



# Africa Trade Policy Notes



## Where Informal Procedures are Quasi-Formal – Cross-Border Trade between West and Central Africa

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### HIGHLIGHTS

#### INFORMAL VS. FORMAL TRADE ...

Estimates show a staggering discrepancy between official and observed trade, with observed trade measuring 40 times official estimates.

#### CONTROL POINT AND BORDER PAYMENTS...

Informal payments at control points and at the border can account for more than 50 percent of the total transfer costs along the Enugu (Nigeria)-Bamenda (Cameroon) corridor.



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### Introduction

The border between Cameroon and Nigeria is also the border between West and Central Africa and the two regional trade communities of ECOWAS and CEMAC. Despite political tensions between Nigeria and Cameroon in the past, there is significant potential to trade between the two economic blocks. Although official trade statistics indicate that existing flows are small, we find that trade flows are under-reported by up to a factor of 50, and that actual trade flows are a multiple of what official data suggest. Similar underreporting might also take place along other land borders in the region. This note outlines the critical barriers that constrain trade between Nigeria and Cameroon, describes the practical norms that have emerged as a response to those constraints, and recommends key reforms for the governments to undertake.

### Overview of existing and potential trade

It is often difficult to get an accurate picture of the magnitude of informal cross-border trade in most developing countries. Many factors contribute to this difficulty, but chief among them are weak state institutions, widespread practices by traders to underreport trade in order to avoid high taxes, and porous borders that are hard to monitor and permit trade to cross borders unrecorded. As a result, official trade statistics are unreliable and give a highly inaccurate picture of actual trade flows.

In the case of Cameroon and Nigeria, officially recorded non-oil bilateral trade flows represent only a minor fraction of both countries' overall trade. In 2010 and 2011, recorded official trade data show that non-oil trade flows from Nigeria to Cameroon were between 1 USD and 10 million USD, while Cameroon exported an estimated 10 to 30 million USD to Nigeria. To put this in context, the recorded trade data represent only

about 1.5 percent of Cameroonian and 0.4 percent of Nigerian overall non-oil exports.

However, by using a combination of techniques to quantify actual cross-border trade, a recent report estimates that Nigeria's annual non-oil exports to Cameroon are over 213,000 metric tons in volume, and 769 million USD in value.<sup>1</sup> Overall, this indicates a staggering discrepancy between official trade data and observed trade, with observed trade measuring more than forty times official estimates. It is important to note that some of these exports are goods that Nigeria imports from other countries and then re-exports to Cameroon, a practice that is common across West Africa. However, our estimates show that even when re-exports are excluded, the value of Nigerian-made goods exports, largely cosmetics and household plastics, are 176 million USD—an estimate that is still more than twenty times the figures that Cameroonian import statistics report.

Cameroon's non-oil exports to Nigeria are similarly inaccurate. We find that Cameroon exports about 160,000 metric tons of goods annually, with a value of 226 million USD. Products originating in Cameroon, mostly paddy rice in the North, soap, and fruits and vegetables, account for 62 million USD of these exports. Assuming that official statistics exclude re-exports, our estimates put Cameroonian exports to be about forty times larger than official Nigerian estimates for imports from Cameroon.

Our analysis indicates that existing economic and trade policies in both countries, and their application, may be preventing the emergence of significant additional bilateral trade between the two countries. For Cameroonian producers, Nigeria's large economy with over 158 million consumers

offers considerable opportunities; while for Nigeria there is also significant scope to expand exports to Cameroon of a number of locally produced manufactured goods. Using a gravity model, a well-known tool for analysing the magnitude of trade flows between countries, we estimate that the registered value of Nigeria's non-oil exports to Cameroon in 2009 was less than 8 percent of their potential, while Cameroon's exports to Nigeria were less than 2 percent of their potential level. The ratio between potential trade to estimated actual trade, that is taking account of unrecorded trade, would be smaller. Nevertheless, there is still a considerable gap which suggests the existence of significant trade costs related to border-related issues, transport, and behind-the border barriers.

