMENTS, September 2014, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Boards-Documents/Combined_mid-term_review_and_regional_portfolio_performance_review_of_the_regional_integration_strategy_paper_for_West_Africa_2011_-_2015_-_02_2015.pdf (accessed on 23 November 2015).

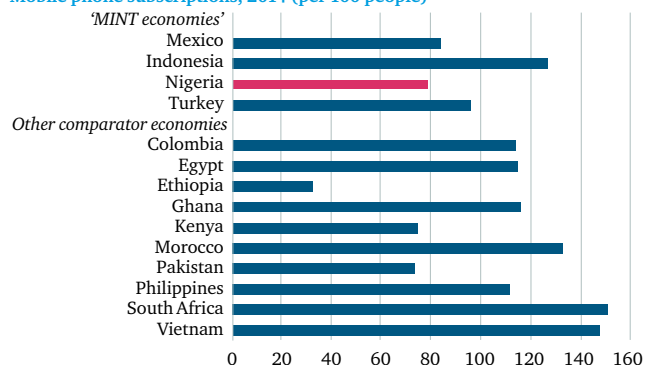
⁶³ AFP, 'China Firm Signs \$12 Billion Deal to Build a Railway Along Nigeria's Coast', *Business Insider UK*, 20 November 2014, <http://uk.businessinsider.com/afp-china-firm-signs-12-bn-deal-to-build-nigerian-railway-2014-11?r=US&IR=T> (accessed on 10 November 2015).

⁶⁴ The first phase of a \$475 million light rail project, a joint venture between Ethiopia and China, was completed in October 2015 in Addis Ababa, delivering sub-Saharan Africa's first metro system. The long-term vision for Ethiopia is for a rail connection to Djibouti, Sudan and Gabon. See Lidz-Ama Appiah, 'Ethiopia gets the first metro system in sub-Saharan Africa', *CNN Future Cities Transport Report*, 14 October 2015, <http://edition.cnn.com/2015/10/14/tech/addis-ababa-light-rail-metro/> (accessed on 10 November 2015).

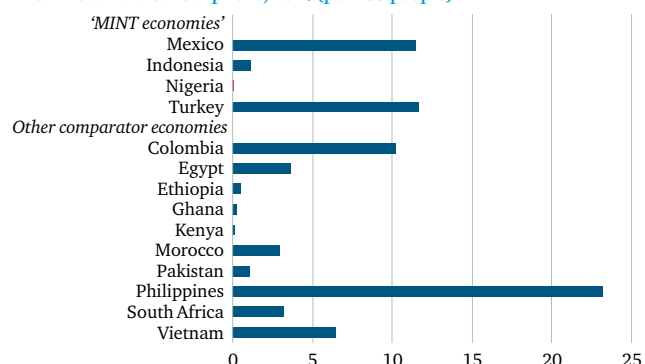
sector activity, of course, but Chinese-funded projects could play a wider role in adding depth to the Nigerian economy – especially in more capital-intensive or high-tech sectors – and in rejuvenating national infrastructure. In May 2014 the state-

Figure 7: Connectivity – Nigeria vs other emerging economies

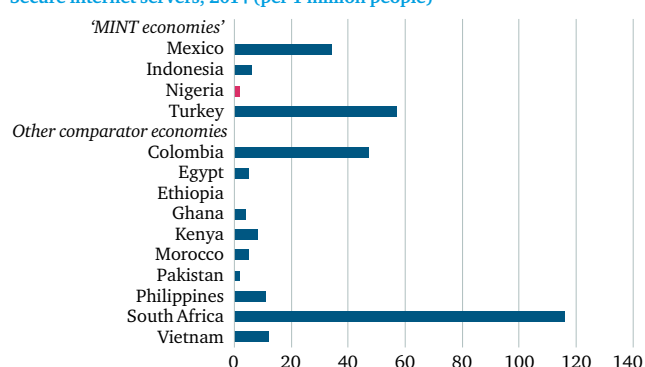
Mobile phone subscriptions, 2014 (per 100 people)



Fixed broadband subscriptions, 2014 (per 100 people)



Secure internet servers, 2014 (per 1 million people)



Source: World Bank.

owned China Railway Construction Corporation (CRCC) signed a \$12 billion framework contract to rehabilitate Nigeria's transport infrastructure through a massive rail project that includes a coastal railway linking Lagos, Nigeria's commercial capital, and the city of Calabar.⁶⁵

Nigeria's Infrastructure Concession and Regulatory Commission has estimated the cumulative shortfall in infrastructure investment at more than \$300 billion, while some estimates suggest that the 34,120-km federal road network⁶⁶ needs as much as \$15 billion annually worth of urgent maintenance and upgrade work; heavy investment is certainly also required in an expanded rail network, electricity assets, bridges, water supply, dams, refineries and so on.⁶⁷

The inadequacies of infrastructure have direct implications for the formalization of trade.⁶⁸ For example, the current inadequate capacity of transport links to the Apapa and Tin Can ports in Lagos is costly for business in terms of time, fuel and money. It is one of the main reasons why many traders prefer to import goods formally through Cotonou in Benin and then bring them into Nigeria informally. (See case studies in Box 1 on page 15.)

Mobile telecoms growth

While in most cases it is the inadequacy of infrastructure that hinders formal economic competitiveness and helps to trap many businesses in informal operation, the rapid growth of mobile telecoms use and coverage is one area of major infrastructure improvement. But, paradoxically, it supports informal as much as formal activity, so it could be seen as a factor that helps informal trade to continue growing; it is particularly suited, in its ease of use and low cost, to the needs of smaller traders, who lack access to the more elaborate communications infrastructure used by large formal-sector businesses.

Nigeria has seen very high mobile penetration rates. Together with Ethiopia, it will account for 40 per cent of the total number of new mobile subscribers in sub-Saharan Africa by 2020.⁶⁹ Mobile phones have put a new kind of power in the hands of many Africans, but the full potential of this asset – particularly its use as a platform for mobile money to increase financial inclusion and foster economic growth – remains untapped in Nigeria,

⁶⁵ Srinivas Mazumdar, 'China firm wins huge Nigerian railway contract', DW, 20 November 2014, <http://www.dw.com/en/china-firm-wins-huge-nigerian-railway-contract/a-18075475> (accessed on 11 November 2015).

⁶⁶ The total length of roads in Nigeria is 198,000 km, made up of 34,120 km of federal inter-state roads, 34,300 km of state roads and 129,580 km of local government roads. Source: <http://siteresources.worldbank.org/INTTRANSPORT/Resources/336291-1297096897336/7715763-1297096955872/Presentation-CMO.pdf> (accessed on 26 November 2015).

⁶⁷ Odinaka Anudu, Edozie Ifebi, Josphine Okojie and Daniel Ojabo, 'Private sector key to bridge \$33 bn infrastructure gap', Business Day Online, 30 April 2015, <http://businessdayonline.com/2015/04/private-sector-key-to-bridge-33bn-infrastructure-gap/> (accessed on 15 November 2015).

⁶⁸ Uwe Deichmann, 'Road Upgrading and Trade Expansion in Sub-Saharan Africa', World Bank Research Brief, 22 December 2006, <http://econ.worldbank.org/external/default/main?theSitePK=469382&contentMDK=22203784&menuPK=476752&pagePK=64165401&piPK=64165026> (accessed on 15 November 2015).

⁶⁹ *The Mobile Economy: Sub-Saharan Africa 2015*, GSMA, 2015, <https://gsmaintelligence.com/research/?file=721eb3d4b80a36451202d0473b3c4a63&download> (accessed on 9 November 2015).

especially compared with Kenya⁷⁰ and Ghana.⁷¹ Nigeria has lagged behind East Africa in the development of mobile financial services, which can be a powerful tool in enhancing the efficiency of small businesses and helping them to formalize their activity by providing basic financial services in cheap and accessible form.⁷²

Nevertheless, Nigeria's mobile telecommunications industry is the largest and fastest-growing in Africa. And, as elsewhere on the continent, the unprecedented growth of the mobile phone market has had a transformative impact. The number of mobile subscriptions has risen from 58 per 100 people in 2011 to 78 per 100 people in 2014.⁷³ There are 146 million active mobile phone users in Nigeria, and nearly two-thirds of the population have access to a mobile phone. Such penetration levels signal the possibility of obtaining financial services, market information and agricultural or business advice⁷⁴ by SMS.⁷⁵ According to the president of the National Association of Telecommunication Subscribers (NATCOMS), mobile users in Nigeria spend up to ₦212 billion (\$1.05 billion) each month and about ₦2.5 trillion (\$12.4 billion) annually.⁷⁶

Increasing the accessibility of financial services via mobile phones could help to remove one of the greatest barriers to the formalization of trade with Nigeria's ECOWAS neighbours – the absence of simple and affordable formal systems for making cross-border payments.

Port competitiveness

Port operation cost and efficiency are critical factors affecting the geographic concentration of international trade – and of nowhere is this truer than West Africa. There is fierce competition between its seven main maritime gateways to serve the regional market, and to handle Nigerian trade in particular. Technical and capacity problems in Nigeria's ports – and the competitiveness of alternative regional gateways such as Cotonou and Lomé – are one of the principal drivers of informal trade, particularly for imports from outside West Africa.

The Port of Lagos or Lagos Port Complex is Nigeria's main seaport and is split into three main sections: Lagos port, Tin Can port and Apapa port, the latter two hosting the main container terminals. Together these sites handle imports of consumer goods, foodstuffs, motor vehicles, machinery and industrial raw materials.⁷⁷ For a long time Nigeria's port facilities had been in need of modernization to increase capacity and compete with regional counterparts. In the 1990s, ports in Lagos had a notorious reputation: vessels often had to wait for weeks – sometimes months – offshore until a berth became free, while rampant corruption added hugely to the time and cost entailed in clearing cargo for onward delivery to its final destination. The problems were so severe that Nigeria also lost its role as a regional gateway to landlocked neighbours such as Niger and eastern Mali.

Increasing the accessibility of financial services via mobile phones could help to remove one of the greatest barriers to the formalization of trade with Nigeria's ECOWAS neighbours – the absence of simple and affordable formal systems for making cross-border payments.

Over the past decade or so, the expansion of port concessions has deepened the involvement of the private sector in the operation of port terminals across West Africa. This has increased competition.⁷⁸ The duopoly of Bolloré and Maersk-Sealand now dominates the West African coast, having been allocated port concessions for Tema, Pointe Noire, Abidjan, Conakry and Lagos. In 2005 the Maersk-Sealand group's freight-handling subsidiary, AP Moller (APM Terminals), received a 25-year terminal concession to provide services at Apapa, while Tin Can came under the management of Bolloré; both companies also operate container terminals at nearby Cotonou, in Benin. Since taking over Apapa in 2006, APM has invested almost \$350 million in improvements, including new

⁷⁰ Over 17 million Kenyans – two-thirds of the adult population – use the mobile-money system M-PESA. Launched in 2007 by mobile-network operator Safaricom M-PESA was first designed as a microfinance-loan repayments system but is now also the country's most popular platform for transferring cash by phone. In 2013, nearly 25 per cent of Kenya's gross national product moved around via M-PESA's money-transfer system. 'Why does Kenya lead the world in mobile money?', *The Economist*, 27 May 2013.

⁷¹ For an analysis of mobile money in sub-Saharan Africa, see *The Mobile Economy: Sub-Saharan Africa 2015*.

⁷² In 2014 mobile-money transactions in Nigeria were around \$25 million compared to Kenya's \$22 billion. According to the previously mentioned EFINA 'Access to Financial Services in Nigeria 2014 Survey', only 800,000 Nigerians – less than 1 per cent of the adult population – use mobile money services. For analysis of the lack of progress on mobile money in Nigeria see Prateek Shrivastava, 'The Hold-Up with Mobile Money in Nigeria', *Center for Financial Inclusion Blog*, 13 August 2015, <http://cfi-blog.org/2015/08/13/the-hold-up-with-mobile-money-in-nigeria/>.

⁷³ 'Mobile cellular subscriptions (per 100 people)', World Bank Data Bank, 2015, <http://data.worldbank.org/indicator/IT.CEL.SETS.P2>.

⁷⁴ As Nigeria's former agriculture minister, the current president of the African Development Bank (AfDB), Akinwumi Adesina, introduced a notably successful Electronic Wallet System which allowed smallholder farmers to receive electronic vouchers for subsidized seeds and fertilizers direct to their mobile phones – 6 million farmers are thought to have benefited from the scheme. Interview with authors in Abuja, February 2015.

⁷⁵ According to the GSMA, Nigeria had 85 million subscribers in June 2015 and represents the largest mobile market and subscriber base in ECOWAS. See *The Mobile Economy: Sub-Saharan Africa 2015*.

⁷⁶ Kayode Oladeinde, 'Nigeria: Group pushes compensation policy plan for phone users', *Technology Times*, 8 October 2015.

⁷⁷ Apapa and Tin Can ports are both located in Badagry Creek.

⁷⁸ Jean Debrie, 'The West African port system: global insertion and regional particularities', *EchoGéo* [En ligne], 20 | 2012, 13 July 2012, <http://echogeo.revues.org/13070>; DOI : 10.4000/echogeo.13070 (accessed on 8 November 2015).

handling equipment, and facilities for scanning and inspecting containers have been upgraded. These investments in modern technology have compressed turnaround times by sharply reducing offshore waiting times before vessels can berth and by boosting cargo-handling capacity, which has steadily increased in Apapa port. Volumes at the Apapa container terminal have gone up by 10 per cent each year on average since the port was handed over, and in 2013 throughput was just under 650,000 20-foot equivalent units (TEU). In 2014 Nigerian ports handled 86.6 metric tonnes of cargo (inward and outward) – an increase of 12.6 per cent over recorded volume in 2013, which was over 76.8 metric tonnes.⁷⁹

Tin Can port has made similar efforts to improve efficiency and transit times. However, both ports (Tin Can and Apapa) still suffer from serious constraints on their efficiency, largely owing to the urban geography of Lagos and the huge strain on the city's highway network. There are no truck parks adjacent to the terminals, and lorries can spend several hours queueing to access or leave the ports.⁸⁰ A recent decision by the Lagos state government to restrict the movement of trucks following a spate of fatalities from improperly secured containers illustrates the dangers of a lack of improvement in transport services for traded goods in Nigeria.

Onward transit from Lagos to inland destinations – for example, to businesses in Kano in the north and sizeable manufacturing hubs and markets in Onitsha and Aba in southeast Nigeria – also remains a major challenge. In 2014 a weekly freight service began taking 20 containers from Lagos to Kano,⁸¹ but this is a negligible number: it represents roughly 1 per cent of the total daily volume of freight that arrives in Apapa bound for northern destinations.⁸² Plans to expand the service include upgrading the rail facility within the terminal

from a single track to four, transporting 90 per cent of freight volumes from Lagos for the north by rail, and ensuring empty import containers are loaded with exports for the return journey.⁸³ However, exports from Nigeria currently account for only a trickle of cargo flow through Lagos ports; the overwhelming majority is import traffic.

APMT Inland Services is developing an inland container depot in Kano to serve Nigeria's second-largest city and the wider 'northern corridor'.⁸⁴ The combination of cargo clearance times and the week-long journey of over 1,000 km by road from Lagos to Kano frequently presents logistical headaches. On average it can take a month to deliver a container from shipside to its destination in Kano. Importers and exporters who get their goods onto the rail service can almost halve this time.

Given the logistical and infrastructure problems at Nigerian ports, competition from other ports in the region is intense. Investments at Cotonou and Lomé are raising efficiency and reducing costs, offering wider choices for Nigerian businesses. Indeed, the scale of informal import flows into Nigeria demonstrates the effectiveness with which Cotonou, and to a lesser extent Lomé, have challenged the ports in Lagos: whereas cargo landed in Lagos ports enters Nigeria officially and is recorded, the majority of the Nigeria-bound cargo unloaded in Cotonou is subsequently taken across the border through informal channels and remains unrecorded. A 2010 World Bank study estimated that imports worth \$5 billion are smuggled through Cotonou alone into Nigeria, and that textile products account for 50 per cent of the value of the smuggled goods.⁸⁵ Many importers in northern Nigeria still find it quicker and easier to have a container unloaded at Cotonou, trucked through Benin and on to Maradi in south-central Niger, and then brought back south down to Kano.⁸⁶

⁷⁹ 'Nigerian Ports Records 86.6 million metric tonnes of cargo throughput in 2014', Nigerian Ports Authority press release, 3 June 2015, <http://www.nigerianports.org/news.aspx?id=403>.

⁸⁰ Interview with authors under the Chatham House Rule, Lagos, June 2015.

⁸¹ The \$153 million Lagos–Kano line awarded to China Civil Engineering Construction Corporation (CCECC) in 2006 kicked off Nigeria's efforts to modernize its aged railway system. CCECC completed construction on an Abuja–Kaduna line in 2014 and also signed a deal with the government to link Lagos and Ibadan by rail.

⁸² Interviews with authors under the Chatham House Rule, Kano and Lagos, March 2015.

⁸³ Anders Rosendahl, 'Apapa looks to the hinterland', Maersk Group, 24 November 2014, <http://www.maersk.com/en/the-maersk-group/about-us/publications/maersk-post/2014-5/apapa-looks-to-the-hinterland> (accessed on 10 November 2015).

⁸⁴ The northern corridor is roughly as follows: In northwest Nigeria it covers the area that crosses Kontagora (Niger state) and connects with Kamba (which is closely linked to Gaya in neighbouring Benin)–Yawuri–Maiyama Jega (Kebbi state), Sokoto–Gwadabawa–Illela (Sokoto) all the way to Birnin N'Konni and Dogo Douchi (Niger Republic). From Kano, also in northwest Nigeria, it extends to Dutse–Damaturu–Maiduguri as well as Gombe–Yola (northeast Nigeria) and into Cameroon. Electronic correspondence with author, 30 November 2015. According to research by USAID's Nigeria Expanded Trade and Transport (NEXTT) programme, around 30 million tons of goods valued at over \$6 billion are moved through the LAKAJI (Lagos–Kano–Jibiya) corridor per year, making it Nigeria's busiest trade corridor. Over 90 million Nigerians live along this important trading route, but poor transport and logistics services as well as administrative delays continue to limit the competitiveness of businesses and livelihoods that depend on this corridor. A baseline assessment report of the LAKAJI corridor showed that exporting a 20-foot container from Jibiya in Katsina via the LAKAJI corridor costs \$3,041 and takes 12.5 days, while importing the same container along the same route costs \$4,737 and takes 19.5 days – these are comparably higher than in corridors of similar length elsewhere in West Africa. For in-depth analysis of the performance and potential of the LAKAJI corridor, see *NEXTT Annual Report*, October 2012–September 2013, prepared by Carana Corporation, October 2013, http://pdf.usaid.gov/pdf_docs/PA00JZ4S.pdf (accessed on 12 November 2015).

⁸⁵ The study goes on to suggest that replacing bans on textiles by a 15 per cent tariff, for example, would eliminate the incentive to smuggle and result in \$200 million in direct government revenue. Gaël Raballand and Edmond Mjekiqi, 'Nigeria's Trade Policy Facilitates Unofficial Trade but Not Manufacturing', Chapter 6 in Volker Treichel (ed.), *Putting Nigeria to Work: A Strategy for Employment and Growth* (Washington, DC: World Bank, 2010). See also Volker Treichel, Mombert Hoppe, Olivier Cadot and Julien Gourdon, 'Import Bans in Nigeria Create Poverty', World Bank Policy Note No. 28, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTAFRREGTOPTRADE/0,,contentMDK:23154073~pagePK:34004173~piPK:34003707~theSitePK:502469,00.html> (accessed on 11 November 2015).

⁸⁶ Interviews with authors under the Chatham House Rule, Kano, Lagos and Cotonou, March and June 2015.

Over time, the dynamics of the trade flows to the ports in Nigeria and neighbouring countries may change further. New container terminals are now under development at Lekki and Badagry, respectively to the east and west of central Lagos, potentially facilitating a greater flow of formal imports directly into Nigeria. But Cotonou's competitive attraction as a gateway to northern Nigeria will be enhanced with the completion of a railway now under construction from that port to Niger.

