Report

Nigeria and UK bilateral trade and investment

Diagnostic, identification of constraints and recommendations

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5 August 2019

Acknowledgements

This report is the result of a collaborative effort involving Neil Balchin, Linda Calabrese, Karishma Banga and Kingsley Onyeka. The authors wish to thank the UK Mission in Nigeria for the support and useful insights and suggestions. Special thanks go to Dirk Willem te Velde for feedback received. Moreover, special gratitude is due to Nigerian government officials, Nigerian and British businesses and specialists who dedicated their time and effort in being interviewed and completing the questionnaire.

Contents

Acronyms

AfCFTA	African Continental Free Trade Area
AV	Ad-valorem
BASA	Bilateral Air Services Agreement
BHC	British High Commission
BIT	Bilateral Investment Treaty
CAA	Civil Aviation Authority
CET	Common External Tariff
DAC	Development Assistance Committee
DFID	Department for International Development
DIT	Department for International Trade
DTRI	Digital Trade Restrictiveness Index
EBA	Everything but Arms
EPZ	Export Promotion Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HACCP	Hazard Analysis Critical Control Point
HS	Harmonized System
ICT	Information and Communications Technology
IPR	Intellectual Property Rights
IRR	Internal Rate of Return
ISDS	Investor-State Dispute Settlement
JV	Joint Venture
LDC	Least Developed Country
LSE	London Stock Exchange
MFN	Most Favourable Nation
NAFDAC	National Agency for Food and Drug Administration and Control
NCC	Nigerian Communications Commission
NEPC	Nigerian Export Promotion Council
NAFDAC	National Agency for Food & Drug Administration & Control
NAICOM	National Insurance Commission
NIPC	Nigerian Investment Promotion Council
NSE	Nigerian Stock Exchange
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
PEBEC	Presidential Enabling Business Environment Council
RASFF	Rapid Alert System for Food and Feed
RCA	Revealed Comparative Advantage
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SON	Standards Organisation of Nigeria

SPS	Sanitary and Phyto-sanitary
SSA	Sub-Saharan Africa
SSDS	State-State Dispute Settlement
STRI	Services Trade restrictions Index
TBT	Technical Barrier to Trade
TFA	Trade Facilitation Agreement
UKEF	United Kingdom Export Finance
USAID	US Agency for International Development
USTR	United States Trade Representative
WEF	World Economic Forum
WTO	World Trade Organization

Executive summary

Current bilateral trade and investment

UK and Nigeria have had a long trade and investment relationship that has not attained its full potential because of a number of constraints, including a challenging business environment, high transport costs and logistics challenges.

The UK accounted in 2017 for 2.7% of total goods exports from Nigeria and 3.8% of total imports in Nigeria. Nigeria's exports are undiversified: oil and gas alone represent 95% of exports. Nigerian imports from the UK are more diversified than its exports to the UK. Refined oil represents 14% of Nigerian imports from the UK.

Based on Nigeria's exports to other Organisation for Economic Co-operation and Development countries, we identify some opportunities in cocoa, sesame seeds, rubber and ginger. These are products that the UK is importing from other countries but it is importing either little or none at all from Nigeria.

The UK accounts for 9% of Nigerian services exports (second export complex after oil and gas), primarily in the form of exports of travel, transportation and other business services. Meanwhile, Nigeria represents less than 1% of UK services exports, explained also by exports of travel, transportation and other business services.

Data on foreign direct investment are patchy. Using data on investment announcements made by companies, in 2018 the UK was the third largest investor in Nigeria. Nigeria is the second largest destination for UK investment in Africa, with 98% of this investment in the oil and gas sector. Most of the non-oil UK stock of investments in Nigeria is in the secondary sector, which includes manufacturing,

Barriers to bilateral trade and investment

A poor business environment and low competitiveness constitute the most binding constraints affecting bilateral and other trade and investment in Nigeria. Should Nigeria, for example, manage to improve its business environment to such a level as to attract investment proportionally to its share of world gross domestic product (GDP), UK flows of investments into the non-oil sector could grow by $365 million a year.