### **Trade transactions are non-transparent and unpredictable**

In analysing actual trade transactions and the roles of different stakeholders in the bilateral trading relationships, we find that trade procedures are extremely non-transparent and involve multiple formal and informal payments. It is also apparent that actual trade relationships and trade barriers are complex and vary according to a number of characteristics, which makes it nearly impossible to describe a "typical" trade relationship. For instance, border procedures and the various barriers traders encounter may differ between locations (geographical characteristics of the border area), weather (seasonal variation), time of day, specific border crossing, scale of operation, type of product, and the personalities involved. How a specific trade transaction takes place is ultimately determined on a case-by-case basis through extensive negotiations, which reduces transparency, complicates forward-planning, and increases costs for new entrants into the business.

Trade policies remain restrictive with both countries applying MFN duties on their respective imports. As a result, Nigerian goods imported into Cameroon face average statutory duties of 19.1 percent (plus VAT of 17.5 percent and other

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<sup>1</sup> Three estimation methods were used: quantification of stocks at major markets, collection of trade data from customs agents stationed at border crossing points, and estimation of the number and size of trucks crossing border points by using information collected from private traders and their agents.

taxes)—broadly in line with CEMAC’s common external tariff (CET). Imports into Nigeria face on average statutory duties of 11.9 percent based on the yet-to-be finalized ECOWAS CET, plus a VAT of five percent, and there are official import bans for a number of products of export interest to Cameroon.

These trade policies and other regulations such as product standards are applied, but not necessarily enforced, by a multiplicity of state agencies that are present at borders and at various control points along the corridors in the hinterland. On the Nigerian side, these include the Standards Organization of Nigeria (SON), the National Agency for Food and Drug Administration and Control (NAFDAC), the Nigeria Agricultural Quarantine Service (NAQS), various security agencies, drug control units, local government officials, and immigration officials on the Nigerian side. The situation is similar on the Cameroon side, where forest products control units from the Ministry of Forests and Fauna (MINFOF), phytosanitary inspection under the Department of Regulation and Quality Control of Agricultural Products and Inputs at the Ministry of Agriculture, immigration officials, municipal authorities along the corridor, various police units and other agencies are involved alongside federal and state level customs officials.

In principle, state agencies are present at borders to fulfil legitimate public policy objectives and to enforce existing rules, but in practice, official trade policies are not applied at most border crossing points. Instead, practical procedures that are only partially based on existing state rules and regulations are applied. These procedures are the result of a long process of repeated negotiations between traders and government officials, both of whom find it necessary to devise norms that are outside the written rules and regulations.

Exactly how these practical norms are implemented is influenced by the power balance between the different actors, their alternative options, and a

number of additional factors. Customs offices aim to meet revenue targets set at regional headquarters (or slightly exceed them to demonstrate strong performance and possibly receive bonuses), but also collect significant informal payments for themselves. Private sector operators, however, usually have a choice between different routes (and consequently customs posts), or can move into more informal trade by breaking down cargo into smaller consignments and smuggling them by motorcycle or donkey.

Because a limited number of traders (or their agents) cross the border repeatedly, the relationship between them, customs, and other agencies can be described as a repetitive game resulting in a mixture of formal and informal border procedures. The threat of diverting goods flows to alternative customs posts or outside the formal framework creates a countervailing power to the authority of customs and results in customs aiming to limit the burden on traders. As a result, traders are partners rather than ‘victims’ in this relationship, and seem to have a strong position in the negotiations determining payments. On the other hand, the lack of transparency in formal procedures and the threat that agencies may fully apply these policies at any given time creates significant uncertainty (and costs) to traders.

The result is a well-structured negotiation scheme that takes place between the customs officials and the traders or their representatives. The traders appeal to the customs officers on the basis of their limited margins and the poverty that prevails in the region. Customs officials claim to be mindful of these conditions and have an interest in keeping trade flowing through “their” customs posts to keep revenue up. One effect of this tacit agreement, however, is that public policy objectives, such as food safety, are not achieved as agencies focus on collecting (informal) payments from traders instead of effectively enforcing policies.