Meanwhile, the implementation by ECOWAS of the Common External Tariff (CET), which became operational

on 1 January 2015, is expected gradually to erode the fiscal attractions of using non-Nigerian ports as a gateway to Nigeria: before the region-wide introduction of the CET there was a disparity between Nigeria's tariffs and the lower-tariff region operated by Benin and other members of the western CFA franc single-currency bloc (UEMOA). That gave traders an incentive to land cargo officially in Cotonou as an import into Benin, thus incurring the lower UEMOA tariffs, and then take the shipments informally over the border into Nigeria.

Government trade policies for specific sectors, often introduced in an effort to protect domestic Nigerian producers

Box 1: Trucking problems in Lagos

In the 1970s a Lagos truck driver could routinely make two or three round trips each day between the port and delivery clients scattered across the city. That is a forlorn hope in 2015, when vehicles spend many hours snarled in traffic jams, particularly on overloaded access routes such as the Ikorodu Expressway which serve the main container terminals at Apapa and Tin Can Island. The long lines of tightly packed trucks trying to make their way from the Apapa container terminal, in particular, are an indication of how the increasing volumes of imported goods entering Nigeria have overwhelmed the capacity of the city's road network.

Wasted time in the perennial congestion of Lagos traffic means lost business for maritime truckers and other haulage operators, and less pay for the drivers – who get a basic salary but earn half their income from the allowance paid for each trip. These allowances are less frequent because of the long hours spent waiting around the ports and moving containers to and fro.

Costs are hugely increased: idling or inching forward in traffic jams imposes wear and tear on the trucks and can triple the amount of fuel needed for a typical trip within the Lagos conurbation (also worsening air pollution from diesel particulates).

Truckers complain of being routinely harassed by state traffic-management officials and of other agency representatives imposing informal 'taxes' on top of the five that should legally be levied. They are also burdened by the increasing numbers of documents they are required to present during road checks. These include a vehicle licence, hackney permit, heavy-duty permit, roadworthiness certificate and the police BCMR, which was introduced in 2013.^a

Haulage operators complain that vehicles are often hijacked. According to Remi Ogungbemi, the national president of the Association of Maritime Truck Owners (AMATO), the only uniformed agencies whose personnel do not harass or extort money from AMATO drivers are the air force and prison service.^b

Driving in Lagos is so strenuous that the trucking companies will not employ any women drivers, or any men older than 50, an age limit not imposed on long-haul routes outside the city. The

companies also complain that the poor state of the road network discourages them from buying new trucks or regularly servicing their fleet, as doing so is not cost-effective. As a result, the overwhelming majority of trucks on the road are in a poor state of repair or of questionable roadworthiness.

All these factors add significantly to the cost and inefficiency of transporting cargo through Lagos ports, and create a further incentive for businesses to use the less congested Cotonou port.

The president of AMATO believes that conditions for truckers actually worsened after Apapa and Tin Can were put under private-sector concession management, because the new port operators needed more land in the port areas for their own operations; this forced trucking firms to base themselves further away, adding to journey distances and costs.^c AMATO claims to have found a potential solution: a new site for a truck park in Mile 2, close to Apapa and Tin Can. So far political disagreements have delayed any go-ahead on acquiring the land; however, discussions are still ongoing with the federal government, the Lagos state government, the Nigerian Ports Authority (NPA) and the Nigerian Shippers Council (NSC). AMATO suggests that as an interim measure a facility could be opened at the Trade Fair Complex in Badagry, outside the Lagos metropolis, where vehicles could wait until summoned – through a simple electronic call-up system – to collect their loads once these have cleared customs. Apart from idling around port access areas (which causes a nuisance to other motorists), truck drivers currently have no easily accessible waiting areas or efficient means of receiving information from the ports.

Improved, cheaper operating conditions would give haulage firms an incentive to invest in new vehicles that would be more fuel-efficient and thus much cleaner, lessening the environmental impact of their activities.

^a In addition to a biometric data-capturing process initiated by Nigeria's Federal Road Safety Corp (FRSC), the Nigeria Police Force introduced a Biometric Central Motor Registration Scheme (BCMRS) in September 2013. Olayinka Ajayi, 'New Police Biometric CMR not necessary', *Vanguard* newspaper, 20 September 2013, <http://www.vanguardngr.com/2013/09/new-police-biometric-cmr-not-necessary/>.

^b Authors' interview with Chief Ogungbemi, Lagos, June 2015.

^c *Ibid.*

or traders, can reinforce the impact of these overall trends, creating powerful incentives to divert trade through Benin and for goods to be imported informally into the country.

The trade in used cars is a good example. Some \$6 billion is spent annually importing cars to Nigeria; about two-thirds are pre-owned.⁸⁷ In January 2015 some 8,000 motor vehicles were discharged from Lagos ports, a figure down from 27,000 in January of the previous year.⁸⁸ Shipping experts attributed the drop to the National Automotive Policy (introduced in 2014 as part of the government's 10-year Nigerian Automotive Industry Development Plan⁸⁹), which raised tariffs on imported vehicles, applying a 35 per cent levy. They observed that Cotonou port had experienced a 50 per cent rise in vehicle imports within the same period.⁹⁰ According to Dr Vicky Haastrup, the chairman of the Seaports Terminal Operators Association of Nigeria (STOAN), 'This means Cotonou is gaining from Nigeria's loss due to the auto policy [35 per cent levy] as more importers are discharging there. These vehicles will eventually find their way into the Nigerian market.'⁹¹ By June 2015, the volume of vehicle imports to Nigeria was estimated by some analysts to have dropped by 60 per cent in less than a year.⁹² The tariff hike appears to have incentivized the re-export of vehicles discharged in Cotonou but destined for the Nigerian market.⁹³

Cotonou's edge

Benin's principal port is relatively well equipped and easy to access through less crowded roads, despite a pause in the implementation of a long-planned electronic cargo verification and processing system. From 2012 to 2013, Benin recorded the biggest improvement in the ease of trading across borders after changes were implemented that cut delays by 10 per cent in that period.⁹⁴ In terms of cargo volumes handled, Cotonou is often thought of as 'Nigeria's second-biggest port'. Import volumes increased from 4 million metric tons in 2004 to 7 million metric tons in 2010,

following renovations.⁹⁵ Between 2006 and 2010, import handling times were cut by 29 per cent and export handling times by 24 per cent.

Of all the containers arriving at Bolloré's Bénin Terminal facility, some 50 per cent comprise consignments bound for Nigeria.⁹⁶ However, only around 10 per cent are officially declared by agents as freight destined for Nigeria. Within the port, an area has been set aside for dealing with cargo formally declared as in transit under bond to Nigeria (or other regional destinations such as Niger or Burkina Faso). In this reserved zone, the shipments are transferred to freight agents for onward transport to the Nigerian border under bond, without needing to clear Benin customs.

However, most Nigeria-bound freight is officially declared by agents to be imports into Benin. It clears customs in Cotonou, and all fiscal duties and land tariffs are levied by the Beninois authorities. Having formally entered Benin, most containers are taken by import traders to any one of a multitude of local warehouses, where they are emptied; the companies do not want their containers taken over the border. A host of local traders and transporters then collect the goods and take them over the border through informal channels. The volumes are inevitably hard to estimate accurately, but there seems little doubt that they far exceed the flow of goods officially imported to Nigeria via Cotonou.

Port efficiency is one major reason why importers choose to land Nigeria-bound freight at Cotonou. The Bolloré container terminal has two berths and four gantry cranes, and a third berth with two more gantry cranes is set to open in 2018. Ships wait for a maximum of 24 hours in the anchorage before docking, and the terminal can unload even a large ship carrying 2,000 containers in 48 hours (with smaller vessels unloaded in only 12 hours).

This is key because container shipping lines seek to minimize the time ships spend in port. Cotonou's northern container terminal, operated by APM, is not

⁸⁷ 'How Nigeria's Auto Policy Turns Gain for Cotonou', *Maritime First*, 5 March 2015, <http://www.maritimefirstnewspaper.com/en/maritime/how-nigerias-auto-policy-turns-gain-for-cotonou/> (accessed on 11 November 2015).

⁸⁸ Felicia Omari Ochelle, 'Nigeria's neighbours are profiting from its new automotive policy', *Ventures Africa*, 9 March 2015, <http://venturesafrica.com/nigerias-neighbours-are-profiting-from-its-new-automotive-policy/> (accessed on 11 November 2015).

⁸⁹ The Nigerian Automotive Industry Development Plan (NAIDP) was introduced to encourage the country's domestic automobile industry by restricting the importation of used cars. The NAIDP set tariffs at a maximum of 70 per cent (35 per cent duty plus 35 per cent levy) on fully built up cars and 35 per cent (without levy) for commercial vehicles in the first phase. For more information on the NAIDP see http://www.nac.org.ng/AUTO_POLICY_INFO_DOC.pdf.

⁹⁰ *Ibid.*

⁹¹ *Ibid.*

⁹² 'High tariffs on imported cars cripple RoRo terminal', *THISDAY* newspaper, 12 June 2015, <http://www.thisdaylive.com/articles/high-tariffs-on-imported-cars-cripple-ro-ro-terminal/211783/> (accessed on 11 November 2015).

⁹³ For analysis of Nigeria's automotive industry and growth projections for the industry for the period of 2014–50, see 'Africa's Next Automotive Hub', PwC Nigeria Automotive Industry Report, PwC, 28 October 2015, <http://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf> (accessed on 26 November 2015).

⁹⁴ World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, World Bank, 2013, <http://www.doingbusiness.org/reports/global-reports/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Chapters/DB14-Trading-across-borders.pdf>, p. 105 (accessed on 17 November 2015).

⁹⁵ 'MCC's Investments in the Port of Cotonou Are Creating Trade Opportunities in Benin', Millennium Challenge Corporation, 11 October 2011, <https://assets.mcc.gov/press/success-2011002067301-benin-port.pdf> (accessed on 21 November 2015).

⁹⁶ Interviews with authors under the Chatham House Rule, Lagos and Cotonou, March and June 2015.

currently equipped with gantry cranes. But preparatory studies have been carried out for an upgrade of the quay to support their weight and equip the terminal to take bigger vessels. Here again, time is money, for both shipping lines and cargo importers. A more efficient port is cheaper to visit and thus can attract a wider range of shipping lines – some 60 per cent of the vessels calling at the Bolloré terminal now come from Asia, a major supplier of consumer durables and rice to the West African market. Meanwhile, the rapid processing of cargo helps to keep costs down for importers.

Low direct costs are another key reason for Cotonou's appeal. Port charges and cargo handling rates are lower than those in Lagos or other regional competitors such as Lomé and Abidjan, according to transport sector sources.⁹⁷ Cargo clearance times, with some containers passing through formalities in only 48 hours or a few days, but others taking 15–30 days, are not much different from those in Lagos. However, Cotonou does not levy any charge on importers or agents for the first eight days that a container spends on the quayside, whereas these 'demurrage' fees are charged after only a few days at Lagos. In addition, because mains electricity supply is more reliable than in Lagos and the port has less need to use generators, charges for supplying plug-in power to refrigerated containers are typically no more than half those levied in Lagos. These various factors mean that the cost of waiting for containers to complete clearance is much lower in Cotonou than in Lagos.⁹⁸

Nigerian-bound cargo has also been drawn to Cotonou because Nigerian national import tariffs have generally been higher than the UEMOA common tariffs levied by Benin. And of course, freight that then crosses the border into Nigeria informally avoids any further tariff charge.

Cotonou port is expected to record long-term growth in Nigeria-related trade, both as a result of the overall growth in the Nigerian economy and also because the construction of the new rail line to Niger will enhance Cotonou's ability to remain a competitive trade gateway for the north of Nigeria.

Future prospects

Looking ahead, the port services market is set to become even more diverse and competitive. This could create an opportunity for a greater share of Nigeria-destined trade

to be drawn back to the country's own ports and thus into formal channels.

APM is developing the Badagry terminal. Philippines-based ICTSI is building a new facility at Lekki, and has sold a 25 per cent stake in this business to the French shipping and terminals group CMA CGM.⁹⁹ Lekki is expected to open in 2016 or 2017, while Badagry will open in 2019 or 2020.¹⁰⁰ Both facilities will be purpose-built and equipped with new gantry cranes as well as ample storage and processing space. Lying outside central Lagos, these new terminals will be sited to benefit from quicker road access and to avoid the traffic jams that affect the heart of the city. They should therefore offer time and cost savings that can attract shipping lines, as well as Nigerian export customers.

Already the revival of rail services within Nigeria is slowly reinforcing Lagos port's appeal, with regular – albeit insufficient – container trains to Kano, where the new 'dryport' will deal with customs clearance and the 'unstuffing' of container groupage shipments close to final destination.¹⁰¹

Cotonou is also enhancing its capacity, with a third berth at the Bolloré terminal and construction of the rail line to Niger. This could open as soon as 2019–20; the line is planned to be operated by Bolloré – which will thus be able to offer a comprehensive service package combining port service at Cotonou with onward transit north by rail. Moreover, from the rail terminal in Niger it will be easy to truck freight into northern Nigeria. However, Beninois trade analysts believe that there will be a gradual shift of Nigeria-bound trade back towards the Lagos port facilities, and that Cotonou will need to focus increasingly on serving Niger, Burkina Faso, northern Benin and perhaps the far north of Nigeria.¹⁰²

The economy of southern Benin will need to move away from its current reliance on informally re-exporting to Nigeria goods that have been officially imported into the home market. This need to develop a new economic model is gaining recognition among politicians and policy-makers in Cotonou, although local analysts are concerned that their country's leaders may not yet have grasped the urgency of pressing forward with the reforms and investments that would enable Benin to develop a new role as a centre for formalized business services for the region.¹⁰³

⁹⁷ Interviews with authors under the Chatham House Rule, Cotonou and Lagos, June 2015.

⁹⁸ Interview with authors under the Chatham House Rule, Cotonou, June 2015.

⁹⁹ Ehis Okpamen, 'CMA Terminals Acquires 25% Stake in Nigerian Sea Port', *Ventures Africa*, 7 February 2014, <http://venturesafrica.com/cma-terminals-acquires-25-stake-in-nigerian-sea-port/>.

¹⁰⁰ Interview with authors under the Chatham House Rule, Lagos, March 2015.

¹⁰¹ Interviews with authors under the Chatham House Rule, Kano, March 2015.

¹⁰² Interviews with authors under the Chatham House Rule, Cotonou, March and June 2015.

¹⁰³ Interviews with authors under the Chatham House Rule, Cotonou, March and June 2015.

3. Towards Formalization: Efforts and Impediments

Strengths and weaknesses of systems to support formalization

Various government agencies are making efforts to promote the formalization of trade in Nigeria. Business people frequently claim that appropriate official tax and customs duties are not the major deterrent; they complain instead about the imposition of illicit 'taxes' by officials from numerous different agencies when they use formal routes, and the additional time taken up by needlessly complex administrative procedures.

These problems are key concerns for government agencies such as the Nigeria Export Promotion Council (NEPC) and the Nigerian Export-Import Bank (NEXIM), which have sought to develop structures of support for business that are accessible, easy to use and adapted to the realities of commercial life.¹⁰⁴

The financial setting

The GDP rebasing exercise showed that the Nigerian economy is relatively diversified. Yet the government is still trying to figure out the best ways to tap the revenue-raising potential of a domestic economy that is now much larger than previously thought. Exploring changes in domestic taxation is one possibility which will be discussed later in this chapter.

The current banking environment for trade

According to an IMF report in April 2015,¹⁰⁵ the substantive gap between exports and imports means that central banks across Africa, including Nigeria's, cannot replenish their reserves quickly enough once they have been depleted. Largely as a result of the fall in oil prices and revenues, Nigeria's foreign-exchange reserves fell from \$36.28 billion in October 2014 to \$29.88 billion in September 2015.¹⁰⁶ The stock market also plunged 20 per cent in 2014 and 14 per cent in 2015,¹⁰⁷ and inflation at the time of writing stands at 9 per cent, above the government's 6 per cent target.¹⁰⁸

Nigeria's central bank governor, Godwin Emefiele – who until very recently directed fiscal as well as monetary policy in the absence of a finance minister¹⁰⁹ – came under criticism both domestically and internationally for the measures he took to tighten liquidity and avoid currency devaluation. Many economists believe that by propping up the naira through the imposition of foreign-exchange restrictions on imports, in what was basically an import ban, Emefiele may have made Nigeria's economy even more vulnerable,¹¹⁰ leaving importers and manufacturers struggling to pay for overseas supplies.¹¹¹ In June 2015, the CBN released a list of 41 import items, including rice, steel products, furniture and textiles, that were excluded from official foreign-currency channels for financing payments.¹¹² These restrictions have widened the exchange-rate gap – currently at around 23 per cent – between the official and parallel markets. Nigeria's foreign-exchange market liquidity has fallen so low that Nigeria has been dropped from J.P. Morgan's Government Bond Index-Emerging Markets (GBI-EM) – just under two years after it joined.

The climate of monetary policy tightening and market restrictions is a risk both to foreign investment and to local businesses, especially as access to finance – a major concern of Nigeria's SMEs – becomes even more difficult.¹¹³ The CBN's measures to defend the naira from further devaluation and restrict access to foreign exchange for what it considers to be non-essential imports has received the support of President Buhari. The government's position is that the current pressure on the naira leaves it with no other alternative and currency controls will ultimately encourage local industries to meet demand. However, critics of this position, including Mr Emefiele's predecessor, Sanusi Lamido Sanusi, argue that artificially holding up the naira is unsustainable and that the scale of manufacturing in Nigeria's import-dependent economy is not sufficiently developed to meet such a drastic drawdown on imports.¹¹⁴ Taken together, these restrictions on officially accessing foreign exchange will most likely have the opposite effect and further deter formalization – an outcome that Nigeria can hardly afford because of its likely

¹⁰⁴ Interviews with authors under the Chatham House Rule, Abuja, Kano and Lagos, February, March and June 2015.

¹⁰⁵ IMF, *Regional Economic Outlook: Sub-Saharan Africa – Navigating Headwinds*, World Economic and Financial Surveys, April 2015, <https://www.imf.org/external/pubs/ft/reo/2015/afr/eng/pdf/sreo0415.pdf> (accessed on 11 November 2015).

¹⁰⁶ 'Nigeria's Foreign Exchange Reserves', Trading Economics, www.tradingeconomics.com/nigeria/foreign-exchange-reserves (accessed on 22 November 2015).

¹⁰⁷ Ibid.

¹⁰⁸ Daniel Magnowski, 'Buhari's job gets tougher as Nigerian budget talks loom', *Bloomberg Business*, 31 August 2015, <http://www.bloomberg.com/news/articles/2015-08-31/buhari-s-job-gets-tougher-as-nigerian-budget-talks-loom> (accessed on 10 November 2015).

¹⁰⁹ Kemi Adeosun, a former investment banker, was sworn in as Nigeria's finance minister on 11 November 2015.

¹¹⁰ Maggie Fick, 'Nigerian manufacturers face import blow', *Financial Times*, 10 November 2015, <http://www.ft.com/intl/cms/s/0/3e06afcc-83de-11e5-8095-ed1a37d1e096.html#axzz3sZqjc0Jg> (accessed on 11 November 2015); 'Nigeria central bank chief hints at import ban end', *fastFT*, 11 October 2015, <http://www.ft.com/intl/fastft/402071/nigerian-central-bank-chief-hints-end-of-import-ban> (accessed on 11 November 2015).

¹¹¹ Since September 2014, Nigeria's foreign-exchange reserves have shrunk by 20 per cent and the naira has dropped 18 per cent against the dollar. Bloomberg, 11 August 2015.

¹¹² 'Inclusion of some imports and services on the list of items not valid for foreign exchange in the Nigerian foreign exchange markets', CBN, circular to the general public/authorized dealers, 23 June 2015, <http://www.cbn.gov.ng/Out/2015/TED/TED.FEM.FPC.GEN.01.010.pdf> (accessed on 30 September 2015).

¹¹³ For an analysis of the responses of various African export economies to the downturn in global markets, see Guilia Pellegrini, 'Oil and Beyond: African Economies and the End of the Commodities Super-Cycle', in Carbone (ed.), *Africa: Still Rising?*, pp. 35–59.

¹¹⁴ Alan Livsey and William Wallis, 'Plunging oil prices pile pressure on finances', *Investing in Nigeria*, FT Special Report, 25 November 2015, <http://im.ft-static.com/content/images/63a8b588-9278-11e5-bd82-c1fb87bef7af.pdf> (accessed on 26 November 2015).

impact on tax in-take. Informal traders who are already used to accessing foreign exchange from the black market, and even those who have operated entirely formally so far, will be put under pressure to keep their businesses afloat using foreign currency obtained through the incompletely regulated parallel market.