The costs of exporting to and importing from Nigeria are higher, and the process takes more time than the average for sub-Saharan Africa. On average, it takes 264 and 135 hours to comply with border requirements in Nigeria when importing and exporting, respectively.

Restrictions to trade in services vary across sectors. **Financial, telecommunications, transportation and professional services have lower restrictions than in the rest of sub-Saharan Africa.** Only retail has higher restrictions. However, with the exception of professional and transportation services, restrictions in Nigeria are substantially higher than in the UK.

Nigeria remains more restrictive than the UK in the digital economy. There are high fiscal restrictions (e.g. tariffs) and market access regulations affecting trade in digital goods. In addition, restrictions are applied to establishments and data flows. Intellectual property rights (IPRs) regulations – albeit not enforcement – appear as an area of strength.

Tariffs are, on average, very high in Nigeria. The most favoured nation (MFN) applied average tariff is around 13%, with peaks of 30% in agriculture, food and manufacturing products. In addition, border taxes, levies and charges applied raise the cost of imports even further.

Nigeria has implemented a number of quantitative import restrictions on a wide range of products; these raise domestic prices of these products by on average 77%. These products include food and agricultural products (e.g. rice) plus a wide range of consumer goods. Nigeria applies a series of local content requirements that hinder competitiveness even further.

Nigeria is a signatory to the World Trade Organization Trade Facilitation Agreement (TFA), and ratified it in January 2017. However, challenges remain in its implementation. Many of the commitments of immediate implementation as part of the TFA have not been met yet.

Moreover, **Nigeria applies a series of export restrictions and taxes on many unprocessed commodities**. Exports of some products (maize, raw hides, timber, unprocessed rubber) are directly prohibited.

Sanitary and phyto-sanitary (SPS) and technical requirements to export to the UK are substantially higher than those applied to exports to Nigeria. Many Nigerian exports to the UK have been stopped and rejected in the UK by virtue of containing aflatoxins and/or other unauthorised substances. Imports into the EU of some products (dried fish and beans) are currently banned because of recurrent SPS issues. This extends to imports into the UK.

Nigeria is an attractive investment destination. This attractiveness is explained by the growth of its consumer base based on population and economic growth. This potential has sometimes offset the complications and costs that operating in the country entails.

Multiple sector-specific restrictions exist with regard to the operation of foreign firms. However, most of the problems involved in attracting investment in Nigeria tend to be associated with a challenging business climate. These include:

- cumbersome tax procedures
- arbitrary application of regulations
- frequent violations and poor enforcement of contracts and agreements, including in government procurement
- unreliable commercial disputes resolution mechanisms
- inadequate protection of IPRs – a particular concern for UK firms operating in the information, communications and technology and entertainment industries.

Addressing tariff issues in the UK for Nigerian exporters

Tariffs applied by the UK to imports from Nigeria are considerably lower than those applied by Nigeria to UK imports. While Nigeria's tariffs are on average 12.7%, tariffs applied by the UK to Nigerian products are generally at zero. The top 20 imported products from Nigeria into the UK attract MFN zero tariffs, or Nigeria receives a preference under the Generalised System of Preferences. This preferential regime is less generous that the one covering other developing countries and signatories of Free Trade Agreements with the EU (e.g. Ghana, Côte d'Ivoire, Cameroon). Thus, in some cases, regional competitors of Nigeria face lower tariffs in the UK, but in general terms these effects are not large.

In an unlikely scenario where tariffs applied by the UK on all Nigerian products were eliminated (keeping tariffs unchanged for the rest of the world), non-oil exports to the UK would increase by 2%. This means an increase in exports of around $1.5 million (less than 0.1% of total UK imports from Nigeria).

The main effects of tariff elimination stem from an increase in UK imports from Nigeria of cocoa butter (HS 180400), water and non-alcoholic non-fruit-based beverages (HS 220210), polyethylene (HS 390120) and sauces/condiments (HS 210390).