## **Finding officially recognized informal mechanisms that work**

To respond to this reality, and to influence the outcome of these tacit arrangements, the Cameroonian regional customs bureaus in the (Extreme) North and western part of the country have formally issued guidelines for assessing minimum duties collected per vehicle (ranging from small personal vehicles to 22-ton trucks) which are applied at land borders only, making this trade competitive compared to imports through major ports. The set of minimum values functions as guidance for the total value of formal and informal payments made at land borders that are generally negotiated between officials and traders, often far in advance. Once customs officers and traders agree on the total payment amount, customs declarations are filled in “backwards,” calculating the value of products that correspond to the final payment. As a result, customs declarations seem to be fully consistent and all payments are made, but we estimate that the value of merchandise is under-reported by a factor of up to 50.

Regional customs offices are aware that these values function as target values, as they recently reduced the minimum values with the objective to “boost” trade with Nigeria. Generally, traders pay more than the prescribed minimum values per truck, but significantly less than the statutory CEMAC duty rates. Based on interviews and actual customs declaration forms, we estimate that traders probably make formal and informal payments of not more than 10 to 20 percent of statutory CEMAC duty rates to various customs agencies. Traders pay less in formal fees than stipulated by regional customs guidelines; however, the sum of all informal payments is significantly more than the formal customs fees.<sup>2</sup>

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<sup>2</sup> For example, a newly arrived customs director at a border post was openly criticized by his colleagues for insisting on collecting statutory import duties. Revenues at that border post have fallen by more than 50 percent while revenues at neighboring customs posts have increased correspondingly. While there might be

In the South West and North West regions of Cameroon, formal and informal payments are even arranged in advance for all trucks that will be using the main corridor. Rates at the border and at control points along the corridor are usually fixed for a whole season, but if customs officials and the police/gendarmes intend to change the rates—for example because revenue targets for specific border crossings are adjusted by customs headquarters—they inform the traders about their intention to increase the rates. This leads to a new round of negotiations until a new rate is acceptable to all parties. These negotiations are usually openly discussed in public media.

## **The trading environment leads to high functional specializations**

Most of the traders engaged in cross-border trade between Nigeria and Cameroon are small traders and it is often impractical for an individual trader to transport goods alone. Typically, 40-ton trucks that operate along the major corridors consolidate shipments of up to 100 traders. As a response to the numerous road blocks and multiple government agencies at the border, a very pronounced functional specialization of groups facilitating trade has emerged. These groups include “loaders”, “escorts”, “crossers” and other individuals who are able to offer specialized services.

Loaders or freight forwarders are usually male and are responsible for ensuring that goods are transported from their point of collection to the final market. They have extensive knowledge of the complex process that takes place in transporting goods across the border. They hire the trucks needed to transport the goods, and negotiate payments at control points, often supported by

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additional reasons for the diversion of traffic, the anecdotal evidence demonstrates that traffic will move to other border crossings when rates levied by customs are perceived as too high.

“escorts” they hire to accompany goods from the point where they are first loaded to the border or from the border to the point of delivery. They often travel with the trucks, although sometimes escorts drive in separate vehicles ahead of the trucks in order to make the necessary payments to road controls in advance of the arrival of the goods. In either case, the escort is responsible for negotiating payments at various road control points along the route. Escorts are more common in the southern part of the Cameroon-Nigeria border. In the north, it appears that loaders incorporate the functions of the escort into their own operations.

The crosser, or customs broker, serves as a clearing agent, with the primary responsibility of dealing with the import/export procedures involved in moving goods from one side of the border to the other. Crossers tend to live close to the border areas, where they have longstanding work relationships with the various government officials present at the border posts.

These specialized service providers are able to cut costs by negotiating formal and informal payments in advance, thereby partially offsetting the high costs generated by the lack of transparency. Access to the networks of specialized service providers allows traders to overcome some of the barriers they face, such as limited access to information, enforcement of contracts, and harassment by officials. These networks are strongly influenced by ethnic networks that play an important role in trade, and access to these appears to be somewhat restricted as new traders need to be introduced into the networks by insiders. It is the lack of transparency that increases overall trading costs. Specialized service providers can reduce these costs, and collect rents in that process. At the same time, the lack of transparency in procedures effectively prevents easy entry of new traders operating along these routes.

### **Regulations and poor infrastructure keep transport prices high**

In addition, transport prices per ton/km along major corridors are significantly higher than in other regions. One key reason is that regulations seem to effectively prevent trucks from cross-border delivery of goods, even though de-jure restrictions do apparently not exist. Goods are generally offloaded at the border and reloaded onto trucks of the importing country. As a result, the way current regulations are applied seems to prevent the emergence of integrated transport service providers, increasing logistical costs, particularly for perishable goods.