International payments

One of the most powerful factors behind the boom in informal trade in Nigeria and across West Africa is the cost and complexity of making international trade payments through officially approved formal channels, and the impossibility of doing so in local currencies. By contrast, it is easy to make cross-border naira or CFA franc payments informally or on the parallel market. This gives smaller businesses a powerful incentive to remain outside the official trading system.

All of Nigeria's immediate neighbours belong to one of the two CFA franc single-currency blocs. Niger and Benin are part of UEMOA, while Chad, Cameroon and Equatorial Guinea are members of the Central African Economic and Monetary Union (CEMAC). Both currencies are pegged to the euro at a fixed rate guaranteed by the French treasury; and both blocs operate open exchange regimes. The credibility of the naira and the CFA franc is underpinned by strong governance, led by the CBN and the regional central banks of UEMOA (in Dakar) and CEMAC (in Yaoundé). These institutions have developed a rigorous framework of rules designed to protect the standing of their currencies, maintain monetary stability and guard against illicit transactions, money-laundering and the financing of terrorism and criminality.

But the inadvertent result of this firm governance has been to hinder the functioning of smooth formal trade payment systems between Nigeria and its neighbours. For smaller transactions the relationship between the Nigerian financial system and those of countries using the CFA franc is close to dysfunctional; for example, it is exceptionally difficult, if not impossible, to make formal payments from naira to CFA francs or vice versa, and the fit between the two banking systems is poor.

The problems are compounded by a wide gulf between the financial culture of Nigerian banks and the CBN, which is strongly influenced by their British and American counterparts, and the traditions of francophone Africa, influenced by close connections to France and, more recently, the euro model. Even so, commercial

banks say that they can handle the technical challenges of implementing direct naira/CFA franc trade payments through formal banking channels, despite the differences between the two currency systems.¹¹⁵ However, in practice it is exceptionally difficult to do so because of the rules imposed by the CBN or UEMOA's central bank (the Banque Centrale des Etats de l'Afrique de l'Ouest, BCEAO). Banks complain that their initiatives to develop simple low-cost systems for transferring lower-value trade payments between Nigeria and its neighbours have been frustrated and even closed down by the CBN or BCEAO.¹¹⁶

By contrast, traders in the informal currency market encounter hardly any problems making payment in whichever is the appropriate currency or converting cash they have received into their own currency. In hotel lobbies, marketplaces, trading areas around border crossings and a host of other locations, currency dealers directly change naira into CFA francs or vice versa. At an informal economic level, small businesses may sometimes accept payment in both.¹¹⁷

The central banks appear to believe that they must impose tight constraints on cross-border transactions – to protect monetary stability, ensure the transparency of money movements and guard against illicit transactions. But the rules are so strict that they have the paradoxical effect of stimulating informal activity. They create a powerful incentive for traders to operate through unrecorded channels and make payments entirely through the informal parallel market. Arrangements that are meant to control the functioning of the foreign-exchange market in practice push much of that market into unregulated informality. The official structures of control are incidental to the reality of the transactions that are taking place.

The central banks appear to believe that they must impose tight constraints on cross-border transactions – to protect monetary stability, ensure the transparency of money movements and guard against illicit transactions. But the rules are so strict that they have the paradoxical effect of stimulating informal activity.

This is not a marginal phenomenon, given the huge volumes of trade that pass between Nigeria and its neighbours – and between Nigeria and the rest of the world, routed through Benin and Niger. It seems certain that a large share of cross-border activity is taking place

¹¹⁵ Interviews with authors under the Chatham House Rule, Lagos and Cotonou, June 2015.

¹¹⁶ Interviews with authors under the Chatham House Rule, Jibiya, Lagos and Cotonou, March and June 2015.

¹¹⁷ Interviews with authors under the Chatham House Rule, Jibiya, Lagos and Cotonou, March and June 2015.

entirely outside the structures that supposedly manage the monetary positions of Nigeria and its CFA franc neighbours and regulate international transactions.

The 2012 GIZ study of cross-border trade in Ogun state, mentioned above,¹¹⁸ highlights the huge scale of cross-border trade-related foreign-exchange transactions that take place outside the regulated financial system of banks and bureaux de change – and over which the central banks (CBN and BCEAO) therefore have no oversight whatsoever. The study found that in 100 per cent of export and 97.3 per cent of import transactions, payment was made in cash. Only 2.4 per cent of importers made all payments by bank transfer and only 0.3 per cent used a mix of bank transfers and cash. Of those who relied on cash, 89.5 per cent of the importers and 92.7 per cent of the exporters used the parallel market for their foreign-exchange transactions. Only 5.4 per cent of the importers sourced their foreign exchange through the banks, with a further 1.8 per cent using bureaux de change. (Some 3.6 per cent used no foreign exchange, relying instead on long-standing relations of trust and social capital.)

Nor is this a temporary phenomenon or one likely to be short-lived. Despite much-discussed plans for a shared ECOWAS single currency, Nigeria seems likely to retain the naira as its national currency for many years to come. Equally, there are few reasons to envisage the early disappearance of the current CFA franc system. With minimal inflation, developing regional capital markets, strong central banks and the support of the IMF and their main European economic partners, UEMOA and CEMAC members remain committed to the long-term continuation of this system. It has delivered monetary and economic stability, and has provided the frameworks for independent bank regulation and a shared business law system for francophone Africa.

Nevertheless, the need for a more functional cross-border trade payments system within ECOWAS has been acknowledged for many years by the region's business community and commercial banking sector, and there have been some efforts by ECOWAS to address this shortcoming. The West African Monetary Agency (WAMA), established in 1996, serves as a multilateral payment facility to support trade by routing and clearing trade transactions. All the ECOWAS central banks are members of the agency, which set up a clearing and settlement mechanism.¹¹⁹ Noteworthy progress has been made at a technical

level in developing a West African payment system; however, this is yet to mature into an easy and practical option for traders.

There are still other reasons why many traders do not use the formal payments system for cross-border business. In some cases there seems to be a general wariness about formalizing transactions and complying with tax and customs requirements and foreign-exchange regulations.¹²⁰ For example, in Nigeria traders need to demonstrate a justification for their international transfers, while authorized foreign-exchange dealers must issue a transaction slip based on their customer's identity document for every transaction. Many smaller traders in micro-enterprises or even medium-sized enterprises, with very limited access to formal financial services, may not even possess such documents, or a bank account,¹²¹ which would enable them to secure credit, investment finance or credit insurance, for example. Exclusion from the modern trade payments system – for SMEs and particularly pastoralists and livestock traders – also contributes to a wider exclusion from modern business systems and information technology, as well as from government support such as the Export Expansion Grant. Although the IMF and development partners are supporting efforts to include more West Africans in the formal financial system, there is still a long way to go. Nigeria's Central Bank also launched a National Financial Inclusion Strategy in October 2012, aimed at increasing the number of adult Nigerians with access to payment services to 70 per cent of the population by 2020.¹²²

Nigeria and its neighbours could learn from the example of East Africa, where mobile banking has become widespread and is now being used even for cross-border trade payments. The Kenyan and Tanzanian central banks are leaders in this area, having agreed to authorize mobile transfers between their countries.¹²³ In West Africa, whether as a result of deliberate policy decisions or as an inadvertent consequence of the way banks function and are regulated, even the larger SMEs are usually unable to access affordable and user-friendly services for making cross-border payments between Nigeria and the CFA franc economies or Ghana.

This situation has damaging consequences for trade, for efforts by Nigerian businesses to expand, for encouraging the emergence of more competitive and diversified cross-border business, and for deepening West African economic

¹¹⁸ Okafor, *Enterprise Baseline Survey 2012*.

¹¹⁹ Interview with author in Abuja, October 2015.

¹²⁰ Confidential interview with authors in Kano, Lagos and Jibiya, Katsina, March and June 2015.

¹²¹ *Ibid.*

¹²² See 'National Financial Inclusion Strategy', Central Bank of Nigeria, 23 October 2012. <http://www.cenbank.org/Out/2013/CCD/NFIS.pdf> (accessed on 30 November 2015).

¹²³ Email brief for authors under the Chatham House Rule, October 2015.

integration. It poses serious security problems too: traders talk of the risks entailed in travelling long distances by bus, truck or shared taxi carrying large volumes of cash quite often in plastic sacks.

Customs, trade facilitation and revenue collection

The Nigeria Customs Service (NCS) has been undergoing a period of reform in recent years. There have been notable attempts to modernize many of its procedures in order to improve efficiency by increasing automation, adopting modern risk management techniques and streamlining organizational models with the aim of meeting objectives such as speeding up the movement of cargo out of the seaports. However, business people continue to face difficulties and uncertainty when moving their goods from the busy Lagos ports, and still prefer to redirect consignments through other West African ports.¹²⁴ According to some estimates, almost \$4 billion worth of cargo – about 15 per cent of Nigeria's total imports – coming through Cotonou port is actually destined for the Nigerian market and enters unofficially.¹²⁵

To improve efficiency, the NCS has introduced the 'single window' system, which seeks to harmonize customs clearing with formalities imposed by other government agencies in the ports. The Pre-Arrival Assessment Report (PAAR) system, introduced in November 2013, permits importers and their agents to complete all the clearance formalities while the cargo is still on board ship travelling to Nigeria,¹²⁶ so that the finalization time on arrival is kept to a minimum. During the first seven months of 2014, some 163,047 PAARs were issued.¹²⁷ Approved importers can register for fast-track status, under which containers are not cleared in the port but are approved for delivery direct to the importer's own premises, where a customs official then visits to complete clearance procedures. However, freight agents complain¹²⁸ that in reality these procedures are not applied in this streamlined form and that even after shipments have arrived under PAAR, customs will subject

them to five more processes.¹²⁹ They also accuse customs authorities of adding procedures that have not been authorized under federal law.

The persistent challenges of customs reform in Nigeria suggest that efforts to modernize and improve the functioning of the service continue to be undermined by its very own administrative arrangements and the poor integration of its electronic platforms with physical procedures. Many business people interviewed for this report said that despite the introduction of modernized processes such as the use of the ASYCUDA++ processing and risk management system by the NCS, they were still required to submit several paper documents and this often had to be done in person.¹³⁰ Maintaining such a high level of human intervention – which is expected to be reduced following reforms – multiplies opportunities for corruption and contributes to delays and the high costs of doing business.

In addition to issues with the performance of customs reform, trade facilitation and the ease of doing business in Nigeria are limited and in many cases hindered by the country's traditionally restrictive and sometimes ad hoc trade policy regime. Several studies have noted the impact of this regime, which mainly consists of a lengthy list of import bans and tariff peaks that do not apply in neighbouring countries. The system encourages smuggling across the country's porous borders and rent-seeking behaviour among customs and other border agencies.¹³¹

Import restrictions and high tariffs continue to underpin Nigeria's industrialization and local production goals, driven by the argument that without such protection local industries will struggle in a more liberal setting and fail to grow sufficiently to meet domestic demand. However, this theoretical position has yet to be justified by the current performance of most sectors.¹³² What is clear is that the persistent culture of opacity and corruption within customs and other border agencies compels importers to seek alternative ways to bring their goods into Nigeria.¹³³ The potential for formalizing more of the

¹²⁴ Interviews with authors in Cotonou, Benin and Lagos, March and June 2015.

¹²⁵ Gaël Raballand and Edmond Mjekiqi, *Nigeria's Trade Policy Facilitates Unofficial Trade and Impacts Negatively on Nigeria's Customs Efficiency and Economy*, World Bank Report, September 2008.

¹²⁶ Interview with authors under the Chatham House Rule, Lagos, March 2015.

¹²⁷ Eugene Nweke, 'Nigeria Customs Service on a Sure Footprint', *Maritime Management Series Plus Weekly*, 26 August 2014, <http://mmsplusng.com/blog/ncs-on-a-sure-foot-print/> (accessed on 17 November 2015).

¹²⁸ Interviews with authors in Lagos, April and June 2015.

¹²⁹ Interview with authors under the Chatham House Rule, Lagos, March 2015.

¹³⁰ Most businesses in Nigeria engage the services of forwarding agents, customs agents or brokers to deal with their import or export procedures. Interviews with authors under the Chatham House Rule, Lagos, April and June 2015.

¹³¹ For an analysis of the impact of Nigeria's restrictive trade regime on customs efficiency, see Raballand and Mjekiqi, *Nigeria's Trade Policy Facilitates Unofficial Trade and Impacts Negatively on Nigeria's Customs Efficiency and Economy*; Khalid Bichou and Jon Walden, 'Support to the Presidential Committee on Port Reform', Lagos Draft Final Report, Crown Agents, July 2013.

¹³² For example, even with near-permanent bans on the import of textile goods, domestic output and employment in the sector have not improved. The World Bank estimates that textiles smuggled into Nigeria through Benin are worth \$2.2 billion a year despite a total ban on textile imports. Nigeria's textile industry declined from 175 factories in the mid-1980s to around 10 by 2004; employment numbers also dropped sharply in the industry, which used to employ 350,000 workers.

¹³³ Interviews with authors, Cotonou, Niamey, Lagos, Jibiya and Kano, March and June 2015.

country's external trade is limited if authorities persist in erecting high tariff walls that in practice create numerous opportunities for rent-seeking and impossible difficulties for already overstretched border agencies.

Expanding the tax base

According to the Federal Inland Revenue Service (FIRS), of 450,000 registered businesses in Nigeria, under a third – about 125,000, or 27.8 per cent – regularly pay taxes.¹³⁴ Although many of the defaulting companies

exist only on paper, tax compliance in Nigeria remains very low. Hardline approaches to enforcing compliance can be counterproductive. The effects of measures such as the closure of business premises are often more pronounced for company employees, customers and Nigeria's GDP than for the offending business owners.

In order to achieve a consistently expanding tax base that can provide more predictable domestic revenue sources, major improvements have to be made to tax administration in Nigeria. In the latest World Bank and

Box 2: Lagos state – widening the tax net

Innovative approaches by the Lagos State Internal Revenue Service (LSIRS) to encourage tax compliance and especially boost transparency and accountability in revenue collection have led the Lagos state government to develop the most advanced tax system in Nigeria. LSIRS inspectors are banned from collecting revenue in cash or even by cheque, and render themselves liable to instant dismissal if they breach this regulation.^a Businesses and individuals know that all tax payments must be made either at official revenue collection offices or via bank transfer into officially designated service accounts.

This rule has been introduced to strengthen public trust in the integrity of the revenue service and offer reassurance that tax payments reach the legitimate authorities. The state has also passed a law giving taxpayers the right to appeal if they feel they have been treated unfairly.

Building trust and respect for the system has been only part of a wider overall drive to bolster rates of tax collection and draw informal businesses into the formal net of the state revenue system. In 1999 state revenues were a mere ₦600 million a month. However, in 2014 they reached ₦23 billion.^b Even allowing for inflation, that is an impressive increase, and has been achieved largely by increasing the number of taxpayers, rather than through new revenue measures. (Tax laws are federal; Lagos state did introduce a hotel tax in 2009, but it was only in 2014 that this was finally validated by the Supreme Court.)

The revenue service formed 'tax education and enlightenment teams' with a brief to convince the public that they should pay tax for the sake of their community; committed taxpayers were given public awards. Even traditional kings were brought into the campaign, together with operators in the informal economy such as drivers and female market traders.

Records have been cross-checked with residents' other encounters with government, and the LSIRS has now built up

a database of 4.5 million registered taxpayers. It hopes to add 3.5 million more, although some will be on such low incomes that they are likely to be liable to pay little or nothing.

The LSIRS tries to make sure that well-connected big earners and self-employed professionals are seen to pay tax, because this makes it easier to persuade those on lower incomes that they too should register and contribute. Those on low incomes, such as housemaids and security guards, have deliberately been left until last, although their names are now being registered.

When officials discovered that businesses in Computer Village, a popular electronics market in the Ikeja area of Lagos, were not paying tax or even municipal waste collection fees, they raided the area and shut down all the premises; the outstanding tax was paid within a few hours. Several banks, subjected to similar treatment, settled their arrears immediately.

However, the campaign is about more than good PR and firm enforcement. The LSIRS has also tried to make it easy to pay tax. This has been particularly important in reaching down into the previously informal economy, which now contributes about 15 per cent of all LSIRS revenue.^c 'Presumptive' systems are used to quickly assess the tax liability of small businesses, without the need for them to present full accounts.^d

Local offices have been opened in 24 of the main markets across Lagos, while the standard form for self-assessment tax payment has been pruned back to a single page. It is already possible to make tax payments from a mobile phone, and preparations are being finalized for the launch of systems for citizens to fill in forms and pay tax online.

^a Interview with authors under the Chatham House Rule, Lagos, June 2015.

^b George Okojie, 'Lagos IGR hits ₦23bn Monthly in 2014', *Leadership* newspaper, 16 April 2015, <http://leadership.ng/news/425960/lagos-igr-hits-n23bn-monthly-in-2014> (accessed on 17 November 2015).

^c Interview with authors under the Chatham House Rule, Lagos, June 2015.

^d Embuka Anna, 'Presumptive Tax: Equalizing the distribution of tax burden (1)', *National Mirror*, 6 June 2015, <http://nationalmirroronline.net/new/presumptive-tax-equalizing-the-distribution-of-tax-burden-1/> (accessed on 17 June 2015).

¹³⁴ 'FIRS realises ₦1.9 trillion revenue', *Premium Times*, 10 August 2015, <http://www.premiumtimesng.com/business/banking-and-finance/188103-firs-realises-n1-97trillion-revenue.html> (accessed on 17 November 2015).

PwC study of 2015 that compares tax compliance and the ease of paying taxes around the world, Nigeria ranked 179th out of 189 economies (it ranked 170th in 2014).¹³⁵ According to the study, it takes a combined average time of 908 hours to comply with paying taxes in Nigeria (corporate, labour and consumption tax), whereas the Africa average is 317 hours. The federal government has made some progress in increasing non-oil tax revenue.¹³⁶

It is in the vital respect of boosting tax compliance that lessons from the experience of Lagos state over the past 10 years are key to overhauling and simplifying the overall tax framework to make compliance easier and as a consequence draw new taxpayers – specifically the millions of informal workers who propel the Nigerian economy – into the tax net.

The Lagos state government has set a high national standard for internally generated revenue (IGR). In 2014 it generated

Box 3: The entertainment industry

Once viewed as a cultural phenomenon and essentially marginal in economic terms, Nigeria's entertainment sector is now recognized as a major contributor to national output, contributing \$7 billion to GDP in 2013 and growing faster than any other major sector. However, the industry is characterized by a huge volume of informal or unrecorded activity. Still largely unregulated and unstructured, it is also exposed to competition from rampant piracy.

It is extremely difficult to safeguard intellectual property in Nigeria, and the legal pursuit of pirating rackets for infringement is a long and frustrating process. Consequently, film production houses enjoy an average window of just two weeks before their releases are pirated and available at every market and street corner. The World Bank estimates that under 10 per cent of DVDs circulated in Nigeria are legal copies.^a

There is no doubting the Nigerian entertainment sector's importance as a contributor to overall economic growth. PwC forecasts that the sector will expand by about 15 per cent over the next five years – faster than any major foreign counterpart.^b

In less than a decade, the local movie industry – 'Nollywood' – has become the world's second-biggest film producer. It produced 1,844 titles in 2013 and currently employs over a million people, making it Nigeria's largest employer after agriculture.^c Valued at \$5 billion, it contributes an estimated 1.2 per cent of GDP and claims an estimated domestic audience of more than 90 million viewers, as well as reaching many more abroad.

Nigerian music is also undergoing a surge in popularity and profitability, with record sales that have tripled in the past five years and revenues from live music performances now running at more than \$100 million a year. According to the CEO of one major industry company, 'In the past you'd be laughed at if you said you're a musician; today Nigerian musicians can be millionaires. Oil may be down, but entertainment is up and growing.'^d

However, the fact that a huge proportion of the sector's activity is informal – and that much of its output is pirated – has serious fiscal, economic and creative consequences. Potential profits are much higher than the known financial estimates, while the NBS estimates that less than 1 per cent of Nollywood's \$5 billion price tag can be tracked in official sales and royalties.^e The Alaba electronics market in Lagos is a key hub for the mass pirating and distribution of media content.^f Federal and state authorities miss out on substantial potential tax revenues. The Nigerian Copyright Commission (NCC) estimates Nigeria is losing over \$1 billion annually to piracy. But media piracy in Nigeria will only decline if licensed content is cheaper and easier to obtain.