The above suggests **there is little benefit to Nigeria in obtaining improved market access through tariff reduction in the UK. However, there are potentially much larger gains for Nigerian exporters in eliminating or addressing non-tariff barriers.**

Issues affecting bilateral trade and investment

We have undertaken a range of stakeholder consultations as well as administering a questionnaire among major exporters, importers and investors in Nigeria and the UK. These consultations with 110 stakeholders have led to a number of important insights.

Transport, logistics and production infrastructure are very problematic. **Transport and other trade-related times in Nigeria are higher than those applying to other countries in Africa.** Land transport cost are nearly prohibitive, which has led many to use air freight, but this is very expensive, putting Nigeria at a disadvantage compared with many of its (regional) competitors. These high trade and transport costs make Nigerian products uncompetitive even regionally.

In their current form, the proliferation of Export Processing Zones (EPZs) and Special Economic Zones (SEZs) (there are more than 20 in Nigeria) provides a limited and partial fix for this massive problem. Although these provide a valuable contribution to GDP and generate jobs, they seem to be disconnected from the rest of the Nigerian economy, with very weak links to the country's economic transformation. **If SEZs or EPZs had stronger links with the rest of the Nigerian economy, they could constitute an important component of the country's economic transformation strategy**.

Business climate, institutional organisation, corruption and security

Consultations suggested that Nigeria had a 'bad reputation' problem. This is related to a series of issues associated with the business climate, such as corruption and the security situation.

Overlapping government institutions regulate the same issue at each level of government (federal, state and local). A proliferation of taxes affects competitiveness. Based on the limited tax base, all levels of government try to extract resources from companies, which cannot evade taxes (as opposed to individuals, who may be able to escape the tax net).

At the same time, regulations change constantly, with no consultation with the affected parties. This creates **a complex and, frequently, arbitrary regulatory system misaligned with the business reality**. In some cases, measures designed to support business are so complex that they discourage firms from taking them up.

Government and judiciary officials have ample powers to make *ad hoc* interpretations of regulations and laws and to take discretionary action. The recent dispute with MTN on the enforcement of fines applied to the company, for example, cost the country in terms of foregone foreign investment and disinvestment for a period. The complexity of norms, the lack of clarity on the situation and the multitude of regulatory agencies compound this situation.

Confusion and arbitrariness also facilitate corruption. In other cases, it is the lack of effective government control that creates corruption and increase costs. Roadblocks and illegal tolls may be costing Nigeria as much as $63 million in terms of production of yuca, for example.

The complicated security situation also generates high operation costs. For large companies, the cost of dealing with security can be as much as 1% of total operating costs. Although these costs appear to be lower for domestic companies, they still need to be funded by either reducing profits or increasing export prices.

As large companies are usually the only ones in a position to make provisions for the higher costs associated with the poor business climate, they are the main investors. Consequently, **investors in Nigeria consider only investment projects with an internal rate of return higher than 25% in US dollars. This reduces the number of investable projects in Nigeria.**

The Presidential Enabling Business Environment Council (PEBEC) was established to remove bureaucratic constraints to doing business in Nigeria and to make the country a progressively easier place to start and carry out business. As part of the initiative, for example, the number of formal procedures to start a business has been halved. This is a welcome effort, which is expected to yield substantial benefits, as long as it manages to address all the *de jure* and *de facto* constraints that affect businesses in Nigeria.

To illustrate the importance of improving the business environment, in a scenario where – thanks to having addressed the main business environment barriers – Nigeria substitutes just 10% of business and computer services that the UK imports from India, Nigeria’s exports to Britain would increase by $330 million. **This would make the export of services as high as the exports of the oil and gas sector to the UK.**

Recommendations

- The Government of Nigeria needs to continue convening the main political actors and to agree on an action plan to improve the business climate. It is important that all actors, government and opposition, find consensus on a number of key measures, as this will provide much-needed certainty and predictability across political administrations.