Another important reason for high transport costs are the road conditions, especially in border areas, because they increase real costs and generate opportunities for rent extraction. Even during the dry season when road conditions are relatively good, traffic on roads leading to the borders, usually dirt roads, is very slow, trucks breakdowns are frequent, and comparatively high truck maintenance costs are the norm. In the rainy season, many of these roads become impassable, and physically crossing the border can become extremely cumbersome, particularly impacting trade in perishable goods. While most roads remain in poor condition, the main corridor from Bamenda to Enugu is being rehabilitated (completion is expected by 2014) and transport costs that operators will incur are expected to fall by up to seventy percent. However, it will be important to review transport regulations to ensure there is increased competition along the corridor and lower transport costs which will be passed on to users of transport services.

Transport costs are also high because of the large number of control points/roadblocks along major corridors, where additional informal payments need to be made. Agencies justify their presence at control points to allegedly ensure security and prevent illegal movement of unauthorized goods or persons. They claim that these control points are necessary for ascertaining that traders have paid proper duties at the border, and for intercepting goods that may have escaped formal border

crossings. However, these control points often fail to achieve the intended public policy objectives, since traders can just pay more in informal fees to be able to move their products on.

The frequency of control points along the corridors, as well as the payments necessary at each point differ widely. Trucks with foreign number plates (in the few cases that they enter) are subject to particularly high payments at roadblocks. Table 1 shows the number of control points along major corridors, and presents average payments that standard trucks incur on these corridors. In the northern section of the border, we find that there are control points, on average, every 11 kilometers, while along the Enugu to Bamenda corridor traders face a roadblock every 15 kilometers. However, the road blocks are not evenly distributed along the corridors and the frequency of control points increases significantly closer to the border, where control points can be found every five kilometers or less. Average payments per stop also vary significantly between corridors, from 40 USD along the Maga-Limani corridor to 169 USD along the Garoua-Demsa corridor (see table 1).

**Table 1: Frequency of Road Controls and Associated Costs<sup>3</sup>**

Corridor	Distance (km)	Number of Control Points	Average Cost per Truck (USD)	Size of Truck (MT)
Ekok - Mamfe - Bamenda	250	12	633	20
Abonshie - Kombo - Bamenda	220	11	581	20
Maga - Limani	150	13	521	40
Boukoulou - Guider	80	7	290	40
Demsa - Garoua	45	4	676	40
Onitsha - Mfium	320	25	461	20

Overall, the informal charges in the border region between Cameroon and Nigeria are significantly higher than comparable charges in East Africa, and even higher than along other corridors in Central Africa. Informal payments at control points and those at the border can account for more than 50

<sup>3</sup> The data in **Table 1: Frequency of Road Controls and Associated Costs** was collected in the context of the underlying study during trips and interviews with truckers in Cameroon between November 2011 and March 2012.

percent of the total transfer costs along the Enugu (Nigeria)-Bamenda (Cameroon) corridor. A recent study finds that bribes as a share of total variable costs are between zero and two percent in Southern and Eastern Africa, 6 percent in West Africa, but 13 to 27 percent in Central Africa.<sup>4</sup> Additional work in East Africa shows that even after adding local council taxes, which often are legal within certain limits, informal charges comprise only about 9.7 percent of total transfer costs in Kenya, 3.5 percent in Tanzania, and 4.2 percent in Uganda.<sup>5</sup>

## Conclusions and recommendations

Removing barriers to trade between the two economic blocs in West and Central Africa is of strategic importance for closer economic integration among countries in West and Central Africa, and to generate an Africa-wide free trade area by 2017, an objective endorsed by African governments. Integrating the different economic groupings through improved infrastructure, better market access, greater transparency, and simplified border procedures could also speed up domestic reforms and those initiatives aimed at removing internal barriers within ECOWAS and CEMAC, where progress has been slow.