Nigeria's distribution structure for media content remains mostly informal, and reliant on personal networks rather than written agreements. Copyright laws need updating to suit the digital technology era; they are poorly enforced, despite repeated industry demands for more vigorous police action to smash piracy networks and bring prosecutions for copyright infringement. The challenge of enforcement is becoming more complex as the industry looks beyond physical products to online digital output, video-on-demand options, streaming and so on.

Yet there are opportunities for formalization that could bolster income for creative enterprises and fiscal revenues for government. Many observers believe that with better regulation, especially in relation to copyright enforcement, a million more jobs could be added in this sector.^g Already some Lagos entertainment companies negotiate 'pre-release' agreements with media pirates in Alaba, allowing the latter to reproduce CDs or DVDs indefinitely for a fee. (This is effectively a commercial equivalent of the state's innovative presumptive tax regime.) Meanwhile cinemas, which suffered a huge decline in the 1980s and 1990s, are enjoying a modest revival in popularity among the young urban middle class: today Nigeria has a mere 14 cinemas, but nine new premises are planned. Film-makers are attracting corporate sponsorship for premieres and licensing deals with promoters and cinemas.

¹³⁵ *Paying Taxes 2015: The Global Picture*, World Bank Group and PwC, 2015, <http://www.pwc.com/gx/en/paying-taxes/pdf/pwc-paying-taxes-2015-low-resolution.pdf> (accessed on 11 November 2015).

¹³⁶ At the end of 2013, Nigeria's government contracted consultancy group McKinsey & Co. to support the Federal Inland Revenue Service (FIRS) in broadening the country's tax base and boosting non-oil tax receipts by ₦75 billion in 2014 (a tax revenue target of ₦2.2 trillion was set for FIRS by the finance ministry). Non-oil tax revenue in 2014 is estimated to have been increased by ₦143 billion. Festus Akanbi, 'Appraising Okonjo-Iweala's Stabilising Factor in Oil Crisis Period', *This Day Live*, 26 April 2015, <http://www.thisdaylive.com/articles/appraising-okonjo-iweala-s-stabilising-factor-in-oil-crisis-period/207820/> (accessed on 27 November 2015); Talatu Usman, 'Nigeria's government hires consultants to increase revenue generation', *Premium Times*, 27 November 2013, <http://www.premiumtimesng.com/news/150450-nigerian-government-hires-tax-consultants-increase-revenue-generation.html> (accessed on 27 November 2015).

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Towards Formalization: Efforts and Impediments

The growing use of smartphones in Nigeria (accounting for about 25 per cent of total mobile users) and in other African markets presents a huge opportunity to stream services.^h The mobile market for media content is particularly important because of the limited extent of fixed-line internet access. Ringtone sales and other music-related services are already estimated to earn hundreds of millions of dollars for mobile operators; a senior music industry insider says that popular artists can earn up to ₦5 million a month from ringtone sales alone.ⁱ

The move to digital media offers some technical solutions to the piracy threat. Many Nigerian entertainment companies now use social media, internet streaming and software-based online digital media vendors such as iTunes, Spotify and Netflix to distribute their products; iROKOTv has announced a deal that will offer its cache of African movies, including more than 5,000 Nollywood titles, through the Netflix streaming service.

In the short term, the main audience for online sales of Nigerian entertainment will be among the African diaspora outside West

Africa. The scope for distribution within the region itself, and in the home market, may be hampered by the unreliability of power supply and the limited extent of fixed-line telecom connections and the low level of consumer buying power. That situation should change with time.

^a *The Report: Nigeria 2013*, Oxford Business Group, 2013, <http://www.oxfordbusinessgroup.com/nigeria-2013>.

^b *Entertainment and media outlook: 2014-2018 – South Africa-Nigeria-Kenya*, 5th annual edition, PwC, September 2014.

^c 'Nigeria's Film Industry: Nollywood looks to expand globally', United States International Trade Commission (USITC), Executive Briefing on Trade, October 2014, http://www.usitc.gov/publications/332/erick_ob_nigerias_film_industry.pdf (accessed on 17 November 2015).

^d Interview with authors, Lagos, June 2015.

^e Interview with authors, Abuja, February 2015.

^f Field research by the authors in Alaba market, June 2015.

^g Ibid.

^h *New Africa – Nigeria: From Growth to Opportunity*, Business Action for Africa and the Initiative for Global Development Report, May 2014, http://api.ning.com/files/6LjPLZ8wv3fn0OafWpIh-3moOceHBJ0H0lB2zA7Pv5Fb7aE2b*5rJzyTXuc75xmLLZX7*u*YAMDsoy2jDoyPf6hriAKZsFlh/NewAfrica2014_Final_Web.pdf.

ⁱ Interview with authors, Lagos, June 2015.

Table 1: Ease of doing business – Nigeria vs other emerging economies

	Time required to start a business, 2014 (number of days)	Documents required to export, 2014 (number)	Lead time to export, 2014 (avg number of days)	Documents required to import, 2014 (number)	Lead time to import, 2014 (avg number of days)
'MINT' economies					
Mexico	6	4	2	4	2
Indonesia	53	4	3	8	4
Nigeria	31	9	4	13	5
Turkey	7	7	2	8	2
Other comparator economies					
Colombia	11	4	3	6	2
Egypt	8	8	2	10	3
Ethiopia	15	8	14	11	13
Ghana	14	6	4	7	5
Kenya	30	8	3	9	4
Morocco	11	4	n.a.	6	n.a.
Pakistan	19	8	3	8	3
Philippines	34	6	2	7	2
South Africa	19	5	2	6	2
Vietnam	34	5	1	8	1

n.a. = not available.

Source: World Bank.

roughly \$1.39 billion – well above the IGR of the other 35 federal states. Lagos is an important reference point for tax administration supporting rather than constraining the non-oil sector, specifically the services sub-sector. The steps taken by Lagos state can provide lessons to the federal government as it adjusts to the real prospect of low oil earnings over the coming years.

And as the Nigerian economy diversifies, new technology and media businesses as well as online services are becoming increasingly important – and these can pose distinctive challenges (and also opportunities) in terms of revenue assessment and collection. This is illustrated by the position of Nigeria's entertainment sector as one of the fastest-growing components of the economy (see Box 3).

While the task of adjusting the revenue collection system to better accommodate businesses that are currently informal appears daunting, over the past decade Lagos state has made considerable progress in this area through a sweeping overhaul of its approach. The state has experimented with a 'presumptive' tax regime¹³⁷ – where simple methods are used to make quick assessments of the probable tax liability of a business, without any requirement for it to produce full formal accounts (see Box 2). This innovative approach¹³⁸ aims to increase the volumes of revenue collected from smaller businesses, without applying a level of pressure or burden of administrative requirements that would drive them back into the informal sector.

Under the leadership of the dynamic, newly appointed FIRS chairman, Tunde Fowler, who was head of the Lagos State Internal Revenue Service (LSIRS) from 2005 to 2015, alternative initiatives that proved broadly successful in Lagos could be strategically implemented at the national level. These include the rapid expansion of digital platforms such as the integrated tax administration system, facilitating computerized taxpayer registration and boosting the usage of the e-tax payment platform.¹³⁹

Trade support services

In helping informal exporters make the transition to formal-sector operation, two government agencies play a key role: NEXIM and the NEPC.

NEXIM's activities are limited to support for formal trading activity, via a number of schemes ranging from an initiative to develop coastal shipping to the provision of information and advice through to contracting Exim of India to develop a scheme that would help entertainment businesses in Nigeria's domestic film industry ('Nollywood') to formalize and develop their international sales. (This has drawn on Exim India's own track record of past support for the funding of India's Bollywood.)¹⁴⁰ As a sign of its confidence in Nigeria's entertainment industry, NEXIM has supported the sector's various value chains to the tune of about ₦1 billion over the past three years.¹⁴¹

NEXIM has also been developing pilot credit and political risk insurance schemes. Its initiatives could provide forms of support or risk protection that are offered only to formal-sector businesses, thus giving informal businesses an added incentive to formalize their activity.

Meanwhile, the NEPC engages closely with both formal and informal businesses. The agency's 15 zonal and area offices develop close regular contacts with traders in the informal export sector, listening to their problems and advising them on the additional support – such as the Export Expansion Grant set up in 1986 under the Export Incentives and Miscellaneous Provisions Act – that could be available if they formalized their activity.¹⁴² The NEPC has an understanding of the day-to-day practicalities of doing business and exporting experienced by smaller traders; other arms of government may not always show similar awareness.

Regional efforts: Nigeria and West Africa

Integrating to formalize? Nigeria and the economic potential of ECOWAS

Estimates of Nigeria's population put it at around 180 million; a similar number of people live in the other 15 member countries of ECOWAS combined. With some 317 million people, West Africa is home to roughly 39 per cent of the sub-Saharan African population. Indeed, the full scope of the regional market is even greater, when Nigeria's Central African neighbours such as Chad and Cameroon are factored in. The physical scale of the ECOWAS region

¹³⁷ Interviews with authors under the Chatham House Rule, Abuja and Lagos, March and June 2015.

¹³⁸ Early in 2013, Nigeria's FIRS began consultation on a draft presumptive tax regulation for application at the national level. The proposed Presumptive Tax Regime – based on an amendment of the provisions of Section 6 of Nigeria's Personal Income Tax Act of 2011 – has been approved by the finance ministry but is yet to be official.

¹³⁹ Since Fowler's appointment, FIRS claims to have registered 35,650 additional corporate taxpayers and 22,000 individual tax payers in less than a month. The agency also began a nationwide tax registration drive focused on value-added tax (VAT) as well as compliance checks for VAT and withholding tax (WHT) on 12 October 2015. Further changes announced by FIRS include the reduction of tax registration forms from 13 pages to one and from 115 fields for completion to 20 for corporate taxpayers and 35 for individuals. Bukola Idowu, 'Tax Default: FIRS writes 200 oil & gas firms, 35,650 others', *Leadership Newspaper*, 23 November 2015, <http://leadership.ng/news/477115/tax-default-firs-writes-200-oil-gas-firms-35650-others#respond> (accessed on 26 November 2015).

¹⁴⁰ Interview with authors under the Chatham House Rule, Abuja, June 2015.

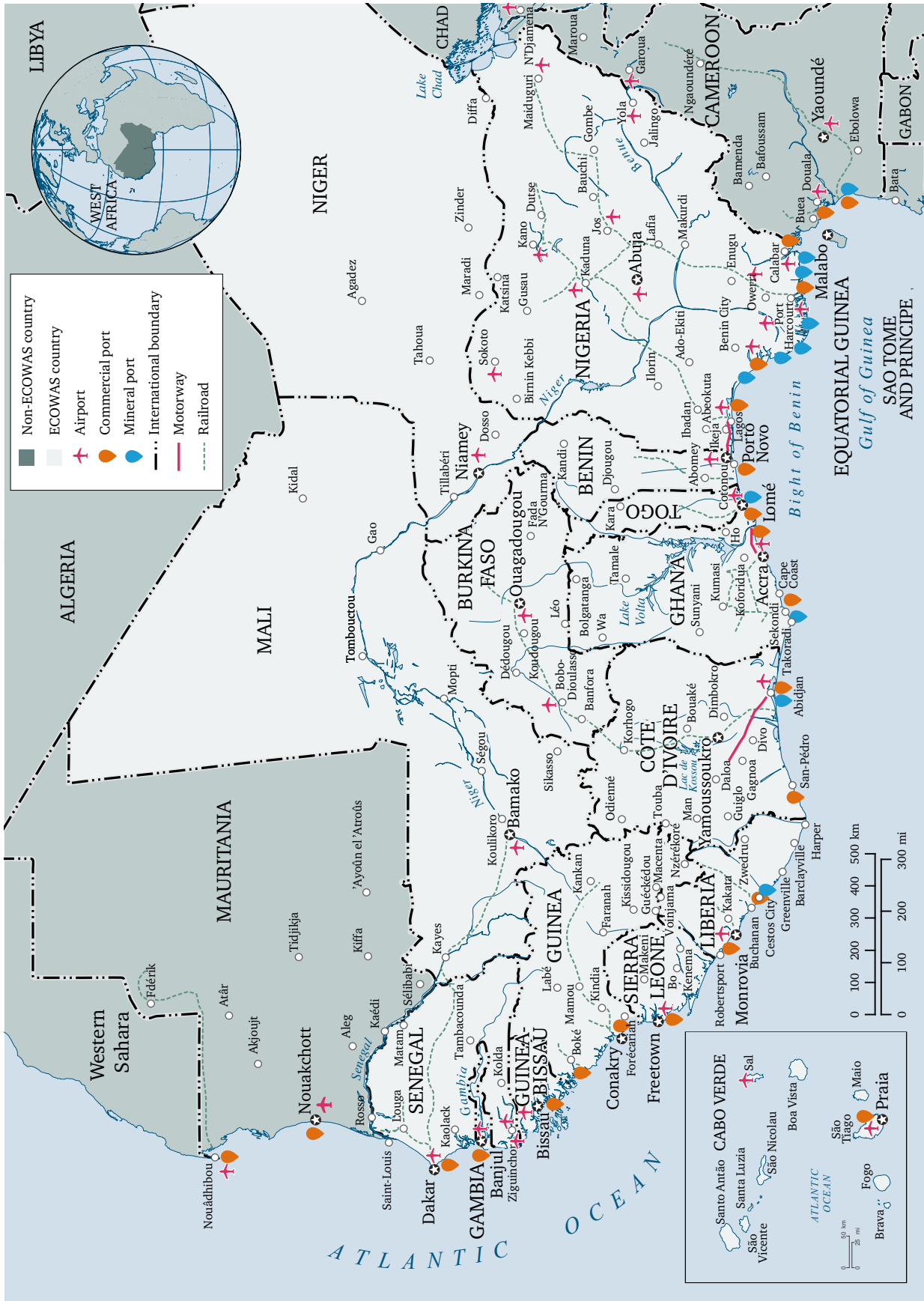
¹⁴¹ Interview with authors under the Chatham House Rule, Abuja, June 2015.

¹⁴² Interviews with authors under the Chatham House Rule, Abuja, Kano and Lagos, February and March 2015.

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Towards Formalization: Efforts and Impediments

Map 2: ECOWAS



Source: Sahel and West Africa Club, OECD.

is also formidable. ECOWAS member countries, plus Chad and Mauritania, cover a surface area of 7.4 million square kilometres, which is nearly twice the combined area of all 28 countries in the European Union.¹⁴³

ECOWAS includes some of the world's poorest countries – Niger is ranked bottom, in 187th place, in the UN Development Programme's Human Development Index. But the bloc also includes resource-rich and relatively diverse economies, particularly Côte d'Ivoire and Ghana, while even the low-income states have relatively high rates of real GDP growth; in 2014 real GDP rose by 5.4 per cent in Benin, 4 per cent in Burkina Faso, 6.9 per cent in Niger and 7.9 per cent in Côte d'Ivoire. Overall in the past decade, West Africa's regional economy has changed substantially, growing by at least 5 per cent a year in real terms, despite the pressures of the 2008–10 global financial crisis and the more recent slump in world prices for many African export commodities. In the context of weaker world prices for key West African export commodities, performance has since become more sluggish; even so – and as mentioned earlier – the IMF projects overall real GDP growth of 4 per cent in 2015 for ECOWAS as a whole.¹⁴⁴

The challenge that now faces ECOWAS is to translate its broad sense of common purpose into concrete progress towards the creation of a genuinely integrated regional market.

As a modern geopolitical grouping, ECOWAS has a strong culture of intergovernmental cooperation and a deep sense of shared West African identity, reflected in a readiness among its members to work together in tackling regional and national crises. The idea of regional cooperation is strongly reflected in decisions on the free movement of people and goods, regional food-crisis prevention and management, a common agricultural policy, mining policy, intraregional electricity exchange, regional gas pipelines and common positions on migration and conflict prevention.¹⁴⁵ But until now, common action has been most effectively realized in dealing with security threats, civil conflict and political development. Despite the original identity of ECOWAS as an economic bloc, progress towards integration and policy

harmonization has been much weaker in the economic sphere than in politics and security.

The region has long held the potential to be largely self-sufficient in basic staple foods, even in periods of drought in the Sahelian countries, and there is significant complementarity between Nigeria's hydrocarbons sector and manufacturing industries and the agricultural and pastoral production bases of its neighbours. Furthermore, West Africa has a long history of urban settlement and intraregional trade, dating back even to the era of trans-Saharan camel caravans; ethnic identities and the residual heritage of pre-colonial states spread across modern national borders.

Admittedly, the colonial-era demarcation between anglophone Nigeria and its francophone neighbours continues to be reflected not only in language but also in different administrative structures, legal frameworks and financial systems. But these formal and government-level boundaries overlie deep and harmonious patterns of informal, not illicit, trade connections (largely in staple and consumer goods) and personal ties. At the same time, language barriers to business are bypassed through the use of widely spoken local languages such as Hausa and Yoruba.

The challenge of implementing integration across ECOWAS

The challenge that now faces ECOWAS is to translate its broad sense of common purpose into concrete progress towards the creation of a genuinely integrated regional market.¹⁴⁶ Research by the International Labour Office finds that Nigerian firms that export within ECOWAS tend to be larger and better-paying employers than firms selling only in the home market.¹⁴⁷ There have been significant improvements in infrastructure collaboration, such as the 960-km West Africa Gas Pipeline through which Nigeria supplies energy to Benin, Togo and Ghana.¹⁴⁸ Work is now under way on a railway loop that will connect Benin and Togo to Niger, Burkina Faso and Côte d'Ivoire.

Yet many regional infrastructure links are surprisingly weak or inadequate, even where there are noticeably close ties. The capacity of the main road linking Lagos – Nigeria's and the region's leading commercial hub¹⁴⁹ – to the other cities

¹⁴³ 'West Africa: Presentation of the Region', The Sahel and West Africa Club Secretariat, 2011, <http://www.westafricagateway.org/west-africa/region> (accessed on 17 November 2015).

¹⁴⁴ *Ibid.*

¹⁴⁵ *Ibid.*

¹⁴⁶ *Ibid.*

¹⁴⁷ 'Exporters in the ECOWAS region tend to be bigger, more productive, and pay higher wages than non-exporters', in Erik von Uexkull, *Regional Trade and Employment in ECOWAS*, Employment Working Paper No. 114, ILO, 2012, www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_175415.pdf.

¹⁴⁸ The pipeline resulted from a World Bank study on the optimal usage of Nigeria's flared gas resources to generate power for domestic and industrial use. Nigeria's natural gas reserves are among the largest in the world.

¹⁴⁹ In 2010 the Programme for Infrastructure Development in Africa (PIDA), an initiative of the AfDB, African Union Commission and New Partnership for Africa's Development (NEPAD), launched a flagship project to build a six-lane, 1,028-km road connecting Abidjan, Accra, Lomé, Cotonou and Lagos. The Abidjan–Lagos Corridor is thought to account for 75 per cent of trade in the ECOWAS region. The road is still under construction.

of the West African coast is still patchy, while Nigeria's century-old railways cross no borders. The majority of Nigerian farmers and agro-businesses are situated inland. Existing transport infrastructure has simply not expanded at the same pace as their transport needs, the growth of urban centres and the rise in population. Many businesses complain of the high cost of transporting goods to market owing to Nigeria's inadequate road networks. This has a direct impact on profit margins, business growth and the costs of goods and services for consumers. Where transport infrastructure has been somewhat improved in Nigeria and across the region, it has not been suitably integrated to enhance industrial competitiveness by improving connectivity between rural and urban centres and between towns and cities.

In terms of the West Africa region's financial architecture, as noted earlier and discussed in more detail below, the interaction between the payment and banking systems of the francophone CFA franc bloc and the various anglophone states is close to dysfunctional, and efforts to tackle this fundamental problem have been slow and are yet to yield tangible results.

However, ECOWAS is now in a phase of potentially decisive transition. WTO rules have forced a fundamental rethink of the community's trading strategy and relationship with the EU. ECOWAS has responded with three crucial policy decisions: the negotiation of a new Economic Partnership Agreement (EPA) with the EU, the adoption of the Common External Tariff (CET) and the drafting of an Informal Trade Regulation Support Programme (ITRSP), designed to help formalize trade within the region.