- The Federal Government needs to engage with State and Local Governments to reduce multiple taxation and overlapping regulations. The UK can support this process by providing technical support. In this sense, efforts under PEBEC must be doubled.
- The UK needs to provide more active support for investors during the early stages of investment, including informing Nigerian authorities about prospective investors. This should reduce cases of corruption and facilitate the process, especially for small and medium-sized enterprises (SMEs).
- The UK must enhance its financial partial and non-free guarantees for investors in Nigeria. These guarantees must help partially reduce the risk associated with investing in Nigeria pending substantial improvements in the country's business environment.
- It is important that Nigeria relax operations with foreign exchange. This constitutes a serious hindrance for both investors and firms currently located in Nigeria. It requires, in many cases, complicated engineering as well as higher compliance costs.

Capacities to meet UK public standards

Consultations suggested that meeting public standards to export to the UK was a crucial problem for Nigerian exporters. There is a lack of information on standards available to producers, and existing efforts have not been sufficient to address this. Further problems emerge in the handling of products by middlemen.

Exporters tend to use shipments of declared and compliant exports to send non-declared items to relatives. This increases the number of rejections by customs in the UK and means that almost every shipment that arrives in the UK has to be screened.

Exporters also struggle to comply with regulations in relation to packaging. This is not helped by the fact that packaging products attract tariffs as high as 35% and there is a lack of local suppliers of compliant packaging.

Although the Standards Organisation of Nigeria (SON) provides certification to EU standards, it has limited capacity. It cannot cope with existing demand for certification services, which leads to delays and to exporters sending their samples to laboratories in Ghana to expedite procedures. In addition, there is a problematic lack of clarity on the respective roles of SON and the Nigerian Agency for Food & Drug Administration & Control (NAFDAC), with many overlapping functions and inconsistencies, which, on aggregate, act as a burden to non-oil exporters.

Recommendations

- The UK should support a programme to bring in specialists on compliance with UK standards and good production practices for farmers and firms in Nigeria that are already exporting. Such a programme should also train Nigerian compliance specialists in follow-up. The Nigerian government, through SON and NAFDAC, should extend this knowledge to other, non-exporting, businesses, to generate a general upgrade in practices.
- Both UK and Nigerian governments could support the creation of partnerships among companies that currently export to the UK and companies that wish to do so, with the aim of ensuring that knowledge and expertise are transferred more widely than just to existing exporters.

- The UK should support SON and/or other institutions to certify compliance with UK standards. This should ensure that these institutions are, eventually, accredited to issue certificates of compliance. Once this is achieved, the UK and Nigeria could negotiate the necessary mutual recognition of conformity assessment.
- The Government of Nigeria needs to clarify the mandates and separate the roles of SON and NAFDAC, to avoid a situation in which exporters are required to meet different compliance criteria. Any support provided by the UK will be effective only once these roles have been clearly defined.
- Nigeria should reduce substantially tariffs applied on imports of packaging materials (bags, boxes). Alternatively, these products should be allowed to enter under a temporary importation regime, whereby they will be used as packaging for products bound to be exported.
- There is a need to sensitise farmers and producers about acceptable chemical products (e.g. pesticides) and practices to make their products safe and fit for export. The Government of Nigeria must coordinate the actions of the respective Ministries dealing with Health, Agriculture and Trade, as well as SON and NAFDAC.

Quality issues

Products that manage to comply with the official standards that apply in the UK cannot meet the high-quality requirements of UK demand. UK supermarkets and retailers demand Global G.A.P. and SMETA certifications for all products. This means barely any Nigerian products are present in the main UK retailers. Nigerian products can be found primarily in shops that sell products to the diaspora.

In addition, there are no public or private bodies in Nigerian that can provide either certification or auditing services for these standards. This limits opportunities and increases the costs for exporters, as they need to bring in auditors at a higher cost to check compliance.