Removing barriers to trade between the two blocks will particularly benefit those people living in border areas. The border areas in both Cameroon and Nigeria are relatively remote and far from economic centres in their respective countries. Generating linkages between these relatively isolated areas can increase consumer choices and allow producers to benefit from larger markets, better access to the intermediate inputs they need, and allow them to exploit economies of scale. This could generate substantial income and employment opportunities for the people in border areas, but

<sup>4</sup> See Teravaninthorn and Raballand, 2009, "Transport Prices and Costs in Africa: A Review of the International Corridors", World Bank, Washington, D.C.

<sup>5</sup> World Bank, 2009, "East Africa: A Study of the Regional Maize Market and Marketing Costs", AFTAR Report 49831, Washington, D.C.

also beyond. It could also contribute to bringing down costs of key products such as food staples that are traded across borders, and help ensure a more reliable and affordable supply of foods and other essentials, especially for the most vulnerable members of the population.

Significant policy reforms are needed for Cameroon and Nigeria, and by extension the ECOWAS and CEMAC regions, to realize their vast trade potential. However, it will be critical to ensure that policy reforms are undertaken in such a way that overall trade costs do not increase as a result of these reforms. For instance, if statutory policies were to be applied fully, cross-border trade would likely fall significantly. Payments for imports into Cameroon would increase at least five- to ten-fold, likely bringing cross-border trade to a halt, while effectively applying import bans in Nigeria would prevent key products, such as rice, from crossing into Nigeria.

In order to facilitate bilateral trade and avoid policy changes that would negatively affect trade, it will therefore be important to focus on formalizing the practical norms and procedures that already exist, while removing informal payments at borders and control points behind the border. In addition, it will also be important to remove existing import bans in Nigeria.

At the same time, both countries should review and rationalize existing border procedures and allow for delegation of responsibilities to reduce the number of agencies present at the border. This would reduce the number of officials interacting with traders for every individual transaction, bringing down costs and delays, while strengthening the application of those regulations and requirements that aim at fulfilling legitimate policy objectives. Governments should also aim to publish and make easily accessible all procedures, payments, and regulations in order to increase transparency at borders and reduce opportunities for border agencies to extract rents. Such review and rationalization of agencies and procedures will be a

key precondition for the joint border post at Ekok/Mfum that is being constructed under the oversight of ECOWAS and CEMAC commissions in the context of the corridor rehabilitation project to reduce delays and trade costs.

Ongoing infrastructure investments are expected to reduce the transport costs that operators incur, but these infrastructure investments need to be complemented with reforms aimed at removing informal payments and other regulatory constraints. This will be important to maximize the economic impact of these investments.

A significant share of costs is incurred at control points along key transport corridors, and our analysis shows that a complete removal of all informal payments is likely to yield a reduction in overall trade costs comparable to those resulting from ongoing infrastructure upgrading. Addressing the issue of informal payments, if politically feasible, therefore presents an opportunity for quick improvements and should be addressed as a priority. As part of the financing arrangement for the rehabilitation of the Enugu-Bamenda corridor, both governments have already committed to reducing the number of roadblocks from about thirty to two, but a comprehensive plan to address this issue is still needed. An important step will be to review the political economy behind the persistent presence of these road blocks. Such an initiative will have to be complemented by the establishment of a monitoring system and an impartial and powerful grievance mechanism to ensure that road blocks do not re-appear once the attention of policy makers shifts to other issues.

Additional regulatory reforms aimed at increasing competition in cross-border logistics services will also be essential to ensure lower operating costs are passed on to users. It will therefore be important to better understand how the application of current regulations prevents the emergence of integrated logistics service providers and to explore how they can be revised to increase competition and reduce transport prices.

Such a comprehensive policy reform can reduce overall costs to traders, while increasing official receipts for state coffers and reducing the amount of rents that state agents at borders and road blocks collect informally. It is likely that such measures will encounter significant resistance from those

currently benefitting from the current uncertain trading environment, but prudent implementation of such reforms has the potential to significantly boost trade while also contributing to an overall improvement in governance in both countries.

## About the Authors

This note is based on a forthcoming World Bank report presenting a detailed analysis of how cross-border trade between Nigeria and Cameroon operates on the ground. Mukhtar Amin is Economist at Associates for International Resources and Development based in Boston and Mombert Hoppe is a Trade Economist in the Africa Region at the World Bank. This note was edited by Paul Brenton (World Bank) and Catherine Sear (World Bank).