



Africa Trade Policy Notes

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Import Bans in Nigeria Increase Poverty

Nigeria currently prohibits importation of 24 groups of items. These include a range of food products, certain medicines, industrial products such as glass bottles and textile fabrics and consumer products including footwear and furniture.¹ The use of import prohibitions in Nigeria is part of a trade policy regime that seeks to protect existing domestic industries and reduce the country's perceived dependence on imports. The bans are often justified on the grounds of preventing importation of all products that the county is deemed to be capable of producing itself. Those protected by the bans argue that the countries' lack of infrastructure, especially energy, means that they cannot compete effectively with imports without protection.

The import bans benefit domestic producers since they reduce the amount of goods that are available on the national market and hence limit competition for domestic firms. As a result, prices for these products are higher in the domestic market than they are in the world market. However, this has negative impacts on consumers of these products who have fewer varieties to choose from and have to pay more. The welfare of consumers is typically not well represented in discussion and decisions on trade policy measures such as these import bans. Moreover, import bans raise the price of inputs to producing industries, including those with the highest growth and employment potential. Building materials such as cement, steel, timber and concrete blocks are an example of how trade policy can have an impact throughout the value chain, as these materials are protected by high tariffs, while structural timber imports are banned. The resulting increase in construction costs hampers the growth of this industry which has considerable employment potential.

This note focuses on how the import bans affect poor people in Nigeria and shows that, by raising the cost of living, they increase the number of people living below the poverty line. Many of the banned goods are necessities for which there is strong demand from the poor, who cannot afford the inflated prices.



HIGHLIGHTS

IMPORT BANS ...

reduce the amount and increase the price of the controlled goods. The justification for such policies is usually that with protection, domestic firms will increase output and jobs. But in practice import bans can just lead to higher profits for domestic firms.

IN NIGERIA...

importation of 24 groups of items is currently prohibited. However, the bans are circumvented by smuggling and by official granting of licenses to import, with huge profits likely for those who selling the banned imports at the inflated domestic prices

EFFECTS OF IMPORT BANS

In Nigeria the bans raise the cost of living; more than 4 million Nigerians could leave poverty if the bans were replaced by tariffs set at a level applied to similar products. The bans also reduce government revenues and undermine trade facilitation. Positive impacts on jobs are unclear.



WORLD BANK

Removing the bans and replacing them with tariffs set at a level of those applied to similar products would allow more than 4 million Nigerians to exit poverty.

The use of import bans creates an incentive to circumvent the restrictions and indeed substantial volumes of goods are smuggled into the country via porous borders with Benin and other neighbours.ⁱⁱ At the same time, for specific products substantial amounts of goods are imported under import licenses that are granted for the import of these “banned” products.ⁱⁱⁱ

Allocation of these licenses is very opaque and has recently drawn criticism from civil society in Nigeria by giving potentially huge profits to the particular individuals granted licences. Nevertheless, both these channels for importing banned products involve costs and the level of imports cannot meet the demand that would exist in the absence of the import bans. Implementation of the bans also requires redirecting customs officials away from regular duties of control at the border to prevent smuggling. This has in turn led to increasing delays at ports as clearance times for regular imports increase, increasing the prices of all imports. This further raises the costs for consumers and undermines competitiveness of Nigerian firms since critical inputs are more expensive and delivery times uncertain.

If bans are replaced by tariffs set at levels that reduce product prices, then a) the cost of living will fall and the welfare of domestic consumers will rise, b) profits accruing to domestic producers in the protected sectors will decline, c) government tariff revenue will increase and d) customs resources can be reassigned to standard border control and trade facilitation activities. In the remainder of this policy note, we estimate the impact of replacing import bans with tariffs on prices and welfare of domestic producers, using a three-step approach: first, identify the share of household expenditures on affected products, second, estimate price difference between the banned products in Nigeria and the same products in comparator countries which have not prohibited import of these products, and finally simulate the impacts of replacing import bans with tariffs. We conclude by briefly examining some of the likely effects on domestic producers.