Recommendations

- The UK should support a programme to bring auditors and specialists in compliance with Global G.A.P., SMETA and other relevant private standards to increase the quality of production in firms that are recurrently exporting to the UK but not managing to reach the main retail channels.
- The UK should support SON and other institutions (public or private) that could eventually provide certification and auditing services locally. This will contribute to the sustainability of the support effort by creating a local support knowledge base in Nigeria.
- The work on the Quality Infrastructure Bill should be expedited, to ensure there is a holistic plan for addressing issues around quality and standards in Nigeria.

Building business networks

Exporters highlighted the difficulty in finding suitable business partners (e.g. importers) in the UK. Efforts to engage through sending samples or calling them appear to be ineffective.

This is partially because major retailers in the UK prepare supply plans with long-standing partners that provide them with a reliable source of products. They are not willing to make changes to these plans unless necessary.

However, whenever they look for new products, a first point of contact often involves attending major international fairs such as Fruit Logistica (Berlin), Fruit Attraction (Madrid) and Anuga (Cologne). Here, they may enter into business negotiations with suppliers provided the latter comply with their standards, as mentioned. No Nigerian firms have participated in these fairs recently.

Exporters recognise the increasing importance of e-commerce in world trade. However, e-commerce between Nigeria and the UK is limited to UK/Nigerian products sold by internet platforms in Nigeria/the UK. Given high transport costs for goods trade, products are first imported through standard channels. Consequently, the main internet platforms in the UK (e.g. Amazon) and Nigeria (e.g. Jumia) do not operate in the other country and are used primarily by the British–Nigerian community.

Recommendations

- The UK should provide partial support for the participation, including stand design, construction and travel, of competitive exporters (e.g. they must be Global G.A.P.-certified) to main international fairs in Germany and Spain.
- In partnership with the German/Spanish governments, the UK and Nigerian governments should propose and support the identification of Nigeria as a country partner in these fairs.
- The UK should support the participation of competitive Nigerian exporters (e.g. Global G.A.-. certified) in the London International Food & Drink Event.
- Nigeria and the UK could work together to support the creation of local versions of the main websites to facilitate the business to consumer trade. This should include support to the establishment of partnerships between the trading platforms.
- The UK and the Government of Nigeria can work together in the organisation of a **Nigeria Week** or another type of business networking in the UK, including a series of events to showcase Nigerian products to purchasers in the UK. The UK can support and facilitate the participation of some competitive exporters (e.g. already meeting public standards) as well as co-organisation of the series of events.

Trade in services

Transport/aviation

Achieving a competitive air transport service is critical, as this means of transport is used partially to overcome infrastructure issues and customs and ports inefficiencies.

However, the supply of air services is limited by the fact that no Nigerian airline operates between the UK and Nigeria, and UK carriers are using all the frequencies available in the existing Bilateral Air Services Agreement (BASA). Liberalising air transport between both countries (but not providing cabotage) may increase demand by 117% and reduce prices by 30%.

Security regulation in the UK also limits the potential in the cargo sector for both Nigerian exporters and UK carriers. Because Lagos and Abuja are designated as high-risk airports by the UK's Civil Aviation Authority (CAA), cargo originating in these airports cannot travel further than the UK. Only 10–15% of the cargo compartments of planes are full when airplanes depart from Nigerian airports. This limits the offer of services and reduces business opportunities for exporters, who cannot use the full network of these carriers.

Business services

Nigeria has similar capabilities (e.g. a large number of graduates in foreign universities) to Indian competitors, as well as some advantages (e.g. same time zone), but it has not managed to turn itself into an alternative for UK firms in relation to back office/IT-enabled services. This is in part because of the lack of support in connecting providers with demand in the UK. US Aid has provided to Nigeria a very interesting support package in this regard. The role of the British–Nigerian community in the provision of professional, business and cultural services is key.

Insurance

A multiplicity of factors constrains the provision of insurance and micro-insurance services. These entail the regulatory framework and the current market setup. The Nigerian Central Bank, the Nigerian Communications Authority and the Nigerian Insurance Authority intervene in the different components of the service. These challenges can be overcome through technological solutions, as well as reform in the Nigerian regulatory system to encourage investment (and jobs) and deepen access to insurance and micro-insurance. There are enormous opportunities for UK insurance providers and benefits for Nigerian customers should this issue be addressed.