The new common tariff structure replaces the national tariff regimes of individual anglophone member states such as Nigeria and the common tariff of the eight-member western CFA franc bloc (UEMOA). As noted earlier, implementation of the CET began early in 2015.

Meanwhile, the new EPA – which has yet to be fully ratified – will replace the economic framework provided by the Cotonou Accord of 2000 between Europe and African, Caribbean and Pacific (ACP) countries. The WTO had insisted that the accord should be phased out, because it allowed Europe to accord ACP countries a trade

regime that was more favourable than current WTO rules permit. The EU therefore negotiated a series of separate new partnership agreements with developing-world regional blocs, including ECOWAS plus Mauritania (which is not a member, but joins the grouping for partnership negotiations with Europe).

Together the CET, the EPA (which is set to follow close behind) and the ITRSP (which is ready for launch if donor funding can be secured) represent a three-pronged overhaul of the framework for West Africa's trade. They could establish the parameters for a major advance in economic integration across the region and the formalization of more trade between Nigeria and its neighbours. For example, research by the World Bank suggests that implementation of the CET and liberalization of the rice trade could reduce incentives for smuggling rice.¹⁵⁰ A study by the Bank also suggests that not only Nigerian consumers but also many manufacturers would benefit from full CET implementation and a more liberal trade regime. But some firms, notably in the textile/garment sector, could potentially suffer.¹⁵¹

The ITRSP and wider harmonization issues

The Informal Trade Regulation Support Programme (ITRSP) was adopted in Cotonou in 2013;¹⁵² about €65 million will be needed for its implementation. One of its key objectives is the simplification of taxation and customs procedures. Stiff laws restricting trade flows across Nigeria's poorly monitored borders simply cannot work within the current West African context. In addition, Nigeria cannot on its own address the challenge of recording more informal transactions. To do this it needs the help of its neighbours and the pursuit of a common-interest approach to formalizing informal trade.

The philosophy behind the ITRSP, as conceived by the ECOWAS secretariat, is to bring informal trade into the formal arena gradually through arrangements that will not deter business and that are therefore not financially onerous, are not overly bureaucratic and do not demand extensive technical expertise or management input. The idea, where possible, is to work through schemes that are practical and easy to implement, and that deliver benefits

¹⁵⁰ 'The full CET scenario, including the removal of import bans and levies, would significantly benefit Nigerian consumers, who could expect to see the price of their consumption bundle decline by around 2.4 per cent. The main channel of impact would be the removal of the levy on rice. Erik von Uexkull and Lulu Shui, *Implementing the ECOWAS Common External Tariff: Challenges and Opportunities for Nigeria*, Africa Trade Practice Working Paper Series No. 5, World Bank, June 2014, at: <https://openknowledge.worldbank.org/bitstream/handle/10986/18935/888430REPLACEM0Box385245B00PUBLIC0.pdf?sequence=1&isAllowed=y>.

¹⁵¹ Ibid: 'Overall, CET implementation under all three scenarios would benefit the majority of manufacturing firms in Nigeria (between 60 and 75 per cent), accounting for the majority of manufacturing jobs. Their profits are expected to be higher after the reform due to lower prices on intermediate inputs, and in some cases higher protection for these firms' outputs. Firms that are already exporting can also be expected to gain through cheaper access to intermediate inputs, greater preferential market access in the region, and in particular trade facilitation effects associated with a simplified customs regime if bans and levies are removed... The remaining domestic firms in the manufacturing sector could experience declines in their profitability as the domestic price of their main outputs would be lower after the CET is in force and levies and bans are removed. In most cases, they would nevertheless remain profitable. The largest negative effects are likely to be concentrated on the textile and apparel sectors, where adjustment assistance might be required.'

¹⁵² *Informal Trade Support Programme (ITRSP) 2013–2017, March 2013 Version*, ECOWAS Commission.

to the traders themselves. One such example is the 'livestock passport' – a simple document used to ensure that herds of animals being moved 'on the hoof' have undergone basic health controls and programmes of vaccination.

Potentially, the ITRSP could be aligned with long-running initiatives to harmonize technical and industrial standards across West Africa. A programme of support for harmonization, originally developed by the UN Industrial Development Organization (UNIDO) for UEMOA, has now been extended to ECOWAS as a whole, with €40 million in funding from the EU. No doubt harmonization is likely to be a vast, painstaking, long-term task; in the EU itself it is not yet complete, decades after the formal creation of a single market. However, there are suggestions that the next step should be to focus on specific value chains of products within some of the most important trade sub-sectors.

One of the challenges will be to persuade governments in the region to stop using national technical standards as a form of protectionism for their local industries, and to convince them that in the long term a harmonized and liberalized regional approach will generate trade opportunities, boost productivity and create jobs. When a country uses national standards to exclude, for example, branded pharmaceuticals that are already available in another ECOWAS state, this offers little protection in reality but merely creates an opportunity for smugglers and rent-seeking officials.

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Eradicating barriers to trade: the ECOWAS Common External Tariff regime

ECOWAS governments originally planned to agree the final terms for a new Common External Tariff (CET) in July 2013.¹⁵³ But Nigeria – which has a much larger industrial sector than other member states and had traditionally operated a higher level of tariffs than the UEMOA states – raised concerns over protection for its

local industries under the CET regime. It pushed for the creation of a fifth tier of tariff, set at 50 per cent; and following final negotiations a five-tier regime was adopted, with a top rate of 35 per cent, applicable to 177 specific categories of 'goods for economic development' and to be determined at a country's discretion.¹⁵⁴ Countries were allowed to phase in their implementation of the CET, through the imposition of a transitional 'import adjustment tax' and a 'safeguard tax' against import pressures.

Under the new tariff regime, previous import prohibitions will be extended to non-ECOWAS goods, and duties will not be imposed on sales of community products within the region. Member countries will apply value-added tax (VAT) charges ranging from 15 per cent to 20 per cent on products. Internal revenue services of member countries, not customs services, will be responsible for VAT collection. Tariffs are to be charged once, regardless of the country of first shipment and subsequent transshipment – for instance, after entry into Cotonou and by ship again into Lagos. They cannot be charged again after they have been paid in the country of first shipment.

Expectations are that the new tariff regime will eliminate the incentive for import duty shopping and smuggling created by past tariff differentials among ECOWAS countries. Nigeria's higher tariffs and its larger market for imported goods have made it a well-known magnet for smuggling. The anticipation of tariff harmonization has further fuelled competition between Nigeria's main seaports in Lagos and those in Benin and other coastal countries to position themselves as the preferred choice for importers in attracting higher trade flows and revenue.

Following several delays, the NCS began implementation of the CET in April 2015. In the short term, the scheme will imply some loss of revenue for the federal government because tariff rates are in many cases lower than those set by the old Nigerian national trade regime. Imports into Nigeria have also been affected by monetary policy tightening by the CBN.

Until 2015 UEMOA's lower tariffs led traders to use Cotonou as the West African port of entry for many goods ultimately destined for Nigeria. These were officially imported into Benin, incurring the lower tariffs, and then smuggled over the land border into Nigeria. As a result, all the fiscal revenues generated by this trade have flowed to the Benin government, rather than to that of Nigeria, the true import destination.

¹⁵³ On the continental level, there are ongoing efforts to establish a continental free-trade area (CFTA) that could facilitate trade by eliminating both tariff and non-tariff trade barriers. If successful, these efforts are expected to double intra-Africa trade within 10 years. See Carlos Lopes, 'Can trade make a difference in Africa?', UN Economic Commission for Africa, Executive Secretary's Blog, 1 July 2013, <http://www.tradeforum.org/article/can-trade-make-a-difference-in-Africa/> (accessed on 17 November 2015).

¹⁵⁴ Interviews with authors under the Chatham House Rule, Abuja, Cotonou, Brussels, February, March, June and July 2015.

The adoption of the region-wide CET should, in theory, eliminate the tariff advantage of importing via Benin rather than shipping direct to Nigerian ports. The CET should also bring benefits for Benin, because it is levied at a higher rate than the old UEMOA tariff on some goods. The African Development Bank estimates that, taking account of the weight of trade volumes for different products in different tariff bands, the CET is levied at an average rate of 15.63 per cent – compared with 13.55 per cent for the old UEMOA tariff regime.¹⁵⁵ For any given volume of import trade, therefore, the CET will generate additional revenue for the Benin government; moreover, the higher rate of protection provided by the CET regime may help Benin to develop stronger indigenous economic activity in some sectors.

The adoption of the ECOWAS CET marks progress, but it still does not reflect the full extent of trade liberalization plans for the region. Member countries have retained the prerogative to impose levies, taxes, quotas and import bans. Nigeria can continue to impose restrictive trade policies on many food and agricultural products.

Economic Partnership Agreement: reforming trade arrangements with Europe

West Africa is poorer than any of the other regional groupings negotiating partnership accords with the EU. Most ECOWAS states are categorized as 'least developed' – Nigeria, Côte d'Ivoire, Ghana and Cape Verde are the only exceptions – and several Sahelian members are among the world's poorest countries.

West African countries have had to agree to a phased liberalization of their markets, but this is to be stretched out over the long term. Unlike the old ACP accords with Europe, the proposed EPA is permanent and does not have to be renewed every few years. It establishes a clear and defined framework for the long term, which provides certainty for governments, West African businesses and foreign investors as they seek to develop their strategies.

In contrast to other developing-country regions, ECOWAS member governments decided to negotiate the accord through their shared regional institution, just as EU member states do (even though the ECOWAS governing treaties do not yet formally provide for this). Like other member states, Nigeria therefore sent experts to the technical committee overseeing the process. However, the country played a much less active role than many other members in directing the ECOWAS negotiating team.

The ECOWAS negotiators reached draft agreement with their European counterparts in January 2014, and two months later the bloc held a summit for governments to review and potentially approve the draft deal. It was at this late stage that Nigeria proposed changes, notably an increase in the proportion of product lines exempted from the phased trade liberalization. This posed difficulties for Europe, which had already offered to exempt 25 per cent of product lines – more generous treatment than that accorded to any other region in the developing world,¹⁵⁶ and already very near the limits of WTO rules. In internal talks, other ECOWAS states said they were satisfied with the draft deal and were not prepared to make major changes.

Eventually a revised draft accord was agreed and subsequently ratified by EU member states' parliaments. However, by this stage Nigeria was in the run-up to the 28 March 2015 presidential election date,¹⁵⁷ so final approval was postponed until the installation of a new ministerial cabinet, which was inaugurated in November 2015.

Behind the differences of approach and participation in the negotiating process, there was a deeper policy choice for Nigeria. To some extent the country's interests differed from those of other ECOWAS states, which are far less industrialized. Because these countries had much less domestic manufacturing to protect, they were relaxed about easing conditions on imports from Europe. Nigeria, in contrast, has particular concerns about the potential impact of European competitors as trade with the EU is slowly liberalized. None the less, these risks are offset by the significant advantages from which the country stands to benefit if the EPA is finally concluded and ratified in its current form. Nigeria, being comparatively wealthy, will receive favourable terms and conditions because of its categorization along with countries that are less wealthy and less developed.

Ideas are beginning to circulate about how the EPA framework might be broadened in future – a process that could further stimulate economic activity in Nigeria.

Moreover, ideas are beginning to circulate about how the EPA framework might be broadened in future – a process that could further stimulate economic activity in Nigeria. Advocates of liberalization argue that it helps

¹⁵⁵ Daniel Ndoye, *La Gestion des Finances Publiques au Bénin Face aux Défis du Développement*, African Development Bank, May 2015, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/BENIN_Gestion_des_finances_publicques_face_aux_d%C3%A9fis_du_d%C3%A9veloppement_-_Etude_sectorielle.pdf (accessed on 17 November 2015).

¹⁵⁶ Interviews with authors under the Chatham House Rule, Abuja and Brussels, February and July 2015.

¹⁵⁷ Nigeria's general election had been postponed by six weeks from February 2015.

to open up markets, enhance competitiveness and bring down prices. They claim that protectionist measures tend to protect a few large monopolistic business interests and limit the scope for the emergence of new challengers that might force improvements in product quality or lower prices. They suggest that protectionist restrictions, traditionally a key part of Nigeria's efforts to encourage domestic productivity, also create opportunities for corrupt rent-seeking.

These arguments already appear to be winning a degree of support in some ECOWAS countries. The provisions of the draft accord give ECOWAS the right to seek to broaden the framework beyond trade in goods. Already Senegal, Côte d'Ivoire, Togo, Ghana and Cape Verde have indicated that they would like to see the EPA extended to cover services.¹⁵⁸ This is a potential development that could particularly benefit Nigeria: as the largest market and the largest centre of service activity in the region, the country would be likely to attract a big share of incoming European service company investment.

Meanwhile, the EU has suggested that ECOWAS could also consider adding in an investment protection agreement, which would enhance its attractiveness as a business and industrial location for European companies. A further possibility would be to extend the EPA to cover procurement as well. Caribbean countries have opted to include all these additional elements in their EPA with Europe, and West Africa could eventually follow suit.¹⁵⁹

¹⁵⁸ Interview with authors under the Chatham House Rule, Brussels, July 2015.

¹⁵⁹ Diana Thorburn et al., *The Economic Partnership Agreement (EPA): Towards a New Era for Caribbean Trade*, Centre for International Governance Innovation, Caribbean Paper No. 10, September 2010, https://www.cigionline.org/sites/default/files/Caribbean_Paper%2010.pdf (accessed on 21 November 2015).

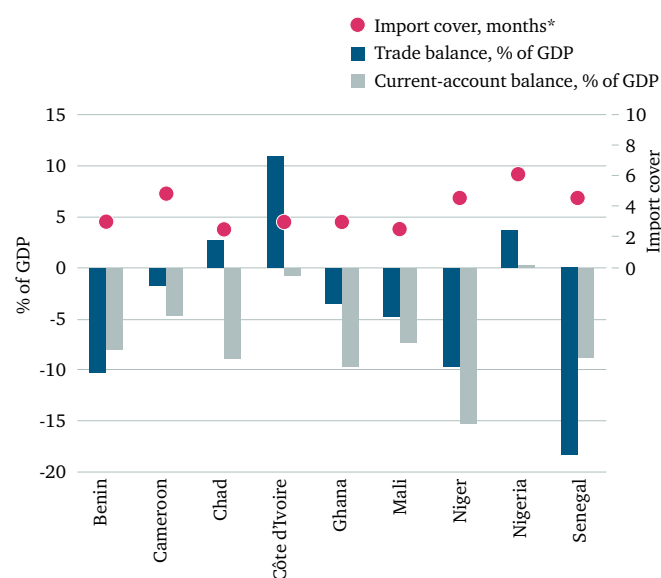
4. Nigeria's Major Trade Flows

The dynamics of informal trade across the border between the Lagos area and southern Benin are an often-described phenomenon: huge volumes of fuel are smuggled out, while inward flows include a wide range of consumer goods, vehicles and food imported via the Cotonou port. But this coastal corridor is only one of the numerous trading circuits that connect Nigeria to its neighbours, where a large proportion of activity passes unrecorded by government agencies.

Barely captured in official data are entire cross-border regional economies and sectoral patterns of trade, such as the flow of Sahelian livestock into the Nigerian north and imports of dried fish from Lake Chad or food crops from Benin. Outbound business includes a major trade in grain trucked northwards to Niger and Mali, and the export of Nigerian manufactured products to markets across West and Central Africa.

Trade flows are affected by regional instability across the Sahel, in countries such as Mali, or in the Lake Chad basin; these can generate additional import demand as local output is disrupted, but of course insecurity also disrupts traffic along some trade routes.

Figure 8: Balance of payments, selected West and Central African economies, 2014



*Foreign-exchange reserves measured as months of imports of goods and services. Source: IMF.

Criminal trafficking in drugs and ivory is doubtless also a significant factor, albeit almost impossible to quantify. But what stands out from statistical analysis and research on the ground is the vast scale of entirely normal but informal business that takes place. The preceding chapters explained the all-important context for these flows. This chapter examines a number of the most significant trade patterns in greater detail.

Northern Nigeria and the Sahel: the two-way trade in agricultural goods

Nigeria's northern borders are incredible busy. The estimated volumes of commodities traded informally between Nigeria, Niger and the rest of the Sahara-Sahelian region dwarf those of formal trade. Market associations and traders who operate across these borders, importing or exporting various commodities, particularly grains and livestock, have developed methods of recording their transactions and managing their relationships with state institutions.

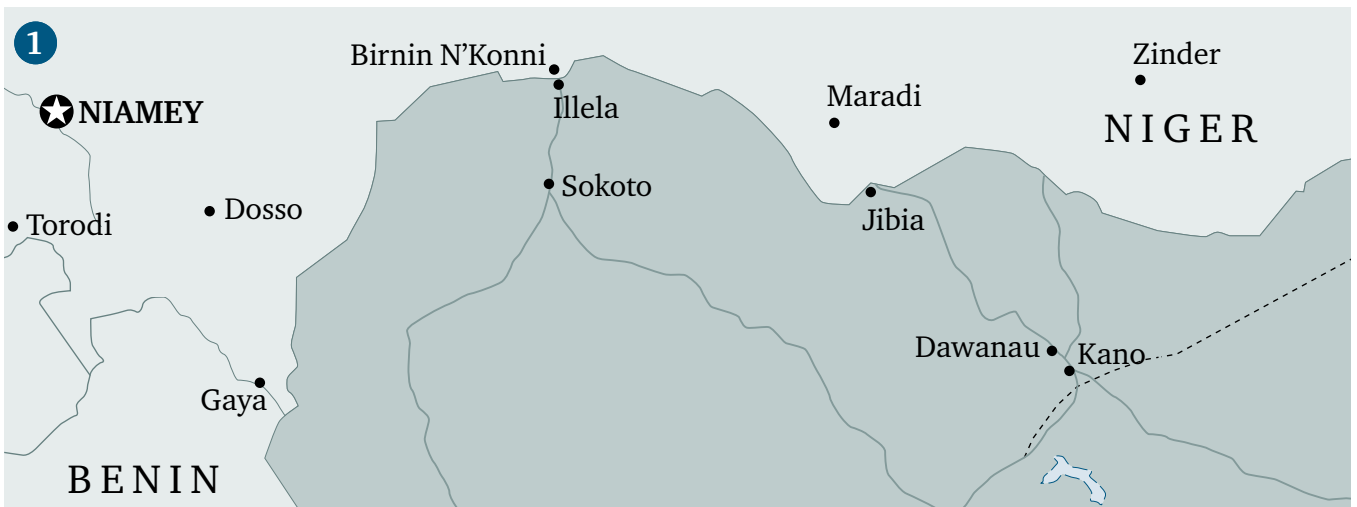
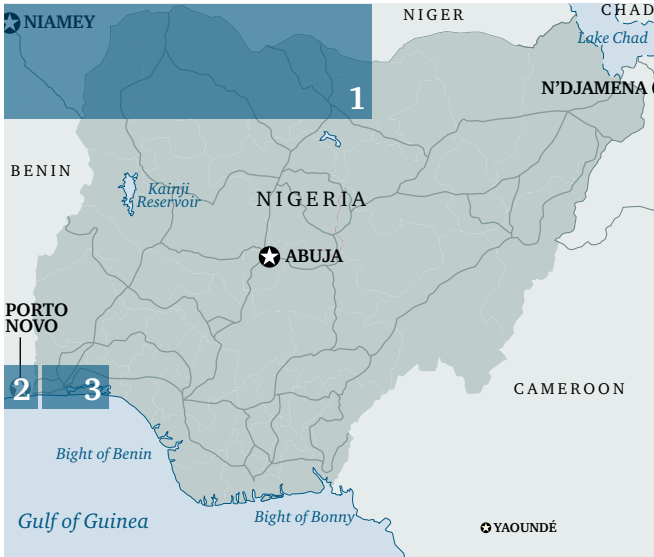
The Dawanau international grain market in Kano is claimed to be the largest in sub-Saharan Africa. Whether or not this is technically true, it is without doubt a crucial hub for cereals trade in the west of the continent. Visit the Dawanau grain market or the warehouses of traders in Jibiya – both in northwest Nigeria – and it is soon evident that trade in agricultural produce across the border between Nigeria and Niger is buoyant and diverse, encompassing a wide variety of crops moving both northwards and southwards.¹⁶⁰ Goods traded include sesame seeds, dried hibiscus flowers, ginger, chilli pepper, sorghum and maize. There is huge demand for the region's sesame seeds and ginger in Southeast Asia, and traders export these products in significant volumes to buyers in Vietnam and China. Within West Africa, commodities are regularly exported to Mali, Burkina Faso and even Libya.