Expenditure patterns for products on the import prohibition list in Nigeria

We first estimate the share of each prohibited product in household expenditure, using data from Nigeria’s household expenditure survey and information on prices from the National Statistical Institute. Food items represent a very large share of household expenditure, and the share of products affected by the import bans among those is substantial. At the national average level, expenditure on food items represents 65.4% of total household expenditure. Roughly 13 to 15% of that expenditure is on products affected by the current import prohibitions. As for non-food items, nearly 10% of household expenditure is affected by the bans.

The share of products affected by the import bans varies slightly across Nigeria’s regions, although differences are moderate. Expenditure patterns in the North are slightly skewed in favor of the products affected by import bans compared to the South. In the North, those products represent 26% of household expenditure whereas they only represent 21% in the South. Expenditure shares for these products seem to be lower in the Western zone as compared to the East and Central zone but differences are not very pronounced.

In terms of the differences in the basket of commodities between the 25% poorest and the 25% richest, there is no systematic difference across income groups in the share of products affected by imports bans with the share of those products being around 24% at all income levels. On the basis of the observed expenditure patterns, the bans do not seem to be specifically regressive or progressive.

Table 1: Household expenditure patterns, by income quartile

	National	Coverage by Income			
		0-25	25-50	50-75	75-100
FOOD					
Total Food items	65.37	71.17	68.5	66.11	60.58
Food items under bans	13.47	14.19	13.79	13.43	13.01
Staples	5.73	6.60	5.97	4.75	5.14
Meat	6.23	6.94	6.87	6.60	6.72
Beverage	0.64	0.40	0.62	0.67	0.72
NON FOOD FREQUENT					
Total Frequent items	24.76	21.18	23.17	24.42	27.44
Frequent Items under bans	4.31	4.84	4.58	4.24	3.70
Household supplies	3.13	3.97	3.64	3.20	2.43
Medicaments	0.91	0.84	0.88	0.99	0.90
NON FOOD Less FREQUENT					
Total Less Frequent items	9.87	7.65	8.34	9.47	11.97
Less Frequent under bans	5.42	5.61	6.02	6.3	7.29
Textile and Clothing	5.13	4.61	4.86	5.05	5.56
AC/Refrigerator-Freezer	0.13	0.01	0.03	0.04	0.29
TOTAL Under Bans	23.2	24.64	24.39	23.97	24

Estimating price gaps for banned products

Estimating “ad-valorem equivalents” (AVE) for the prohibitions, product by product, we calculate the rate of tariffs that would leave domestic prices constant. For this, we have used price data provided by the Economist Intelligence Unit for Lagos and “comparator” cities (Nairobi and Douala). Our price-gap estimates are calculated in a way that “filters out” general differences in the cost of living between Lagos and comparator cities.

Using price gaps to calculate the AVE of non-tariff measures is the method recommended by the WTO in Annex V of the Agricultural Agreement.⁶ The “price gap” for a product affected by a non-tariff measure (NTM) such as a prohibition is the difference between its domestic price and the counterfactual price that consumers would have to pay in the absence of the NTM. As this counterfactual is actually not observed, we need to use an approximation to estimate the price-gap. The WTO recommends using the price of the same good in a “similar” market not affected by NTMs. The choice of a similar market is a matter of judgment, involving comparisons of size, proximity, transport costs, domestic market structure, and income level, and—most important of all—data availability.

For the products affected by Nigeria’s import prohibitions we use prices published by the Economist Intelligence Unit (EIU) for a basket of consumption goods observed in the world’s largest cities. In the case of Nigeria’s prohibitions, we have used Nairobi as the main comparator city for Lagos.⁷ Price comparisons by aggregates are shown in Table 1. They show that, as expected, price gaps are systematically larger for banned products than for other products. For banned products, the simple average difference is a whopping 92% (upper cell in the last column). For non-banned products, it is 15% (lower cell in the last column). That is, we will subtract 15% from the banned products’ observed price gaps in order to correct for general cost-of-living differences between Lagos and Nairobi. In other words, assuming that Kenya is representative of countries that do not ban imports of these products, then consumers in Nigeria typically pay 77% more for the group of banned products than consumers in countries that do not impose bans on these products.