Recommendations

Transport/aviation

- The UK and Nigeria should negotiate a new BASA, which, like the Nigerian–US BASA, would provide further liberalisation of traffic between both countries. The negotiations could start immediately as they are independent of whatever the UK and the EU negotiate.
- While the agreement is under negotiation, both countries should anticipate its benefits by:
    - allowing unused frequencies allocated by one partner to be used by carriers of the other
    - having a flexible approach to airline ownership, prioritising the registration of the aircraft and the nationality of the crew and/or the address for taxation purposes as criteria to designate airlines that make use of the current BASA
    - granting bilateral unlimited fifth-freedom rights to increase efficiency and profitability of operations.

Business services

- Nigeria and the UK should organise a **Nigeria Week** or another type of business networking event in the UK to showcase the capabilities of business services providers and entrepreneurs from Nigeria. The Nigeria Week should include a series of events where Nigerian and UK services providers can connect with users and customers in both countries. The UK can support the participation of some key competitive providers from Nigeria.

Insurance

- Nigeria should allow for a strengthening of its insurance sector through improving market fundamentals; enhancing enforcement of compulsory insurance; developing professional skills for the insurance sector; relaxing local requirement content for the insurance sector; and reviewing the guidelines to enable banks to partner with more than two insurance providers, and insurance providers to partner with more than two banks.

- Nigeria should identify a single regulatory authority for micro-insurance through technology (e.g. mobile technology).

- The UK should support through technical assistance, and, where applicable, secondments, the development of an adequate regulatory framework for the provision of insurance services through mobile phones, and allow insurance providers to issue micro-insurance without the need to set up a separate institution by providing technical assistance and offering secondments.

  Nigeria and the UK must work together to facilitate the recognition of degrees and qualifications of professionals in both countries. This may require support to the creation of partnerships between UK and Nigerian professional associations.

- Both countries should explore the possibility of developing an e-commerce platform for connection between consumers/users and professional service providers. This could be based on the partnership between UK and Nigerian e-commerce platforms for goods.

Export finance

Nigeria and the UK have both developed financial instruments and institutions to support exporters. These institutions provide credit guarantees to fund working capital to produce for exports, credit facilities to support borrowers to import products and some limited direct lending facilities.

However, exporters and importers have complained about high costs and administrative burdens with regard to obtaining export finance in some cases. The low use of the export finance facilities suggests they may not be adequately tailored to the needs of exporters.

In the case of the Nigerian Export-Import Bank (NEXIM), Nigerian exporters complained about high fees that needed to be paid even when the facilities were not granted. They also complained about requirements, such as having audited accounts.

The alternative of going to commercial banking is available but sometimes prohibitively expensive. Interest rates are extremely high and collateral requirements (more than 120% of the loan) are very high.

UK Export Finance (UKEF) provides funding for export or import UK products. However, despite a recently expanded appetite for risk finance in Nigeria, the current portfolio is only about 3% of total UKEF exposure.

This has many explanations. While UKEF seems to have adequate provision of guarantees, there seems to be a lower and inadequate supply of direct lending to exporters and importers. Moreover, until recently, UKEF did not offer many facilities denominated in naira. This notably reduced the interest from borrowers, considering the high depreciation risks associated with taking loans in another currency.

If UK exporters make use of just 50% of the appetite for risk allocated to Nigeria as a result of direct lending in naira, UK exports to Nigeria could expand by more than $600 million.