Trade in cereals within the region makes a major contribution to food security and helps manage the flow of supplies to areas affected by shortages – a routine occurrence in Sahelian countries, which are vulnerable to drought.¹⁶¹ The vast majority of Nigerians live in rural areas, and over 80 per cent of livelihoods depend on agriculture. These could be greatly improved through access to markets, and to agricultural technologies that could boost productivity.

¹⁶⁰ *Exportable Products Map*, NEPC, Kano Zonal Office, January 2015; *Informal non-Oil Export Trade Statistical Data for the Month of January, 2015*, NEPC, Kano Zonal Office.

¹⁶¹ Chatham House research interviews on Sahel food security in Mali, Burkina Faso and Niger, 2012 and 2014.

Map 3: Key locations



Box 4: Northern trading challenges

Dawanau market

Kano's market in Dawanau is thought to be West Africa's largest grain trading hub, from which food crops produced in Nigeria are exported to markets across the Sahel and as far as Algeria, Libya and Cameroon. Its economic impact is felt as far south as Cross River state, from where bananas are sourced for shipment to Niger.

Yet according to the market association, the overwhelming majority (around 70 per cent) of transactions in millet, sorghum, local rice and wheat, yam, cassava and garri are conducted on an informal basis, while trade in most of the less important commodities is purely informal.^a

The market also imports commodities such as tiger nuts and cowpeas from Niger, sesame seeds from Chad and groundnuts from Cameroon, Chad and the Central African Republic – although this trade has been disrupted by the insecurity in northeast Nigeria.

The Kano zonal office of the Nigeria Export Promotion Council (NEPC), and the official Nigeria–Niger Chamber of Commerce, have been trying to convince the Dawanau business community that it would make sense to trade formally, not least because this would give traders access to financial support in the form of the EEG. But traders are not easily convinced, pointing to the difficulties they face in arranging trade payments between Nigeria and the surrounding countries that use the CFA franc. They complain of transaction limits by the banks and administrative rules imposed by the authorities, which are trying to regulate cross-border business and block the financing of terrorism. Delays in clearance mean traders can wait up to seven days to receive payments already sent by buyers in other countries.

Moreover, taxes have not been harmonized, so businesses sometimes get doubly taxed – by Nigeria and by Niger – on the same transaction. The impact of apparently official levies is compounded by the informal charges imposed by personnel from government agencies. There are also complaints that governments are proving slow to implement the ECOWAS CET.

Many traders feel little sense of obligation to use official channels and pay taxes or duties because the Kano state government and the Dawakin Tofa local government authority responsible for the Dawanau area appear to provide no service infrastructure investment in return. In 2014, on donor advice, Dawakin Tofa quintupled the local taxes levied on traders – a move accompanied by a commitment that a quarter of the revenue raised would be used to improve infrastructure. However, by October 2015 there was still no sign that anything had been done. The market truck park, for example, remained a sea of dust – or mud when it rains.

Jibiya market

Just kilometres from Nigeria's northern border, and on the key trade route from Kaduna, Kano and Katsina to the Nigerien city of Maradi, the market in Jibiya lies at the heart of Nigerian informal cross-border trade.

Traders here are aware of the benefits they might gain from a shift to operating formally.^b To support their sales of beans and other imported Sahelian products to buyers in southern Nigeria, they are under pressure to offer credit. This is difficult without bank support, which would be much more easily obtainable for business transacted through formal channels.

When interviewed, traders insisted that paying government taxes or duties would not be a major imposition in practical financial terms, and that although they operate in a highly informal manner, they would be willing to keep the sort of business records required for tax and customs purposes if they were formalized. But they said that at present the government fails to provide any services that might encourage formalization: they would like the authorities to help arrange credit facilities and to lay a tarmac surface at the market truck park. They would also like the main roads to be improved, so that they could use larger trucks.

Importers of dates have taken the formal route, but now complain about the level of duty imposed on their shipments and cumbersome administrative procedures. There is a perception that the authorities have been restricting import permits in order to protect the dominant position of one or two well-connected large businesses at the expense of smaller contenders.^c

It is also clear that many traders are unfamiliar with the detail of official regulations, such as the ban on exports of raw maize that applied in early 2015.^d This leaves them vulnerable to racketeering by members of official agencies and security forces. One trader said that his trucks were officially checked by customs and quarantine officials, incurring official payments of ₦15,000 on a 30-tonne consignment of maize; but that his drivers were also pressured into handing out a further ₦40,000 to members of the police, the National Drug Law Enforcement Agency (NDLEA), the immigration service, civil defence, military intelligence, state security services, the mounted police, the mobile police and the state security service in order to secure passage through to the Niger border.

On the Niger side, the driver will only have to make one payment to secure clear passage right through to Niamey – a distance of 500 km. However, Nigerien sources report that even this payment will often include a large element that is levied illegally.

Illela market

Located almost 80 km from Sokoto's state capital is the town of Illela in the far northwest of Nigeria. Sharing a border with the town of Birnin N'Konni in Niger to the north and traversed by

the cross-border highway that leads from Sokoto city to Niamey, Illela is also a central hub for northern Nigeria's booming informal cross-border trade in grains and livestock.

At Illela's Sunday market, established several centuries ago, vast quantities of rice, beans, maize, wheat, vegetables and livestock are traded weekly. Traders from as far as Ghana, Mali, Burkina Faso and Chad descend on the vast town square, spilling into the connected untarred roads. Separate grain and livestock sections operate within the improvised facilities of the market, and the potential of Illela for generating revenue for the state and local government is high. Traders from the southern cities of Lagos, Ibadan and Sapele regularly patronize the market despite a complete lack of adequate stalls, animal shelters, tarred surfaces, running water, abattoirs or cold rooms. During the rainy season, the market space is often unusable; several traders interviewed^e complained that the state government has been very slow in building the critical infrastructure needed to sustain and boost this vital border market.

The local government earns a modest sum through fees collected from the various market association members who frequent the market and from buses at the park. However, this amounts to around ₦200,000 each week,^f far below the potential of this market. Data collected during field research in October 2014 suggested that the estimated value of grains and livestock traded weekly was between ₦100 million (\$494,000) and ₦200 million, with turnover considerably higher during the harvest season.^g However, the value of the goods actually brought into the town each week in trucks, on motorbikes and on foot is nearly twice as high.

In the early 1980s, a plan to construct a suitable market facility was initiated by the then governor.^h Decades passed with hardly any real action until in 2013 the state government entered a partnership with International Business Finance Corporation of Nigeria (IBFC) to build an Illela International Border Market at a cost of ₦33 billion.ⁱ Although the plot of land – 79 hectares – has been allocated and a giant sign erected, the development, which was planned to include 16,000 shops, 800 warehouses, 40 cold rooms, several restaurants, banks, hotels, roads and other amenities, has not even had ground broken yet at the time of

writing. In February 2015, the past Sokoto governor said his government had released ₦1 billion for the commencement of the border market facility.^j

The delayed development of the Illela international market is typical of the approach of most governments in Nigeria's 16 border states towards the potential of border markets for developing the economy at the sub-national level. Rather than seeing these long-established trading hubs as vital components of the economy, and as key locations both for regulating informal cross-border trade and boosting state revenue, the authorities mostly ignore them.

Border markets, by definition, exist at the critical points along Nigeria's land boundaries where trade becomes international and can ebb and flow according to factors such as exchange-rate differentials, variations in taxes between countries, import bans and tariff restrictions. Rather than focusing on the negative consequences of borders (i.e. vulnerability and porosity), governments would benefit from recognizing these markets' potential to enhance security, facilitate trade and promote formalization of the economy.^k

^a Interviews with authors, Dawanau international grains market, March 2015.

^b Interviews with authors, Jibiya, Katsina, March 2015.

^c Interviews with authors, Jibiya, Katsina, March 2015.

^d Interviews with authors, Jibiya, Katsina, March 2015; 'Export Prohibition List', Nigeria Customs Service, <https://www.customs.gov.ng/ProhibitionList/export.php> (accessed on 21 November 2015).

^e Field interviews in Illela, Sokoto, March 2014.

^f Rakiya A. Muhammad, 'Inside Illela's Booming Grains and Livestock Trade', *Daily Trust* newspaper, 12 May 2009, <http://allafrica.com/stories/200905120266.html> (accessed on 10 November 2015).

^g Field research notes from interviews in Illela, Sokoto, October 2014.

^h Field interviews in Illela, Sokoto, October 2014.

ⁱ Mohammed Aminu, 'Sokoto: IBFC to spend ₦33bn on Construction of Illela Int'l Border Market', *THISDAY* newspaper, 6 September 2013, <http://www.thisdaylive.com/articles/sokoto-ibfc-to-spend-n33bn-on-construction-of-illela-int-l-border-market/158338/> (accessed on 28 October 2015).

^j Mohammed Aminu, 'Tambuwal: I will Exploit Abundant Mineral Resources in Sokoto If Elected', *THISDAY* newspaper, 15 February 2015, <http://www.thisdaylive.com/articles/tambuwal-i-will-exploit-abundant-mineral-resources-in-sokoto-if-elected/201549/> (accessed on 27 October 2015).

^k For an analysis of African border markets, see Olivier Walther, 'Border Markets: An Introduction', *Journal of Urban Research*, Vol. 10, 2014, <https://articulo.revues.org/2532#quotation> (accessed on 17 November 2015).

As a fragile Sahelian economy with a high rate of population growth and constant risk of drought, Niger is heavily dependent on northern Nigeria as a reserve source of cereals when home-grown supplies prove inadequate, as is often the case. Because Niger lies further north, on the fringes of the Sahara, its main arable growing season

is both earlier and shorter than Nigeria's – which means that, to some extent, production peaks in the two countries complement each other.¹⁶² This drives a two-way trade in grain that helps to deliver a more prolonged and steady supply to consumer markets on both sides of the border. At certain times of the year, tomatoes are brought up from

¹⁶² Interviews with authors under the Chatham House Rule, Kano, Dawanau and Jibiya markets, and Niamey, March and April 2015.

central Nigeria and Benin to meet demand in Niger. Beans, onions and potatoes are also grown in both Nigeria and Niger, and traded at different periods to meet demand in a range of West African regional market outlets. Meanwhile, with its arid climate, Niger is an important supplier of sesame seeds, dates and tiger nuts to Nigeria; in some cases these products will have originated even further afield.

The scale of the Nigerian market is such that it can stimulate the revival of entire production sectors in its northern neighbour: over recent years surges in Nigerian demand for sesame seeds and groundnuts have sparked production booms in crops in the Zinder and Maradi areas of Niger. Market gardening in southwest Niger is heavily oriented towards serving the Nigerian market.

The scale of the Nigerian market is such that it can stimulate the revival of entire production sectors in its northern neighbour.

Complex trade circuits develop as result of these dynamics. Niger has a regional reputation for producing particularly high-quality red onions; these fetch such good prices on the West African coast that Nigerien traders prefer to export most of the output to cities such as Abidjan, Accra and Cotonou (where onions from western Niger are sold in Dantokpa market as a premium product).¹⁶³ They then import onions from local sources across the border in northern Nigeria to meet domestic demand among Niger's consumers.

Official figures do not capture the full scale of this traffic, however. Published data suggest that only 80,000 tonnes of the country's estimated annual cowpea output of 1.5 million tonnes are exported; but farm-sector insiders say that in reality most of the cowpeas are exported, and that much of this traffic probably goes to Nigeria.¹⁶⁴ To take another example, many of the hides officially originating in Niger and exported to Nigerian leather tanneries in fact come from other countries such as Chad, but they pass through Niger and are declared as Nigerien to benefit from the more liberal trade conditions within ECOWAS.¹⁶⁵

These trading circuits reflect both today's demand and supply pressures and a long history of trading, cultural and personal ties between merchants in cities such as Kano

and Jibiya and their counterparts in Maradi and Niamey. Local Hausa businesses play a particularly important role. Understanding the complementarities of these trade flows can lead to the adoption of more suitable trade and market-support policies.

Moreover, these networks extend far beyond the agricultural sector. Nigerian manufactures can routinely be found in local markets in Niger. Cement is smuggled across the border, apparently in both directions, often in cars whose rear axles have been strengthened to carry the additional weight. Niger has little manufacturing capacity of its own, and the country's only textile factory has to import the cotton it needs. But the country is now seeing experiments with small-scale industry using local raw materials, such as the production of couscous from cowpeas for export to Nigeria. The scale of the adjacent Nigerian market clearly offers scope to develop further projects of this kind.

The start of Nigerien oil production in 2011 in the Saharan Agadem field has even stimulated the emergence of a local export trade in fuel refined at the small refinery near Zinder. Domestic demand is only 7,000 barrels a day (b/d), but the Zinder plant has a capacity of 20,000 b/d, so the surplus is exported to Nigeria, Mali and Burkina Faso.

Not all the trade that moves across the northern border originates within the region. Large volumes of goods from around the world, destined for Kano and surrounding regions, are landed at Cotonou port and then trucked into the Nigerian north via Gaya and Dosso in Niger – or via a new direct road into Kebbi state from northern Benin.¹⁶⁶ These routes are much longer than the direct road or rail connection from Lagos port to Kano, but they often offer much lower costs and shorter travel times.

The resumption of rail container services from Lagos to Kano has jumpstarted the competitiveness of the internal Nigerian route from Lagos. But this will soon be rivalled by the new rail line now under construction from Cotonou to Gaya and Niamey, which will help sustain the flow of cargo that reaches northern Niger via Benin and Niger.

There is a strong argument for accelerating the development of cross-border infrastructure on a scale to match the potential and opportunities for cross-border trade in West Africa. Such regional projects would make up for the shortfalls in individual national efforts. Trade

¹⁶³ Interview with authors, Dantokpa market, Cotonou, March 2015.

¹⁶⁴ Interviews with authors, Jibiya, Kano and Niamey, March and April 2015.

¹⁶⁵ Interview with authors under the Chatham House Rule, Kano, March 2015.

¹⁶⁶ Interviews with authors under the Chatham House rule, Kano, Cotonou and Niamey, March, April and June 2015.

Table 2: Livestock trade flows in number of head and value, northwest Nigeria

Analysis of livestock trade in Gumki (Kebbi state), Ilela (Sokoto state), MaiAdua (Katsina state) and Maigatari (Katsina state)

September 2014							
Country of origin	Cattle		Goats		Sheep		Total number of animals sold
	Number sold	Value (\$)	Number sold	Value (\$)	Number sold	Value (\$)	
Burkina Faso	220	155,843	n.a.*	n.a.	n.a.	n.a.	220
Benin	46	22,566	n.a.	n.a.	n.a.	n.a.	46
Mali	353	258,824	n.a.	n.a.	n.a.	n.a.	353
Niger	25,657	14,928,755	824	375,145	1,566	833,597	28,047
Nigeria	19,690	15,131,544	n.a.	n.a.	51	5,560	19,741
Total	45,966	30,497,531	824	375,145	1617	839,158	48,407

October 2014							
Country of origin	Cattle		Goats		Sheep		Total number of animals sold
	Number sold	Value (\$)	Number sold	Value (\$)	Number sold	Value (\$)	
Burkina Faso	1,885	1,386,048	n.a.	n.a.	n.a.	n.a.	1,885
Mali	2,208	1,714,926	n.a.	n.a.	n.a.	n.a.	2,208
Niger	16,859	15,407,467	445	38,175	10,067	1,675,566	27,371
Nigeria	21,205	19,966,126	689	43,449	9,898	1,672,443	31,792
Total	42,157	38,474,566	1,134	81,624	19,965	3,348,010	63,256

November 2014						
Country of origin	Cattle		Sheep		Total number of animals sold	Total value (\$)
	Number sold	Value (\$)	Number sold	Value (\$)		
Burkina Faso	450	363,426	n.a.	n.a.	450	363,426
Mali	715	595,818	n.a.	n.a.	715	595,818
Niger	19,531	17,607,064	6,210	1,321,766	25,741	18,928,830
Nigeria	9,931	8,951,508	1,910	263,106	11,841	9,214,614
Total	30,627	27,517,816	8,120	1,584,872	38,747	29,102,688

*n.a. = not applicable.

Source: CILSS – Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel [Permanent Interstates Committee for Drought Control in the Sahel] (research supported by the World Bank).

along Nigeria's northern borders would benefit from the creation of development corridors – large-scale infrastructural projects along historical trade routes that could be designed to foster regional trade and economic growth. A 2005 study by the New Partnership for Africa's Development (NEPAD),¹⁶⁷ which identified 12 possible development corridors in Africa and shortlisted seven for further evaluation, highlighted the potential of opening

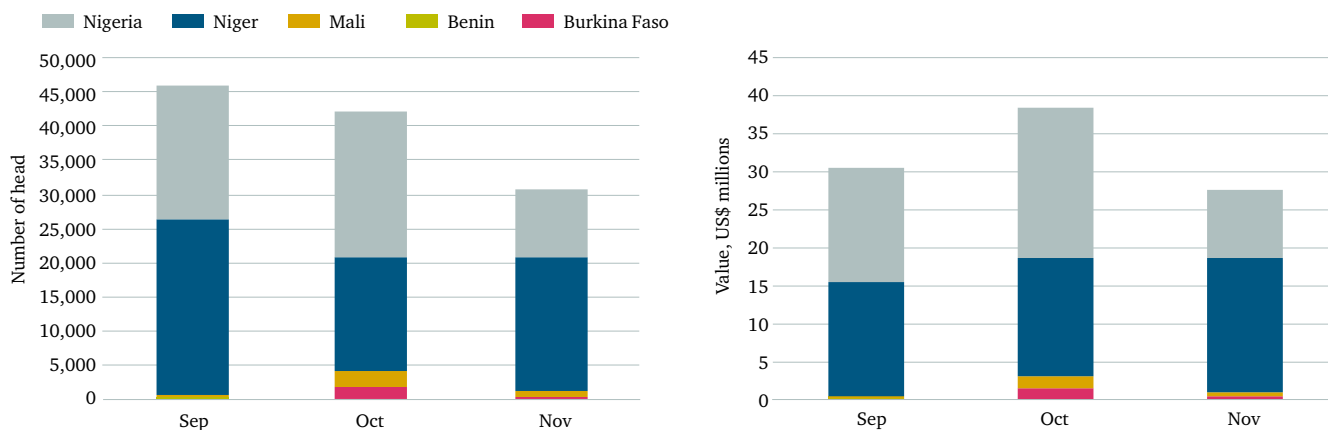
a route from Dakar (Senegal), through Banjul in The Gambia, east via Timbuktu and Bamako (Mali), and through Niger to Port Harcourt (Nigeria).

Without bold improvements in infrastructure, the high cost of trade will remain unchanged. Infrastructure improvements that are strategically developed and distributed are essential to driving economic growth in the region.

¹⁶⁷ African Union Commission, UN Economic Commission for Africa, African Development Bank, NEPAD Planning and Coordinating Agency, *Programme for Infrastructure Development in Africa: Interconnecting, integrating and transforming a continent*, 2005, <http://www.nepad.org/sites/default/files/PIDA%20Executive%20Summary%20-%20English.pdf> (accessed on 25 August 2015).

Figure 9: Change in cattle trade flows in number of head and value, northwest Nigeria, Sep–Nov 2014

Analysis of livestock trade in Gumki (Kebbi state), Ilela (Sokoto state), MaiAdua (Katsina state) and Maigatari (Katsina state)



Source: CILSS – Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel [Permanent Interstates Committee for Drought Control in the Sahel].

Box 5: Cross-border livestock trade

Torodi market, Niger

Export sales to Nigeria are one of the main activities of the Friday morning livestock market in Torodi, a town 60 km west of Niamey. Between five and seven trucks depart each week from Torodi carrying cattle, goats and sheep. Animals are also sold to dealers who then walk them south.

Some pastoralists buy animals to replenish their own herds, but much of the trade is destined for slaughter in the meat markets near the West African coast. The business has a wide regional impact: a number of smaller local markets supply stock for sale in Torodi, where the local traders' association has more than 100 members.