Table 2 : Price-gap calculations, Lagos vs. Nairobi (percent)

	Clothing	Staples	Protein	Beverages	Household supplies	Personal care products	Total
Banned products	115	178	30	-7	67	194	92
Other	15	61	-24	-26	-12	-17	15

Source : EIU, PRMTR calculations

The price gap approach can also be used to estimate the impact of the import prohibitions on different regions across the country. Since prohibited goods can be obtained in practice through smuggling, we might also observe a price gap between cities close to the Beninese border and cities further away. We then adjust our price estimates by regional zones, using price data from the National Statistical Institute, in order to take into account within-country price differences. In general, prices are lower in western provinces. This is illustrated in Figure 1, which shows regional prices for selected groups of products (Lagos = 100).

The same cross-regional pattern of prices holds, qualitatively, for banned products and for those not banned. However, the bans seem to magnify price dispersion between Western and other provinces. This can be seen in

Figure 1: Price levels, by cluster and region (Lagos = 100)

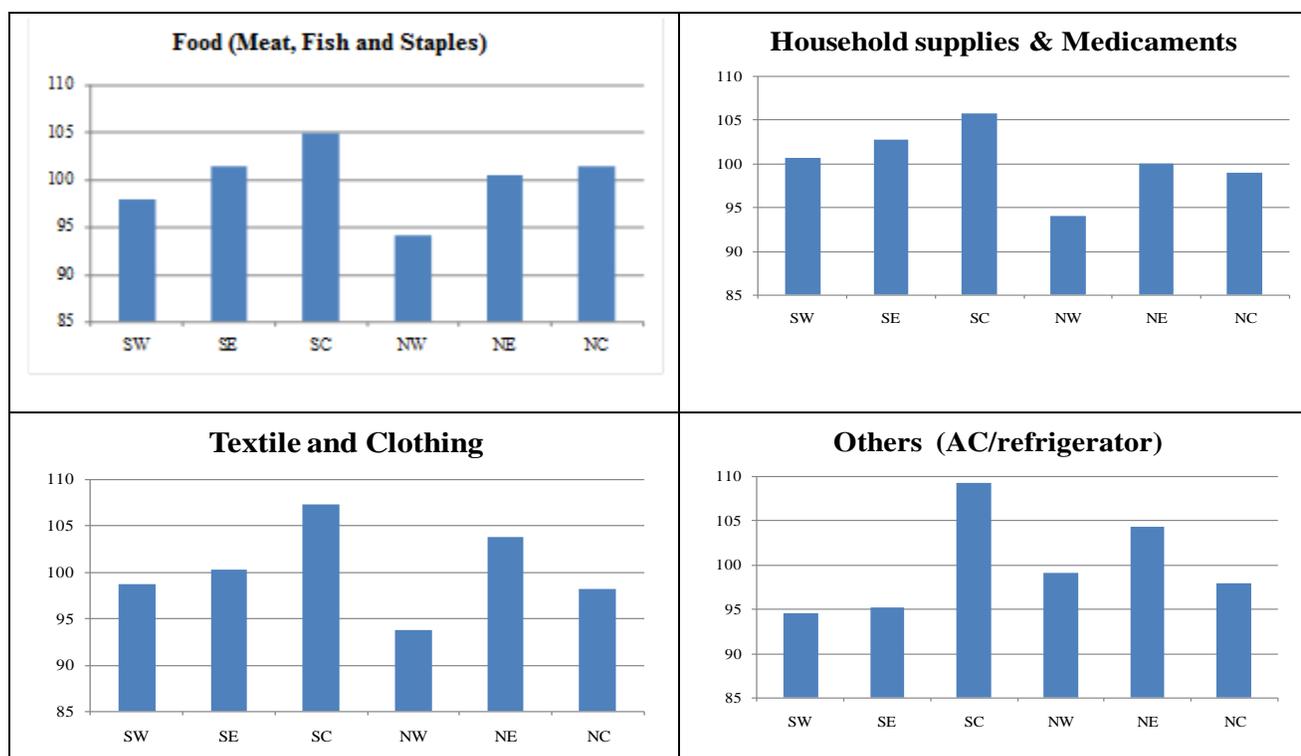
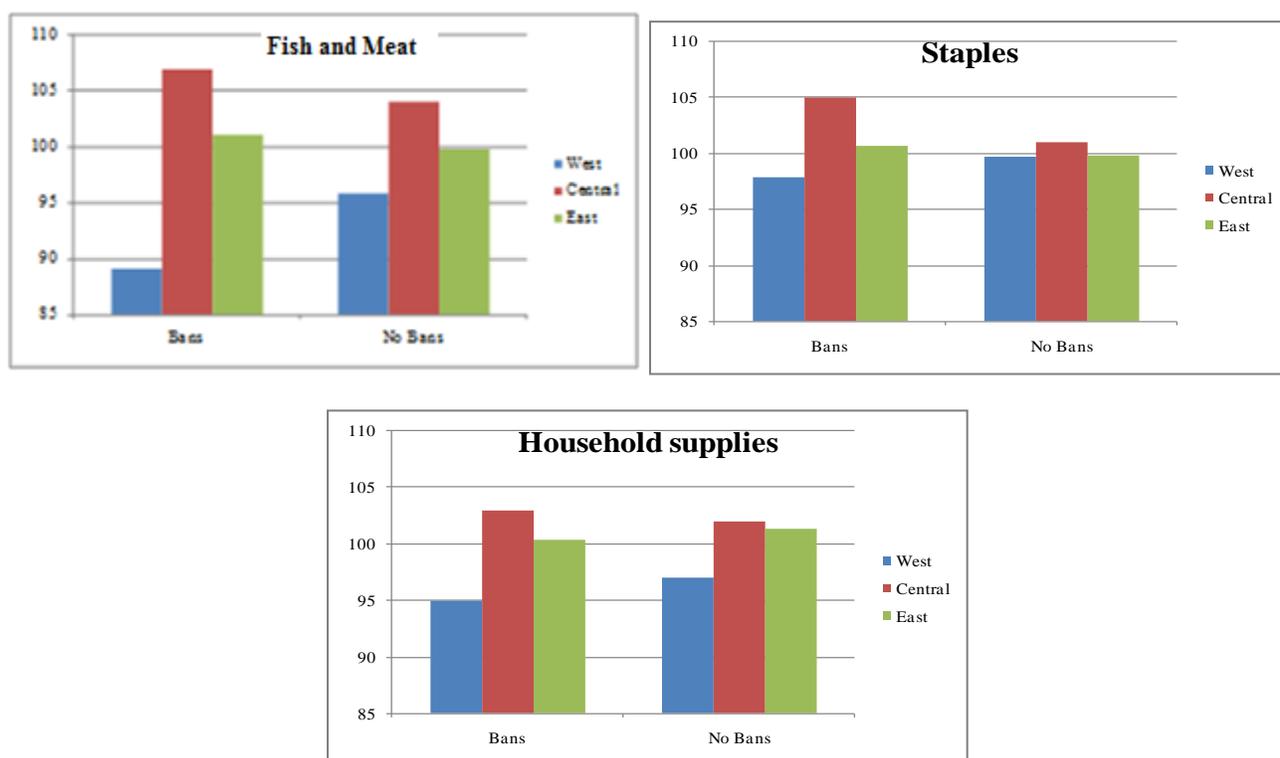


Figure 2: Price levels, by region, for banned and other products (Lagos = 100)



Note: SW: South West - SE: South East - SC: South Central - NW: North West - NE: North East - NC: North Central

Figure 2 across selected product clusters. Thus, it is as if the presence of the bans magnifies transportation-cost differences across regions, perhaps because they force traders to use smaller side roads, transport goods in smaller consignments, increasing transport costs, or they have to make more frequent or higher unofficial payments during the overland transportation.