Recommendations

- NEXIM should reduce or eliminate the application fee for borrowers in line with UKEF practice.
- NEXIM should work towards reducing the processing times of applications, eliminating duplications in the presentation of documents (e.g. the same documents must be presented to NEXIM and the commercial bank) for the same operation and expediting in general the process.
- NEXIM could forfeit the requirement of having audited accounts for small companies or replace this with another type of documentation (e.g. bank statements).
- Nigeria needs to improve accounting and reporting practices in medium-sized firms, which must have audited accounts. This requires working together with institutions such as the Association of National Accountants of Nigeria and the Institute of Chartered Accountants of Nigeria.
- UKEF must increase the availability of direct lending to both exporters and importers. This can be done by reducing the threshold on first export operations. This may help UK exporters create business and commercial longstanding relationships in Nigeria. This will benefit SMEs aiming to expand and diversify their operations by exporting.
- UKEF must increase the availability of naira-denominated instruments. New direct lending should also be available in naira.
- Because of the size and potential of the Nigerian economy, UKEF must increase its presence in the country, with dedicated staff and resources that can provide better assessment of funding applications and opportunities.

Investment

The business environment in Nigeria in particular affects established businesses and, of course, makes investment in the country unattractive. Investors are required to make expensive provisions to address a complicated and unstable regulatory framework, made worse by discretionary actions; high taxes; and high security costs, among many other Nigeria-specific costs. This reduces the internal rate of return of investment projects, shrinking the number of investable projects in Nigeria. Relatively small improvements could lead to additional UK investments by around $350 million a year.

A comprehensive solution to the poor business climate in Nigeria is necessary, but this will not be simple. It requires recognition by all political actors of the problem and agreement on concrete action plans to solve the most binding constraints. The political consensus in Nigeria should include a list of clear points that have a high probability of continuation beyond one electoral cycle. The Government of Nigeria is in position to initiate this process and now, post-election, is an opportune time.

In more concrete terms, it is inefficient and cumbersome for investors to comply with the multiplicity of regulatory agencies within and between government levels. The multiple taxes applied at each level of government undermine competitiveness and make Nigeria a less attractive destination for investments.

The existing bilateral investment treaty (BIT) is from 1990. It covers only investment protection, without introducing modern provisions on the environment, health and labour standards, and it does not limit the action of Investor–State Dispute Settlement (ISDS) through the right of governments to regulate. Moreover, it does not include provisions on investment facilitation and promotion, something that Nigeria is including in its most recent BITs.

UK investment is particularly limited to large greenfield investments in the oil and gas sector and small investments made by the British Nigerian community. Portfolio investment is limited because of the reduced number of listed securities. There are limited facilities for small investors from both Nigeria and the UK, such as franchises.

There are direct benefits for Nigeria in investing in the UK. The UK provides a very liquid and deep market to hedge against fluctuations in commodity prices that affect the Nigerian economic cycle.

Recommendations

- The Government of Nigeria needs to convene the main political actors and lead a country-wide consensus on an action plan to improve the business climate. Such a consensus would provide much-needed certainty and predictability, and reduce the risk of policy reversal.
- The Federal Government in Nigeria needs to engage with State and Local Governments and work to reduce the incidence of multiple taxation and overlapping regulations. The UK can provide technical assistance to support this process.
- The UK and Nigeria could negotiate a new BIT that continues to include ISDS but recognises countries' right to regulate. The new BIT should include modern provisions to foster sustainable development, the protection of the environment and labour rights and a chapter and provisions on investment facilitation and promotion. It should also recognise asymmetries between both countries and allow for a more flexible interpretation of the MFN clause.
- The UK should support the design of a regulatory framework for further development of the Nigerian capital market, through technical assistance. It should also support a partnership between the London Stock Exchange and the Nigerian Stock Exchange to boost cooperation and cross-listing – in particular the possibility of developing naira-denominated instruments.
- Nigeria should initiate a process for the approval and implementation of the Franchise Law.
- The UK should support the participation of small UK investors through the provision of an investment guarantee. Although UKEF provides this facility, this has so far not been sufficiently effective.

- The UK needs to provide more active support for investors during the early stages of investment, including informing Nigerian authorities about prospective investors. This should reduce cases of corruption and facilitate the process, especially for SMEs.
- Both countries have the opportunity of using the upcoming African Investment Summit on 20 January 2020 to attract UK (and other African) investors to Nigeria. The event should encourage networking among investors, but should also be an opportunity for officials from both countries to hear directly about specific barriers and constraints that may affect business deals, with the aim of providing tailored solutions. A dedicated major side-event to the main summit, or an event in the run-up to the event, needs to be organised.