Some traders complained in early 2015 that even here – far from the main areas affected by Boko Haram violence – insecurity

in Nigeria had depressed prices.^a But others said that although banditry was a problem around Kano, conditions were secure in the far western trade corridor which runs south from Torodi towards Kebbi state.^b

Business is buoyant, with some Nigerian dealers sharing trucks to take weekly consignments of animals direct to Lagos. The traffic appears informal, but significant proportions may in fact pass through official channels, with some traders insisting they pay customs duty and obtain official documentation. A degree of control may be imposed by Niger's system of veterinary checks, which dealers generally regard as a benefit because it ensures the stock they buy is healthy and will be fit for sale for human consumption.

^a Interviews with authors under the Chatham House Rule, April 2015.

^b Interviews with authors under the Chatham House Rule, Torodi, April 2015.

Livestock and transhumance across the Sahel to Nigeria

Huge numbers of livestock also transit across the Niger–Nigeria border. There are two main components to this activity.

In traditional patterns of transhumance, nomadic pastoralists move their animals between Niger and grazing areas to the south in Nigeria, Chad and even the Central African Republic, through a seasonal cycle in

response to patterns of rainfall and resulting fluctuations in the availability of grazing in different regions.¹⁶⁸ In eastern areas this traffic has been partially disrupted by the insecure conditions where Boko Haram is active. This may be putting strain on more central and western transhumance corridors.

But there is also a huge export trade in animals raised in Niger, the largest livestock producer in West Africa.¹⁶⁹ An estimated 80 per cent of these exports go to Nigeria, particularly the populous urban consumer markets. Some

¹⁶⁸ *Atlas sur l'Élevage au Niger*, Ministry of Livestock, Republic of Niger, April 2014.

¹⁶⁹ *Les Statistiques du Secteur de l'Élevage, Rapport Annuel 2012*, Ministry of Livestock, Republic of Niger.

are transported by truck, often as far south as Lagos,¹⁷⁰ while others are walked to market over huge distances. This trade is culturally distinct from the transhumance of pastoralists, who regard their animals as a foundation of their wealth and social standing and only sell them occasionally.

The importance of the Nigerian market for the Nigerian livestock sector, and the pull that it exerts on trade patterns, may be reflected in the fact that meat prices are generally lower in Abuja than they are in Niamey.¹⁷¹ However, the influences on price are hard to gauge accurately: meat is also cheaper in the capitals of other countries that import it from Niger, even though they are much smaller markets.

Business and government infrastructure in Niger has developed to support the livestock trade. Large volumes of both formal and informal livestock trade pass through Nigerian border posts, with official figures collected by the government encompassing both. This close oversight of the traffic is possible because of the infrastructure that Niger has developed to support a critical sector for the economy and livelihoods. Niger has 635 livestock markets; 80 of these are monitored by the government, which has also established a network of veterinary posts. At the same time, ECOWAS operates a system of livestock passports to keep records of the size of herds, vaccinations and other welfare data. As noted above, major border markets such as Illela have developed (see Box 4).

Pastoralists face increasing barriers to formal engagement with the government, and their livelihoods are deeply misunderstood in many parts of the country.

Just as Sahelian demand for cereals is an important driver of agricultural production and farmers' incomes in northern Nigeria, the southbound trade in livestock is a critical engine for the livestock rural economy in Niger. However, gauging the true scale of livestock exports to Nigeria is extremely difficult. The livestock ministry estimates that Niger had 41 million animals in 2014, with an approximate market value of CFA3,146 billion (€4.79 billion). According to central bank figures, livestock

exports amounted to CFA73.6 billion (€112 million). However, the data available to the ministry lead it to think that these official figures may account for as little as 15–20 per cent of the true export flow of animals across the 1,497-km border with Nigeria.

Nigeria is by far the largest consumer market for meat and dairy products in the region. It is estimated that the country has 19 million cattle (worth \$300 million) and 108 million sheep and goats of its own – roughly the second-largest population of livestock in Africa.¹⁷² Also according to Nigeria's agriculture ministry, overall beef demand is set to rise from 310 to 650 metric tonnes in 2020 (with a best-case scenario of 1,600 metric tonnes) while beef consumption per capita may rise from 2 to 4 kilogrammes in 2020 (with a best-case scenario of 8 kilogrammes) as a result of growth in population, the size of Nigeria's middle class and per capita income.¹⁷³ But pastoralists face increasing barriers to formal engagement with the government, and their livelihoods are deeply misunderstood in many parts of the country. Many in the livestock trade accuse the Nigerian government of bias towards crops over livestock, and of doing little to create harmony between livestock rearing and farming – preserving designated grazing areas for cattle, for example, could help to defuse conflict between pastoralists and farmers. The most recent livestock census in Nigeria was carried out in 1993. The increasingly negative perceptions of local participants in the livestock sector reflect this lack of engagement, which will continue to be a barrier to the formalization of pastoralism and the livestock trade in Nigeria.¹⁷⁴

The 37th state: trade across the southern Benin and Nigerian border

Arguably the most important regional economic axis in West Africa, the Lagos–Cotonou corridor is the funnel through which much of Nigeria's informal trade flows. Trucks jam the Badagry Expressway linking Lagos to the official border crossing at Sémé, but large flows of activity fan out to the north through a host of mainly informal border crossings on tracks through the countryside.

Numerous entrepôts and markets – several among the continent's largest – support this flourishing two-way

¹⁷⁰ Interviews with authors under the Chatham House Rule, Torodi and Niamey, March and April 2015.

¹⁷¹ *Stratégie d'Autofinancement de l'Interprofession Bétail Viande, Cuir et Peaux au Niger*, Ministry of Livestock, Republic of Niger.

¹⁷² 'Agricultural Investment Opportunities in Nigeria: Beef Processing Investment Case', Federal Ministry of Agriculture and Rural Development, Federal Republic of Nigeria, February 2014, http://nigerianagriculturenews.ng/wp-content/uploads/2014/02/130321_beef-Investment-Case_vHMA.pdf (accessed on 23 November 2015).

¹⁷³ *Ibid.*

¹⁷⁴ Mohammed Bello Tukur, 'Re-imagining Pastoralism and Livestock Development in Nigeria', *Premium Times* newspaper, 14 August 2015, <http://blogs.premiumtimesng.com/?p=168441> (accessed on 17 November 2015).

traffic. Beninois analysts who have studied the trade estimate that as many as 700,000–800,000 people, mainly in the Cotonou area, depend on the cross-border trade for their livelihoods.¹⁷⁵

The Benin government and the UEMOA common central bank, BCEAO, have studied the traffic for a number of years. The authorities have carried out research in border areas on the informal flow of trade, temporarily suspending border force actions against smuggling in order to create an environment in which local traders felt free to talk to the research teams.¹⁷⁶ As a result of this research, officials estimate that in 2013 traders re-exported to Nigeria some CFA253.2 billion (€386 million) worth of goods originally imported into Benin from elsewhere; of these shipments, only CFA34.6 billion worth were officially declared as goods in transit to Nigeria when they arrived in Benin.¹⁷⁷

On the Nigerian side of the border, the trade fair site at Badagry is an important export hub, while the sprawling Alaba district is the centre of wholesale and retail trade in electronic goods imported both formally through Lagos port¹⁷⁸ and informally via Benin.

On the Beninois side, the giant Dantokpa market in Cotonou sells food, second-hand clothes and consumer goods. This became such an important source of supply for locally based Nigerian dealers that they have now been allocated a market site of their own at Missebo, near Sémé.¹⁷⁹

Huge volumes of traffic pass through Sémé itself, where the border control facilities are surrounded by local shops. A new integrated 'one-stop' border post has just been constructed as part of an ECOWAS scheme to simplify border crossings across the region and reduce the scope for travellers and truck drivers to be subjected to illicit 'taxation' by officials. But much trade bypasses Sémé and other official border posts via secondary highways where informal passage can be rapidly 'arranged' with officials, saving time – and thus money.

The flow of imports into Nigeria encompasses a wide range of goods, some produced in other West African countries but many – including consumer durables and vehicles – imported from other parts of the world. As

discussed earlier, informal trade volumes are boosted by Nigeria's imposition of import bands and tariffs on official trade, in an effort to protect domestic production.

The above-mentioned 2012 GIZ study of cross-border trade in Ogun state¹⁸⁰ found that food accounted for 29.8 per cent of imports, with animal and vegetable oil accounting for a further 8.9 per cent. Overall, agricultural products accounted for 44.3 per cent of imports and manufactures 51.5 per cent. By contrast, manufactures accounted for 93.7 per cent of exports from Ogun state – an indicator of the often unrecognized scale of Nigerian industrial export trade, particularly within ECOWAS; indeed, all the exporters surveyed by GIZ said that they were trading within ECOWAS.¹⁸¹

Officials estimate that in 2013 traders re-exported to Nigeria some CFA253.2 billion (€386 million) worth of goods originally imported into Benin from elsewhere; of these shipments, only CFA34.6 billion worth were officially declared as goods in transit to Nigeria when they arrived in Benin.

Significant volumes of informal imports are allowed through official border crossings, facilitated both by illicit payments and by border officials' inability to thoroughly control the huge volumes of trade that pass through. The task is made harder because traders typically mix local products with goods from outside ECOWAS on the same truck.

Traders explain that importing formally is difficult and slow.¹⁸² Using the informal route also has disadvantages – it is more expensive and there is no insurance protection if things go wrong – but it is much quicker.

Imports of certain items from CFA franc economies fluctuate in line with exchange rates: when the naira is weak against the CFA (which is tied to the euro), imports decline because Nigeria's domestic producers are more competitive, and vice versa.

¹⁷⁵ Interviews with authors, Cotonou, March 2015.

¹⁷⁶ Interviews with authors, Cotonou, June 2015.

¹⁷⁷ *Balance des Paiements et Position Extérieure Globale, Benin 2013*, BCEAO and Ministry of Economics and Finance, Benin, Cotonou, December 2014.

¹⁷⁸ Interview with authors, Alaba market, June 2015.

¹⁷⁹ Interviews with authors, Cotonou, June 2015.

¹⁸⁰ Okafor, *Enterprise Baseline Survey 2012*.

¹⁸¹ Ibid.

¹⁸² Interviews with authors, Lagos and Cotonou, March and June 2015.

Box 6: Beninois agricultural and food exports to Nigeria

Benin's agricultural potential and Nigeria's consumption needs naturally complement each other. Nigeria is West Africa's largest market, with a hefty appetite for imported food. Benin, on the other hand, has only 10.6 million people, but an unfulfilled need to bolster and diversify its rural economy. At present, only 20 per cent of land in Benin that is suitable for farming is actually under cultivation. Moreover, farming families in the centre and north of the country are heavily reliant on cotton as a cash crop. So there is considerable scope to expand the production of rice and other cereals, as well as crops such as cashew nuts and Benin's highly prized pineapples, for export to the huge Nigerian market next door.

Translating potential into real business growth poses challenges. For example, in 2011 Benin adopted a strategic plan for the development of agriculture – but it has not been implemented because of administrative inertia or even outright resistance from vested interests in the administration and business community.

At present, almost all local agricultural exports are informal, and Nigerian buyers view Benin as a source of cheap low-quality supply, operating inconsistently at the bottom of the market, with few well-organized wholesale networks to link village producers to business buyers across the border. Formalization could bring substantial benefits in terms of quality control, efficiency, safer payments and increased sales, if only the numerous practical obstacles could be overcome.

The Netherlands, which has led donor support for Benin's private sector for the past four years, is funding a pilot project to develop more organized food exports to Nigeria. This focuses on five products: palm oil, fish, cassava and garri, maize and chilli pepper.

The experiment has exposed the scale of problems to be overcome on either side if a more substantial formalized flow of trade is to be developed. Nigerian buyers complain that Beninois production volumes are often too small to satisfy their import demand, and that the quality of products such as palm oil is often poor. A 1,000-tonne warehouse has now been built near the border, where larger volumes can be assembled, and farmers are starting to work together in organized groups to improve the quality of their produce. In the case of pineapples, juice is already exported to Nigeria on a large commercial scale.^a

It is proving difficult to shift more of this farm trade into the formal sector, particularly because customs procedures are bureaucratic and numerous checkpoints on the main border roads cause delays and increase costs. Import restrictions and other official non-tariff barriers are a deterrent to formal trade. The rules of the ECOWAS Trade Liberalization Scheme are applied inconsistently or not at all. Restrictions imposed by the CBN on trade payments are a further deterrent.

Here again, therefore, although many transactions could be formalized, traders commonly opt for the informal route because this is much quicker, cheaper and more efficient.

^a Interviews with authors, Cotonou and by email from Nigeria, June and July 2015.

Along the northern border, informal traders take the risk of transporting large volumes of cash for exchange or deposit over long distances. But at the Sémé crossing, which is surrounded by local bank branches and money-changers, they do not have these concerns; funds can be converted on the spot and then paid directly into the supplier's account at a bank branch at Sémé before traders travel on to collect the goods.

Benin has been content until now to allow the continuation of this large volume of informal re-export trade – consisting of goods imported formally into Cotonou port and then smuggled into Nigeria. This is because the traffic has generated major economic, financial

and social benefits. It produces wealth for the business community, and more broadly for business and political circles. It creates many ordinary jobs and opportunities for small businesses.¹⁸³ And it also produces a lot of revenue for the state: over the past decade, customs receipts have accounted, on average, for 53 per cent of state fiscal revenues, with receipts generated by imports that are destined for informal re-export to Nigeria representing a particularly important slice of this income. For example, in 2012 the main products re-exported – rice, meat, other foodstuffs and garments – accounted for 37 per cent of Benin's import volumes and 47 per cent of all customs receipts.¹⁸⁴

¹⁸³ Interviews with authors, Cotonou, June 2015.

¹⁸⁴ Ndoye, *La Gestion des Finances Publiques au Bénin Face aux Défis du Développement*.

Box 7: Idumota – entrepreneurial Nigeria at its most dynamic

Crammed into a city-centre site on Lagos Island, Idumota market is a major hub for Nigerian export sales to West African markets. Local consolidators share the site with traders from countries such as Burkina Faso, Benin, Mali and Togo. Amid containers used as warehouses are trucks from across the region, stacked high with boxes and sacks holding a huge variety of consumer products.

This is entrepreneurial small business at its most dynamic – a finger on the pulse of Nigeria's role as a supplier of mass-market consumer manufactures to less industrialized countries across ECOWAS, and an indicator of the potential for further job creation and wealth generation in non-oil sectors.

Idumota's export zone operates on a largely informal basis. Yet the scope for gains in efficiency and competitiveness is evident. Even small public interventions could do much to help traders operate more effectively and facilitate a transition to more formalized activity.

In this market, too, there is a sense of grievance among exporters who have tried to adopt formal procedures but feel that these have merely imposed tiresome administrative burdens.^a The

extra work and costs have not been offset by any compensating benefits: in practice, most traders are unable to access the EEG support proffered by the federal government to promote non-oil exports, and CBN regulations seriously impede the transfer of payments from customers in economies using the CFA franc.

Faced with these hurdles, many traders have retreated – as they have in other markets – to a mainly informal mode of operation in relation to the Nigerian state, even when they may comply with formal procedures in relation to other countries in the region. There have been a few recent improvements: traders report that Benin has stopped levying certain duties at the border, in what they assume is a move towards implementation of the new ECOWAS CET.^b

One federal agency that has taken a serious interest in the Idumota traders' concerns is the NEPC. It has persuaded them to start keeping proper records, as a step towards formalization. The NEPC's zonal office in Lagos has identified scope to improve local facilities at Idumota, perhaps through the provision of better facilities for truck drivers, and an office and meeting space with a good internet connection for the traders.^c

^a Interviews with authors, Idumota (Lagos), March 2015.

^b Interviews with authors, Idumota (Lagos), March 2015.

^c Authors' interview, Lagos, March 2015.

Food trade with West Africa and the rest of the world

Nigerian internal demand is also a critical driver of the trade in agricultural produce that flows into the country over its western border with Benin. This comprises significant volumes of rice, maize and other crops produced in Benin itself. A substantial share of the traffic is also rice imported from international suppliers, mainly in Asia.

Over the past five years Nigeria has been engaged in a major drive to boost domestic production of cereals. This programme has had some success, but the picture is complicated for rice,¹⁸⁵ because it is a commodity available in large volumes from the international market. The scale of rice imports into Nigeria from other parts of the world is heavily affected by a range of factors:

- the volume of domestic output, which has been shaped both by national efforts to develop food self-

sufficiency and by weather conditions, which can vary from year to year;

- comparative differences in production costs and price conditions between domestic farming and supplies available on the world market;
- consumer tastes and perceptions of quality;
- marketing and wholesaler supply networks;
- government efforts to influence the formal trade flow into Nigeria through the imposition of tariffs; and
- the porous nature of the border with Benin and the Nigerian economy's consequent capacity to import large volumes of Asian rice informally and without regard to the official tariff rates.¹⁸⁶

In a context where so many variables apply, it has proved particularly difficult to influence import flows through the imposition of tariffs. The government has

¹⁸⁵ Over the years, rice importation in Nigeria has been subjected to successive bans while controversial import waivers have been granted to some businesses at various times. Many analysts have argued that Nigeria's policies on rice importation have done less to boost production and more to incentivize rice smuggling through Benin and cause losses in government revenue from the import duty on rice. As part of efforts by the government of former president Goodluck Jonathan to boost rice production, a 100 per cent tariff (up from 50 per cent) was imposed on brown, semi-milled and wholly milled rice in February 2013. In 2014, 26 companies benefited from the government's rice import quota policy to jointly import 1.3 million metric tons of rice to cover the gap between domestic demand and output. Under this policy, a preferential duty regime for rice imports allowed so-called 'beneficiary investors' of the concession to pay 10 per cent duty and a 20 per cent levy, while other importers paid 10 per cent duty plus a 60 per cent levy. For in-depth investigative reporting on Nigeria's import duty regime for rice, see Andrew Airahuobhor, 'Import Duty Scam: Rice Importers Defy Govt', *Daily Independent Nigeria*, 18 June 2015.

¹⁸⁶ Interviews with authors, Abuja and Cotonou, March and June 2015.

therefore adjusted tariff rates on a number of occasions. The correlation between tariff adjustments and both production and prices in the domestic consumer market remains uncertain at best.

Substantial trade in agricultural products within ECOWAS includes food crops produced in Benin, although the scale of this trade is hard to quantify. Some observers suggest that Benin is a producer of only marginal significance. However, Beninois experts on the border economy believe that the volumes of local farm production that flow into Nigeria are probably much larger than is generally realized. Certainly the trade is an important source of income for many Beninois communities along the 773-km border between the two countries.

However, there is no doubt that the volumes of business fall far short of their full potential, because of numerous practical and administrative hurdles. These are also a constraint on the development of exports to Nigeria from other francophone African agricultural producers such as Mali, where the inland delta of the Niger River has the scope to become a major source of supply for markets across West Africa.¹⁸⁷

Exporting from Nigeria to the region

A natural complementarity between Nigeria's economy and those of its neighbours helps to fuel the growth of regional trade. Nigeria has a much more developed and diverse industrial base than most adjacent countries, thanks to the size of its home market, the diversity of supporting financial, transport and other service business sectors, and the federal government's ability to provide financial and technical assistance (for example, through the NEPC and NEXIM) to local exporters on a scale that most other West African states could not afford.

Nigeria is therefore well positioned to act as a source of manufactured products to the rest of ECOWAS, and is increasingly aware of the potential to expand this activity. According to some estimates, the country accounts for roughly 80 per cent of the production of manufactured goods in West Africa.¹⁸⁸ The NEPC, in particular, is engaged in a sustained campaign to bolster export flows, for example through the creation of an export hub in Lomé, which is an important distribution centre for surrounding economies.¹⁸⁹

Trade is not limited to manufactures. Northern Nigeria is an important provider of grain to Sahelian markets, while the energy sector is a major source of supply to neighbours. As noted above, gas is exported to Ghana, Togo and Benin through the West Africa Gas Pipeline, a trade that is conducted through formal arrangements. Meanwhile, huge volumes of petrol and other petroleum-based fuels are sold informally to buyers in Benin.