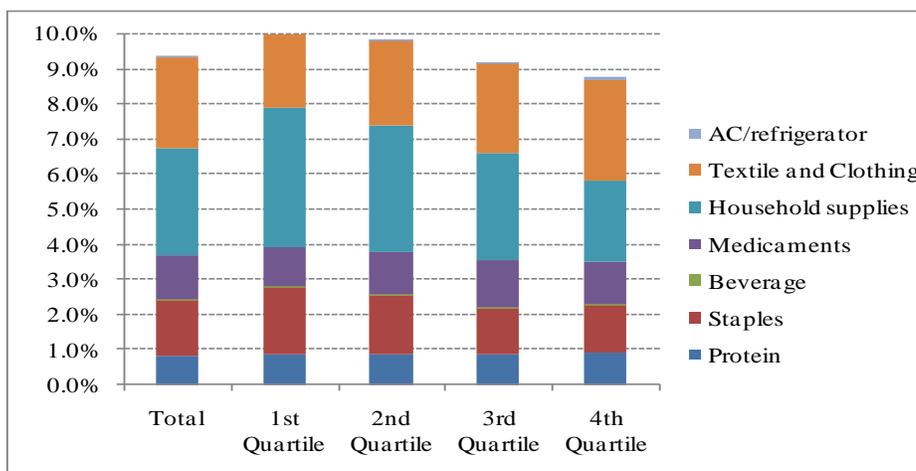
Estimated impacts of import bans on poverty

Last, we simulate the impact of the removal of import bans and their replacement by tariffs equivalent to those applied to similar products and estimate the effects on real household income and poverty, as well as inflation.^{vi}

Effect on Income

Overall, the welfare gain attributable to the replacement of the bans is equivalent to a 9.4% increase in household real income. Figure 3 shows the real-income gains by type of prohibited product and indicates that the removal of the import prohibitions leads to larger gains for the first (poorest) quartile of the income distribution. This is because the current import prohibitions have a mildly regressive character (i.e. they are hurting poorer households relatively more). The figure also shows that a substantial chunk of those gains results from the elimination of import bans on household products, followed by textile and clothing. This is valid for every income group.

Figure 3: Real-income gain, by income level and product category

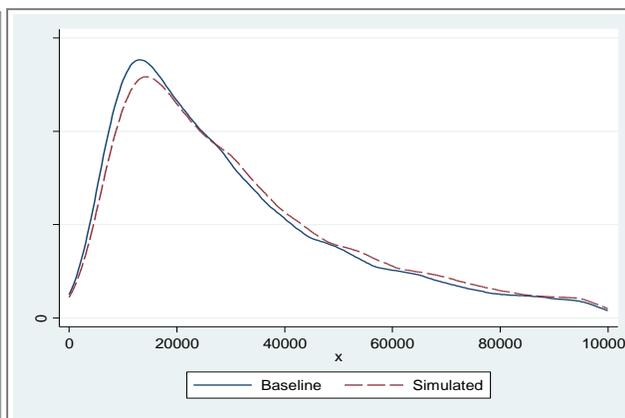


Finally, Figure 4 presents the real-income gains by region. Households in the Northern regions are expected to benefit substantially more from the removal of the import bans than those in other regions. This difference in gains arises for two reasons: (i) the share of prohibited products in household spending is slightly higher in those regions; (ii) price gaps tend to be higher in those regions as well—not only are absolute prices higher in those regions than in Lagos, but the difference between the prices of prohibited products and the price of other products is also larger in the North as compared to Lagos. Thus, eliminating the bans would benefit consumers in those regions more.

Figure 4: Real-income gain, by region



Figure 5: Shift in the distribution of real income generated by the bans' elimination



All in all, it appears that the elimination of the import bans has a pro-poor impact, both directly through differential impacts across the distribution of income, and indirectly, through differential impacts across regions.

