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# Nigeria's Booming Borders: The Drivers and Consequences of Unrecorded Trade in Nigeria

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## Introduction

The following document provides a summary of a meeting held at Chatham House on 15 December 2015 that focused on the impact of unrecorded trade in Nigeria.

The speakers discussed the reasons behind the prevalence of unrecorded trade in Nigeria and its impact on the economy. The complexity and bureaucracy surrounding formal trade regulations in Nigeria was highlighted as a key reason behind the phenomenon. How the scale of informal trade could be addressed was discussed and recommendations were made to promote formal trade in Nigeria. The meeting launched the Chatham House report *Nigeria's Booming Borders: The Drivers and Consequences of Unrecorded Trade in Nigeria*, which was co-authored by Leena Koni Hoffman and Paul Melly.

The meeting was held on the record. The following summary is intended to serve as an aide-mémoire for those who took part and to provide a general summary of discussions for those who did not.

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## Leena Koni Hoffmann

Nigeria's recorded external trade for 2014 was over US\$135 billion. However, research suggests that 64 per cent of Nigeria's GDP is accounted for by the informal economy [brief explanation as to what the informal economy specifically is]. The speaker argued that informal trade is neither a marginal nor criminal phenomenon; a large number of legitimate businesses conduct informal trade. Nigeria's land border extends for over 4,000 kilometres, making it practically impossible to impose border restrictions. Nigeria faces numerous major economic challenges, particularly the falling oil revenues and the weakening of the Naira. There is an urgent need to boost the economy through non-oil revenue streams and to insulate the economy from fluctuations in commodity prices.

The report under discussion considers non-oil external trade, in the context of how the government can offer a crucial opportunity to pursue a less volatile and more sustainable path of economic growth. Ms Hoffmann stated that unrecorded trade networks in Nigeria are sophisticated and reflect a range of activities. It is estimated that between 70–80 per cent of Nigeria's import and export trade is unaccounted for in official government statistics. It is further suggested that as little as 1 per cent of Nigeria's trade with Benin passes through formal channels.

The speaker argued that informal trade is a pragmatic response to the obstacles that impede trading through formal channels. The sheer complexity and cost of trading procedures in Nigeria are overwhelming, if not insurmountable, and this creates strong disincentives to formalization of trade.

## Paul Melly

The speaker began by stating that it is small and medium-sized businesses that particularly benefit from conducting trade informally. However, the informal status of these businesses denies them access to government support schemes, and leaves them unaccountable to health and environmental regulations. The speaker argued that informal trade undermines the social contract as businesses believe that, even if they pay taxes, they will not receive improved services.

The key drivers of informality are as follows:

- Foreign exchange and banking regulations make it almost impossible to make direct payments between Naira and West African CFA Franc and vice versa. It is not possible to take Naira to a bank in Nigeria and pay a supplier in Côte d'Ivoire in CFA Francs. Conversely, in the informal economy, businesses can simply pay suppliers directly with cash.
- Businesses are subjected to corruption and informal taxation even when they use official trade corridors. There is therefore no disincentive to using informal channels, which, although as costly financially, are likely to be more efficient.
- An infrastructure discrepancy exists that is exemplified by the fact that Lagos port cannot compete with the infrastructure and resources at Cotonou port in Benin. This is despite the fact that the two ports are being run by the same company.
- Up to 2015, tariffs were lower in other ECOWAS countries than in Nigeria. This is slowly changing with the introduction of a common ECOWAS-wide external tariff, but it remains cheaper to declare goods as imports in Benin before smuggling them in to Nigeria.

The speaker recommended that:

- Formal trading procedures should be simplified, with less paper work and fewer hurdles and long waits.
- The resources and capacity of the Federal Ministry of Industry, Trade and Investment should be strengthened.
- The basic facilities at border markets should be improved to include truck parks and internet access. Border posts should also be expanded.
- Opportunities for corruption should be minimized and overall efficiency improved.
- Although ECOWAS is effective in the political and security spheres, it is yet to achieve the same level of effectiveness in developing economic structures to support trade. The central banks of Nigeria and its neighbours must reassess the regulation of cross-border banking so that major commercial banks can offer direct cross-border payment services.
- Nigeria has a tendency not to engage fully in the shaping of ECOWAS trade policy. Any agreements reached therefore tend to be driven by the needs of other West African nations. Nigeria must make increased engagement in ECOWAS a top economic and trade priority.

## Summary of question and answers session

### Questions

The speakers were asked how they will ensure that their research has a practical impact.

The speakers were asked whether their research has examined the impact of informal trade on young entrepreneurs and start-ups as well as on Nollywood and the entertainment industry.

A participant commented that the speakers did not mention transport or infrastructure. If it is the case that this is a less pivotal aspect of informal trade, the speakers were asked to consider whether the emphasis given to infrastructure by African governments, including in Nigeria, is therefore a strategic error.