The cross-border black market for Nigeria's subsidized fuel

The export trade in refined fuel is one of the largest and most visible components of the informal trade that crosses the Nigeria–Benin border. This traffic – locally known as *kpayo* – is almost entirely informal and accounts for the overwhelming bulk of refined fuel sold in the Beninois domestic market, including probably more than 80 per cent of petroleum products as well as 20 per cent of diesel and other products.¹⁹⁰

The driver for this traffic is Nigeria's system of fuel subsidies. This ensures that fuel smuggled in from Nigeria is more competitive than that supplied by the formal-sector Benin national fuel distributor SONACOP, which has been driven to the brink of collapse and is largely inoperative. The attraction of smuggling is enhanced by the fact that Beninois traders and consumers are using the CFA franc for payment since this, being pegged to the euro, is a much stronger currency than the naira. Moreover, the depreciation of the naira further reduces the cost of the smuggled Nigerian fuel in CFA franc terms, increasing its attraction for Beninois consumers. These factors are sufficient to drive a further substantial trade in smuggled fuel to Togo (which also uses the CFA franc).

The fuel is smuggled into Benin on both an artisanal and a more industrial scale. Modes of transport include motorbikes carrying plastic jerrycans, cars in which the back seats have been replaced with fuel tanks, and trucks – with smugglers using both main roads and back roads. Smugglers also use small boats in the coastal lagoons or sailing offshore, often towing groups of jerrycans tied together, or even larger barges.

Oil-sector experts believe there are several possible origins for the fuel.¹⁹¹ Petrol may come either from the

¹⁸⁷ Interview with authors, Abuja, April 2015.

¹⁸⁸ Ken Ife, 'Nigeria: Trade Facilitation Issues, Challenges and the National Trade Facilitation Action Plan', Nigeria Development Finance Forum, London, 24–25 May 2012, <http://myndff.org/wp-content/uploads/2014/12/Trade-facilitation-issues-challenges-and-national-trade.pdf>.

¹⁸⁹ Interviews with authors, Abuja, February and March 2015.

¹⁹⁰ Republic of Benin finance ministry data cited in Ndoye, *La Gestion des Finances Publiques au Bénin Face aux Défis du Développement*.

¹⁹¹ Author email interview with oil-sector specialists, August 2015.

output of Nigeria's own refineries or from the large volumes imported from Europe into Nigeria (to cover the shortfall in functional domestic refining capacity). Fuel may be stolen during discharge in Port Harcourt or directly from the pipeline network of the Nigerian National Petroleum Corporation (NNPC) – which loses 40 per cent of all oil products to leakage, sabotage, theft and equipment failure.

Diesel is less prone to being smuggled because it is not subsidized in Nigeria. However, there is an illicit trade in diesel made from stolen crude, which can easily be distilled informally, though the quality of the resulting product varies enormously. (Petrol cannot be made this way, so it tends not to be produced from stolen Nigerian crude.)

The trade has an obvious economic impact. Fuel smuggled in from Nigeria is sold at roadside stalls in Benin¹⁹² and the trade is thus part of the informal market economy. But there is no assurance of quality, while the fumes carry health risks for those working on the stalls and their family members, particularly children.

This trade also represents a significant fiscal cost for both Nigeria and Benin. For as long as Nigeria maintains fuel subsidies, it is actually also subsidizing the supply of fuel to the citizens of Benin and Togo. The governments of those countries lose fiscal revenue from taxes or duties on formal fuel sales, which are much lower than they would otherwise be. For example, in 2012 the trade in smuggled fuel cost the Benin state revenues equal to 2 per cent of its total fiscal receipts.¹⁹³

However, the decline in global oil prices in the second half of 2014, and the continued relatively low level of prices in 2015, have reduced the price differential between fuel officially imported into Benin and sold through formal channels and the subsidized Nigerian fuel smuggled into the country.¹⁹⁴ If this trend persists, it may create room to revive the formal fuel trade in Benin. The trend would be accelerated if the Nigerian government took advantage of prevailing price conditions to further reduce fuel subsidies.¹⁹⁵

Unrecorded financial flows

There is little doubt that large volumes of money enter and leave Nigeria beyond the financial flows that are officially recorded. But gauging the scale of this activity is particularly difficult, because of the diverse range of interests and economic functions to which it relates.

Of course, these flows attract most attention when high-profile cases of suspected corruption are exposed or when 'politically exposed persons' are accused of being linked to the theft of national assets. Such cases spark media headlines and evidently have a negative impact on international perceptions of Nigeria. But other substantial flows that attract much less attention may well be more important in economic terms.

Significant volumes relate to activity that is clearly criminal, such as trafficking in people, drugs or ivory (the last is often illegally traded though Lagos, although sourced from other parts of Africa). Other financial flows may be generated by frauds such as the '419' technique.¹⁹⁶ Some money may be generated through legal economic activity, but may then be moved out of Nigeria informally to avoid tax and be banked or invested overseas.

However, large volumes of unrecorded financial flows are directly related to Nigeria's informal trade. In other words, these financial movements are driven by economic activity that is entirely normal and non-criminal, but that for a wide range of reasons is conducted informally. As this report has made clear, huge volumes of import and export trade flow between Nigeria and its African neighbours. Implicitly, the volumes of informal trade must be almost matched by counterbalancing informal business payments flowing in the opposite direction, and equally unaccounted for. Research and anecdotal interview evidence suggest that a tiny proportion of trading activity is conducted on a barter basis. The overwhelming bulk of informal exports and imports have to be paid for, usually in cash, mostly exchanged to or from CFA francs, Ghanaian cedi or other African currencies in the informal parallel market, often outside both the formal banking system and the formally regulated bureaux de change.

¹⁹² Authors' field research, Porto Novo and Adjara, Benin, March 2015.

¹⁹³ Ibid.

¹⁹⁴ Ibid.

¹⁹⁵ For an analysis of Nigeria's subsidy regime, oil industry reform and crude oil theft, see Aaron Sayne, Alexandra Gillies and Christina Katsouris, *Inside NNPC Oil Sales: A Case for Reform in Nigeria*, Natural Resource Governance Institute Report, August 2015; and Christina Katsouris and Aaron Sayne, *Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil*, Chatham House Programme Report, 1 September 2013.

¹⁹⁶ In a '419' case, a fraudster contacts someone overseas with an offer of participation in a lucrative and often overtly corrupt business opportunity, and requests bank details or even a small advance payment to cover initial operating costs. The business opportunity is, of course, entirely fictional, and is merely a device to secure banking details or money upfront. The term 419 refers to the section of Nigeria's criminal code that deals with fraud.

Central bank authorities have attempted to control the flow of trade payments by imposing rigorous reporting and documentary requirements. But it is clear that these actually deter many economic operators from trading formally; and in some cases, the rules are so tightly drawn as to effectively prevent them from doing so. The difficulty of making payments between Nigeria's naira-denominated economy and its neighbours that use the CFA franc is one of the principal drivers of informal trade, and of the continued use of informal cash channels for trade payments. Thus tight regulation actually has the paradoxical effect of increasing the volume of informal cross-border trade payments – financial flows that pass entirely unrecorded, entirely outside the officially supervised financial system and also outside the official balance-of-payments statistics.

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It is difficult to estimate the volume of these trade-related financial flows. But it is even more difficult to gauge the scale of criminal financial flows such as proceeds of corruption, trafficking and so on. Specialist police investigation teams in certain foreign countries that have close relations with Nigeria do of course take a close interest in these activities. However, the investigation of this type of crime is time-consuming and painstaking. Law-enforcement agencies often lack sufficient resources to tackle the phenomenon comprehensively. Instead, they tend to focus on selected and often high-profile cases that are seen as particularly important for wider efforts to counter corruption.¹⁹⁷

Foreign law-enforcement partners feel that the most effective means of reducing such criminal financial flows may lie in reforms to the overall context in Nigeria, to limit the opportunities for corruption or illicit activity – for example, through tighter regulation of foreign-exchange bureaux or the introduction of a requirement for newly elected or appointed holders of public office to declare their assets.¹⁹⁸

Global trade payment patterns and challenges

The complicity of powerful international institutions such as Western banks and tax havens in Nigeria's problems with illicit financial flows is a sensitive issue. The systematic nature of this form of financial fraud cannot happen without collaboration between local perpetrators and international actors.

Western governments, and those of major economies such as China, given its increasing role in development in Africa, and India, given its increasing role in trade, could perhaps take tougher measures to check fraudulent business practices by companies operating in Nigeria, and to counter illicit financial flows from Nigeria to offshore tax havens.¹⁹⁹ However, without a specific shift in policy to tighten international attitudes towards offshore centres, it seems unlikely that the flow of money from Nigeria would be reduced.

International investors, particularly in the oil, gas and mining sectors, adopt shrewd measures to take full advantage of the legal scope to reduce their tax liabilities through the use of offshore financial centres. Their activities are generally overt and clearly declared, so related financial flows are recorded. There may be scope for Nigeria to review the terms of the legislation governing the extractives sector, to enhance royalties and fiscal revenues – as Guinea has done since 2010²⁰⁰ – although this still relates to recorded financial flows.

For example, more public disclosure of terms of contracts and licences would help with transparency in Nigeria's mining industry. According to the head of Nigeria's Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), the mining sector contributes ₦2 billion or \$10.04 million to the federal account. However, because of poor regulation and disarray in the sector, illegal trade in minerals such as gold takes place in large quantities.²⁰¹

Among the wide range of factors that have an impact on financial flows, both formal and informal, is the growth of service-sector activity – and the development of a Nigerian economy in which information technology, media and web-based businesses play a much bigger role. This is exemplified by the growth of the entertainment sector (see case studies in Box 3 on page 23).

¹⁹⁷ Authors' interview with senior investigator in a major European law-enforcement agency.

¹⁹⁸ Ibid.

¹⁹⁹ Ibid.

²⁰⁰ Guinea Law L/2011/006/CNT, 9 September 2011, further modified by Law L/2013/053/CNT, 8 April 2013.

²⁰¹ For an overview of Nigeria's mining sector, see 'Nigerian Mining Sector', KPMG Report, February 2012, <https://www.kpmg.com/NG/en/IssuesAndInsights/ArticlesPublications/Documents/Nigerian%20Mining%20brief.pdf> (accessed on 30 November 2015).

5. Conclusion

The diversity and scale of Nigeria's unrecorded trade with its regional neighbours in ECOWAS are impressive. This phenomenon is powerful testament to the resilience and vigour of the economy and the importance of its connectedness with others in West Africa. But equally clear is the extent to which the traders engaged in unofficial activity, in both importing and exporting, are responding to economic drivers and practical realities.

To a significant degree, informal trade is a continuation of regional business relationships and social connections that have deep historical and cultural roots, far pre-dating the establishment of modern national boundaries. However, today's informal trading patterns are also very much a modern response to the financial and commercial incentives and practical constraints that condition the environment in which business takes place in Nigeria.

In a region with long-standing patterns of cross-border contact and exchange, when it becomes much more expensive – or more difficult – to trade within the framework of formal systems, the reality is that business people will opt for the informal alternatives that are readily available.

If it is costlier and more time-consuming to use Nigerian ports than ones in adjacent countries, then traders will use nearby ports and bring goods into the country over the border. If it is hugely difficult, expensive or in practical terms impossible to be paid directly through the banking system by a buyer in a francophone UEMOA market, then a Nigerian exporter will ship the goods over the border informally and collect payment in cash, making the exchange from CFA francs to naira without fuss in the incompletely regulated parallel market.

Because the current composition and scale of informal trade flows and the problems that apply to particular products or sectors are hard to measure when so much activity is unrecorded, there is a huge information gap in this area. This naturally complicates the task facing the Nigerian federal government as it seeks to formulate clear economic policies as well as specific measures for particular sectors. The volume of informal trade also represents a sizeable loss of fiscal revenue and contributes to economic planning challenges for the government.

However, during the course of this research and in discussions with a wide range of interlocutors, a range of ideas and perspectives emerged. By drawing on these encounters and analysing the results of the research for this report, the authors have identified a range of policies and more technical initiatives that might enable Nigeria to achieve change in significant areas.

Adoption of these measures would aim to:

- reinforce Nigeria's capacity to create a more incentivized, motivating, competitive and sustainable formal setting for entrepreneurship;
- enhance the efficiency and competitiveness of export and import trade in products other than crude oil;
- create conditions that enable informal traders to formalize their activities, and thus gain access to technical support, bank credit and secure cross-border payment systems; and
- improve fiscal revenue flows generated from formal trade, particularly through the ports.

Ultimately, the prospects for realizing the full potential of Nigeria's non-oil sector depend to a significant extent on critical decisions relating to government policy and public-service reforms that face the Buhari administration. They are also heavily influenced by the wider West African regional context and the progress of ECOWAS initiatives. The challenge facing the new government is to retune Nigeria's trade policy process and engage more deliberately with a transforming regional economy.

Policy recommendations

There is keen engagement and interest within government and the business community in exploring how to create an environment more conducive to formal trading activity, as evidenced in research interviews with senior policy-makers in Nigeria, Benin and Niger. From northern to southern Nigeria, the response of business people was that they would welcome the opportunity to pay taxes, but only if they received assurance that these payments represented a contract with government guaranteeing that conditions for business would be improved.

If Nigeria is to fulfil its real potential as the trading engine of the West and Central African regional economy, policy-makers need to create an environment that encourages trade to flow through recorded channels. They should seek to understand the needs of business and take the steps that will allow exporters and importers to operate formally and thus enhance the long-term efficiency and quality competitiveness of the Nigerian and wider West African economy.

The issues addressed in this report concern business and the wider private sector in Nigeria and across the ECOWAS region. However, as the largest economy and biggest market in West Africa, Nigeria is strategically placed to take a lead in addressing these challenges.

The government of Nigeria can make the greatest impact in developing a more functional trading environment within Nigeria and shape the business landscape across the region.

Therefore, the recommendations that follow are in large part within the domain of the responsibilities of the government of Nigeria but also draw in other partners, private and public, domestic and international, who all have important contributions to make in enabling Nigeria to build a competitive economic future.

Recognize informal realities

The Federal Government of Nigeria should recognize the dynamic informal business community as a fundamentally positive national asset. But only when this recognition manifests itself in the implementation of reform will it be truly meaningful. The government should view its taxi drivers, wholesale and retail marketers and distributors, private educators, hairdressers, mobile phone card vendors, transporters and shop owners as economic partners who can help to build growth, prosperity and employment prospects.

The Nigerian government must also be realistic and transparent about the drivers of informal activity. Nigeria cannot seal its borders; nor can it abolish West Africa's parallel currency market. If the conditions for trading formally are too difficult or expensive, business people will simply move their goods by informal routes instead. If small traders cannot make or receive cross-border payments easily and cheaply through the officially regulated financial system, they will simply turn to the unregulated parallel market. They cannot be stopped from doing so.

Facilitate formal trade

The government should therefore give absolute priority to measures that simplify formal trading procedures and make it easier and less costly for exporters and importers to move their activity into the formal realm. The current environment in which trade issues are reviewed and policies are formulated is fragmented and disorganized. Numerous practical measures, some costly but many quite inexpensive, could help formal trade flow more smoothly and assist businesses in the transition from informal to formal operation. Key steps should include measures to:

- **Strengthen the resources and capacity of the newly enlarged Federal Ministry of Industry, Trade and Investment.** This would create a clear policy lead and expert focal point for tackling trade issues. It would help to coordinate action across all key government ministries, departments and agencies, as well as

public and private stakeholders. It would also advance reforms that will make it easier for exporters and importers to operate formally. The NEPC is already doing much to assist exporters, but there is a need for better coordination across all branches of government in collecting, consolidating and sharing trade information, reviewing trade policies and creating incentives for traders to formalize their activities. Nigeria's National Bureau of Statistics also has a significant role to play over the coming years in measuring and capturing more of Nigeria's external trade, and its capacity to do so depends heavily on increased funding and technical support.

- **Improve basic facilities that support traders.** This could include improving the efficiency of existing single-window (one-stop) border posts and expanding their number to handle formalities at key crossings, installing truck parks, internet and basic office premises in markets, all-weather surfacing on market access roads, online booking for trucks to enter ports, and so on.
- **Simplify bureaucratic procedures imposed on business.** These must become less of a deterrent to smaller traders. For example, the procedures and criteria for accessing the EEG could be simplified.

Minimize opportunities for corruption

It is beyond the scope of this report to offer solutions to the challenge of corruption in Nigeria. But it is incumbent on the government to design and implement systems that minimize opportunities for graft by officials. In particular, it needs to:

- **Reorganize institutional responsibilities for assessing duty/tariff liabilities and revenue collection.** Customs and tax administration services should be integrated in a way that transfers the official responsibility of customs revenue collection to the Federal Inland Revenue Service (FIRS) only, while the Nigeria Customs Service retains authority for the control of consignments, ensuring compliance with the law and regulations, and assessing the liability of shipments for duties and tariffs. This would improve efficiency and information-sharing, and mitigate against informal payments at border crossings; in this way each service would act as a check on the other. Greater cooperation and coordination between both services would also be fostered through this arrangement, and there is the potential for revenue enhancement as a result of joint strategies to address tax fraud and evasion.

Approve a simple system between commercial banks for cross-border payments

The current arrangements are a massive disincentive to trade formalization, and one of the most consistent causes of complaint from business. West Africa's integration and the development of formal trade within the region should not be kept waiting for the distant day when a single currency may be set up. The urgent priority is to ensure that cross-border trade payments can be easily made under the monetary regimes that exists now in Nigeria and in the member countries of the West African Economic and Monetary Union (UEMOA).

- ***The Central Bank of Nigeria and BCEAO, the central bank of UEMOA, should urgently conclude the revision of cross-border commercial banking regulation*** to allow banks to operate simple services for small and medium-sized businesses to make trade payments directly from naira to CFA francs and vice versa.

Foster stronger and deeper neighbourly relations

There is a tendency to see informality as something that benefits neighbouring countries while causing problems for Nigeria. But in reality there are benefits and downsides in both directions and there is a readiness among neighbouring states to promote formalization. This goodwill can be matched by Nigeria. Workable solutions can be achieved through the various directorates of ECOWAS and bilateral commissions such as the Nigeria–Niger Joint Commission for Cooperation and the Nigeria–Benin Joint Commission.

ECOWAS is gradually constructing a framework for West Africa's international trade. This should improve conditions for business to operate formally, through measures such as the Common External Tariff and the draft Economic Partnership Agreement (EPA) with Europe. As the implementation of these measures reaches the final crucial stages, Nigeria will need to engage more fully with a mindset of enlightened self-interest. Germany, Europe's biggest economy, is engaged at the highest levels in shaping European Union policy in a way that protects its national interests and strengthens its global influence. Nigeria has a similar weight in ECOWAS and capacity for influence. Therefore, Nigeria should:

- ***Give high priority to engaging in the shaping of ECOWAS trade policy and the community's stance in international negotiations. Prioritize the incorporation of ECOWAS trade policy into Nigeria's national legal and policy framework.*** Civil service and diplomatic posts dealing with these issues and in the ECOWAS secretariat itself should be categorized as senior prestige roles requiring expertise and thus an avenue for promotion. Public officials in these positions should be fully trained to analyse technical aspects of trade issues using modern techniques.
- ***Take the lead specifically through the Nigeria Immigration Service (NIS) and Nigeria Customs Service in fully incorporating into domestic law and promoting the ECOWAS Protocol on Free Movement of Persons.*** This would assist formalization of cross-border trade, deepen regional economic integration and strengthen domestic economic growth. Harassment at the border is a major complaint of Nigerian traders and their West African counterparts. Border management agencies should prioritize procedural overhauls and staff training to reduce the time spent by citizens of ECOWAS member countries in going through formalities at Nigeria's borders.
- ***Collaborate with fellow ECOWAS countries to develop an ECOWAS trademark.*** This would promote consumer awareness of products of regional origin and, potentially, bolster demand, notably in sectors such as cotton textiles, where local design and quality are viewed as positive selling points. The attraction of securing the trademark and the authentication this can offer would give businesses and manufacturers an incentive to formalize their activity.
- ***Implement the ECOWAS Informal Trade Regulation Support Programme (ITRSP). This was budgeted at €65 million in 2013 but is yet to be launched due to a lack of funds.*** Because of its critical importance to the economies of all member countries of ECOWAS, it could be funded on a cost-sharing basis between regional members and international partners. Alternatively, the €6.5 billion pledged by the European Union, its member states and the European Investment Bank for activities linked to West Africa's EPA Development Programme for the 2015–20 period could be a source of funding.

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