The effect on poverty can only be approximated since Nigeria does not report poverty headcounts, Gini coefficients, or any other measure of the distribution of income in the World Development Report. We use the household survey to reconstruct these measures, and calculate a poverty headcount ratio at the \$1.25 a day poverty line of 67.5%.^{vi} The change in real income induced by the removal of the import bans leads to a reduction of the poverty headcount ratio by 2.48 percentage points in our estimation. This would mean that the

headcount ratio would fall to 65.0%. Given a population of 167(??, can we double-check this number?) million inhabitants, about 4.1 million Nigerians would leave poverty, in real terms, as a result of eliminating the import prohibitions. In order to give a graphic rendering of the effect of the real-income increase involved, we blow up nominal individual incomes by the inverse of the price decrease and re-draw the entire income distribution. The resulting rightward shift in the distribution is shown in Figure 5.

Effect on Inflation

The changes in prices resulting from the elimination of the import bans would also have macroeconomic effects by reducing inflation through two transmission channels:

- A direct, one-time impact effect on inflation due to the drop in the price of banned products following the removal of the import bans
- A long-term reduction in the rate of inflation due to the fact that inflation is lower on imported products than on those domestically-produced. Eliminating the import ban links affected products more closely with world market prices and changes their classification from high-inflation to low-inflation categories.

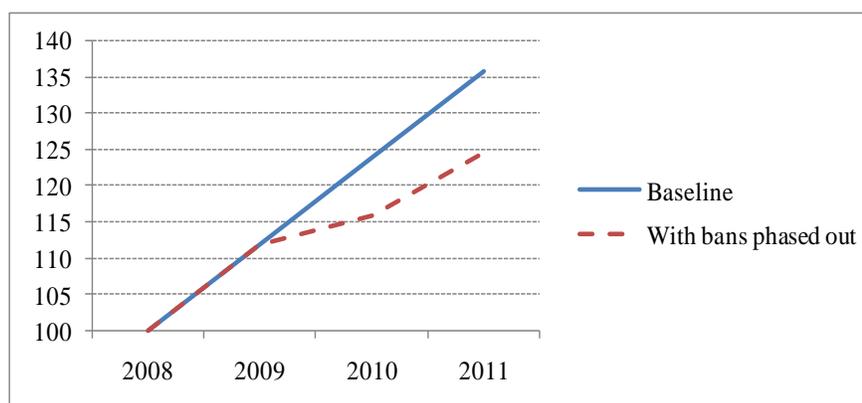
Table 3 shows the difference in inflation rates across these three categories of goods and shows that imports contribute substantially to slow down the rate of inflation. This is a common mechanism in a fixed-exchange rate regime. The last column illustrates the impact effect by highlighting the large price drop to be expected from the elimination of the import bans.

Table 3: Inflation rates on locally produced, imported, and banned products

	Inflation on Local goods	Inflation on Imported goods	Inflation on prohibited goods	Share in Household consumption	Expected drop in price from ban elimination (%)
Staples	14.70%	11.80%	13.20%	5.73	-20
Protein	15.90%	8.80%	17.10%	6.23	-10
Beverages	16.20%	8.10%	13.10%	0.64	
Household supplies	9.30%	5.90%	10.50%	3.13	-50
Medicaments		10.30%	6.40%	0.91	-60
Textile and clothing			7.90%	5.13	-45
Other imports		9.90%			
Average on Goods	14.00%	9.10%	11.40%		
Lodging	18.30%				
Utilities	22.20%				

Against a background of slowly decelerating inflation (from 11.9% in 2009 to 9.6% forecast in 2011), the elimination of the import bans has a huge effect, knocking out a full 7.2 percentage points off the inflation rate on impact; thereafter, the effect is more subdued, but still far from negligible (2% less than in the baseline scenario). This long-term effect illustrates the often observed empirical regularity that import competition disciplines the market power of local producers, especially under a fixed-exchange rate regime. Figure 6 illustrates the effect, showing the divergence in the path of the CPI with and without the removal of the import bans.

Figure 6: Path of the CPI with and without the elimination of import bans



Conclusions

The analysis presented here suggests that the policy of extensive import bans in Nigeria has a heavy cost for poor Nigerians and that their replacement by tariffs set at a level of those applied to similar products could allow 3.3 million Nigerians to leave poverty. These substantial benefits to ordinary Nigerians of removing the bans would be complemented by higher tax revenues to the government and more effective control of borders by Customs, since resources that are currently devoted to implementing the bans could be reallocated to improving border procedures for all traded goods; both imports and exports. In addition, the fall of costs of key inputs to industries with high growth and employment potential as a result of the removal of import bans could lead to a substantial boost to the growth performance of these sectors.