### Paul Melly

The speaker stated that infrastructure is in fact heavily referenced in the report. In addition to the specific challenges facing the port in Lagos, it can also take several hours to drive out of the Apapa area due to port-related traffic congestion. Railroad development has been neglected up to now but container trains

running from Apapa to Kano have recently resumed. This is a very helpful development for businesses in northern Nigeria in particular.

### **Leena Koni Hoffmann**

The speaker highlighted the fact that none of Nigeria's rail lines crosses its national borders. The Ministry of Power, Works and Housing must recognize that transport systems in Nigeria are in need of development. As for the entertainment industry, a section in the report is given to a discussion of Nollywood and its potential for Nigeria's economic growth. The entertainment industry is a sector that is rife with informality. In her capacity as Chair, Elizabeth Donnelly stated that the report was deliberately designed to have as great a policy impact as possible. It has been launched in Abuja, Lagos and Kano, and meetings have been held with senior policy-makers. The recommendations have also been framed in such a way as to make them achievable rather than aspirational.

### **Questions**

The speakers were asked whether they believed the ability of Nigeria to capitalize on the opportunities that ECOWAS has to offer had been hampered by a leadership deficit.

The impact of the security situation in the northeast on Nigeria's ability to introduce economic formalization reforms was raised. It was also questioned whether less concern should be given to the northern Nigerian states in terms of trade, as neighbouring Cameroon and Chad are not as significant trade partners as Nigeria's neighbours to the west.

The speakers were asked to comment on whether there is any potential for growth and trade between Nigeria and the central African nations such as Cameroon or Chad.

### **Leena Koni Hoffmann**

The speaker argued that given its recent history, any administration would find Nigeria to be a difficult country to run. The country has the largest population in Africa and its government structures are not designed to be efficient. The issue of informal trade is partly a result of federal leadership, but the report argues that it is possible to make changes at both the local and the state level. As revenue from oil sales decrease, alternative sources of income must be found. State governments therefore need to think about generating more internal revenue.

The report also discusses Nigeria's northern trade and highlights significant markets within the region. The question of opportunities for creating trade with central Africa is beyond the scope of the report, but there may be some potential. However, the security situation in the northeast of the country remains an issue.

### **Paul Melly**

It is important that Nigeria plays a major role in ECOWAS while avoiding trying to dominate the organization and, as a result, antagonizing other member states. Nigeria contributes more than half of ECOWAS's total population. There is scope for Nigeria to play a role reflecting its scale without trying to make itself the 'voice' of West Africa. As for Nigeria looking to its eastern neighbours, the speaker argued that the central African regional group is the least functional of all groupings on the continent, and does not represent a coherent economic space in the manner of ECOWAS.

## Questions

The speakers were asked whether they came across an organization called West Africa Clearing House, which was set up to facilitate exchanges between currencies, during their research.

The speakers were asked whether Chatham House could be involved in testing the viability of the report's recommendations through a pilot scheme.

A participant questioned how diaspora remittances fit in to the findings of the report. In addition, the impact of vast resource leakages from the south, in terms of people and oil, was raised. The extortion and taxation of politicians and legitimate businesses in Nigeria by Boko Haram was also mentioned.

## Paul Melly

During field research, the speakers did not meet anyone who had engaged with West Africa Clearing House. A West African Monetary Agency also exists in theory, but in practice small and medium-sized businesses do not have contact with these institutions. Large companies may use them, but for small and medium-sized businesses it does not make sense to engage with time-consuming formal procedures.

## Leena Koni Hoffmann

Many commercial banks have previously offered financial services that allowed traders to make small cross-border payments. However, the Nigerian central bank put an end to these services after only a few weeks of operation. Nigeria's banking regulations restrict businesses and drive informal exchanges. The report discusses outflows of fuel and reflects on the fact that Nigeria subsidizes the fuel trade in Benin and the rest of West Africa. If the number of fuel stations in Ogun and Kwara states is considered, it is clear that it would be impossible for these states to consume as much fuel as they process, so clearly a cross-border black market for fuel exists.

## Paul Melly

There is speculation that one of the motivations or recruitment drivers for Boko Haram is local tensions over trade. Chad's military intervention against Boko Haram is motivated in part by the need to protect the lucrative trade corridor with Maiduguri in northern Nigeria. The Chair highlighted that, as an international affairs research institute, Chatham House would not be involved in developing a project prototype. The work of Chatham House is focused on primary research, and to deliver this research to policy-makers.

## Questions

The speakers were asked whether low inflation rates could have an impact on the perceived levels of unrecorded trade.

It was suggested that the African Union could play a more active facilitating role in Nigeria. The speakers were asked whether there was any evidence of this already occurring and, if not, for suggestions of how the African Union could become more involved.

**Paul Melly**

Inflation is linked to the strength of the currency, therefore when the oil price falls, inflation rises. This does not necessarily stimulate informal trade. Developing functional trade with its neighbours can be part of Nigeria's strategy to reduce the economy's dependence on oil.

The speaker argued that even the African Union perceives ECOWAS as a more viable regional economic community, and in fact looks to copy its work at the continental level. If the regulation and banking environment are improved in ECOWAS, there is a case for making it a continent-wide programme.