The removal of import bans will have a negative impact on those domestic producers who are currently protected by the bans and those who make large profits by smuggling banned products or who are given licences to import them officially. If the import bans have just allowed the owners of domestic firms to make higher profits, and there has been little investment and job creation, then their removal will simply entail redistribution from higher income to poor people. On the other hand, if the import bans have led to increased output and employment their removal could result in job losses with a consequent impact on poverty. This will offset, but cannot exceed, the benefits for the population from the removal of import bans, given the estimated substantially higher real household incomes. However, government programs to assist those that become unemployed would then be essential. An issue on which the World Bank could bring global expertise regarding the most efficient program design.

This issue requires some careful empirical analysis but initial findings from a small survey of producers conducted with the Manufacturers Association of Nigeria suggests that for many of the banned products, local producers are reaping considerable profit margins behind import protection and that in sectors such as textiles there has not been an effort to invest and become competitive and to expand output and employment. Given the high costs that poor consumers are incurring as a result of the import bans, it seems pertinent that those who wish to maintain the import bans clearly demonstrate that they are delivering tangible benefits to the Nigerian economy.

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Treichel, Volker (2010) “Employment and Growth in Nigeria” , chp.1 in Volker Treichel (ed) *Putting Nigeria to Work: A Strategy for Employment and Growth*, World Bank, Washington, D.C.

¹ The current list of banned products comprises 1.Live or Dead Birds including Frozen Poultry, 2.Pork, Beef, 3. Birds Eggs, 4. Refined Vegetable Oils and Fats, 5. Cocoa Butter, Powder and Cakes, 6. Spaghetti/Noodles, 7. Fruit Juice in Retail Packs, 8. Waters, including Mineral Waters and Aerated Waters, 9. Bagged Cement, 10. Certain Medicaments including Paracetamol Tablets and Syrups, Aspirin Tablets, Ointments - Penecilin/Gentamycin, Intravenous Fluids, 11. Waste Pharmaceuticals, 12. Soaps and Detergents, 13. Mosquito Repellant Coils, 14. Sanitary Wares of Plastics, 15. Rethreaded and used Pneumatic tyres, 16. Corrugated Paper and Paper Boards, cartons, boxes and cases made from corrugated paper and paper boards, Toilet paper, Cleaning or facial tissue, 17. Telephone Re-charge Cards and Vouchers, 18. Textile Fabrics, 19. All types of Footwear and Bags including Suitcases of leather and plastics, 20. Glass Bottles of a kind used for packaging of beverages by breweries and other beverage and drink companies, 21. Used Compressors, Air Conditioners and Used Fridges/Freezers, 22. Used Motor Vehicles more than 15 years from the year of manufacture, 23. Furniture, 24. Ball Point Pens

² Raballand and Mjekiqi (2010) estimate that \$5 billion worth of imports are smuggled through Cotonou alone and that 50 per cent of the value of smuggled goods is textile products. They estimate that replacing bans on textiles by a 15 percent tariff would render smuggling unprofitable and result in a yearly gain of \$200 million to the Nigerian Treasury.

³ Nigerian customs actually record imports of many of the banned products.

⁴ See http://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm#annV for details on the calculation method.

⁵ The EIU provides no information on the cost of living in Cotonou, which would have been a natural comparator for Lagos.

⁶ As we are using the difference between Lagos and Nairobi prices after excluding systematic price differences (for other similar non banned items) generated by trade costs and tariffs, the simulation implies that tariffs equivalent to those applied to similar but non-banned items would be applied after the bans’ elimination.

⁷ The only comparable (oil-producing) country in SSA with income-distribution data is the Republic of Congo, with a PHR of 54% at PPP. Congo has a significantly higher per-capita GDP (\$1782 in 2003, the year of Nigeria’s household survey, against \$502 for Nigeria).