The British–Nigerian community

The British–Nigeria community in the UK and Nigeria constitutes a major asset to cement the trade and investment relationship between the countries. Remittances from the UK to Nigeria constitute the second source (after oil exports) of foreign revenue from the UK. The relationship is long-standing, involving cultural and social links supporting the trade and investment relationship. Despite the inherent strength of this relationship, the British–Nigerian community has not been a decisive contributing factor to the diversification of trade and investment between the two countries. Unsurprisingly, the British–Nigerian community is affected by the same issues that other traders and investors experience when dealing with Nigeria. In this sense, British–Nigerians would have little or no advantage with respect to other importers/investors in dealing with the business climate and infrastructure issues that affect Nigeria.

There are important opportunities in the provision of bilateral professional, business and cultural services involving the British–Nigerian community. This constitute the main potential expansion of the relationship beyond those existing within the community. More is discussed in the services section.

A major opportunity resides in orienting some of the $4 billion in remittances from the UK to Nigeria to investments that contribute to the economic transformation and the diversification of the Nigerian economy. It is estimated that up to $1.6 billion could be available for investments in Nigeria.

Recommendations

- Nigeria should introduce a special regime to be applied to remittances channelled through the financial system, allowing recipients to maximise the funds they can extract without paying fees and/or a disadvantageous exchange rate.
- Facilitating franchising, by approving the relevant law in Nigeria, will encourage British Nigerians to invest and establish UK franchises in Nigeria as well as to contribute to increased bilateral trade.
- Developing dedicated investment instruments in the UK to channel savings and remittances should aim to increase investment in the non-oil sector in Nigeria.
- Both governments should work to showcase British–Nigerian companies and products in the UK during the African Investment Summit or in other

opportunities, for example a Nigeria Week in the UK. The events should be used to create links involving British–Nigerian, British and Nigerian firms.

- Nigeria could introduce a special regime to be applied to remittances channelled through the financial system, allowing recipients to maximise the funds they can extract without paying fees and/or a disadvantageous exchange rate. Although many recipients will retire funds, some may be left in the financial system to be converted into loans.

Business travel and movement of natural persons

High trade costs and times increase Nigeria's comparative advantage on services. Modes of provision of services are complementary rather than substitutes, and some services rely on natural persons being able to move temporarily to deliver these services.

Some of the opportunities of UK–Nigeria trade rest on the professional, business and cultural services provided under mode 4. Current immigration regulations in the UK make it particularly complicated and onerous to obtain the necessary visa to work or perform in the UK. These complications extend also to the cumbersome procedures involved in applying for business visas to travel to the UK.

In addition, many UK medium-sized firms, professionals and businesspersons are affected by high fees to obtain residence permits in Nigeria. The UK is particularly affected by extremely high visa costs applied to business travel to Nigeria, especially in comparison with those applied to citizens of other countries.

However, it is unlikely that these costs will affect investment decisions by large investors, and they are frequently overlooked when investment projects are analysed. They represent simply a minor but annoying cost to deal with. They may be a more serious deterrent or problem for individuals aiming to provide services on a freelance basis.

Recommendations

- Both countries should work to harmonise but more importantly to reduce visa fees applied to citizens of both countries and facilitate application for visas.

- Bona fide businesspersons who travel frequently and who have always met immigration regulations should be permitted expedited processing of visa applications in both countries.

The potential of the Nigeria–UK relationship

It is difficult to estimate the impact that addressing these issues together will have on bilateral trade and investment. However, it seems very likely that the effect could be very big.

Nigeria has the potential to be a top 10 trade and investment partner for the UK. The existence of a vibrant and important British–Nigerian community alongside a growing population and rising income in Nigeria provide the necessary conditions for such growth. However, the transformation from necessary into sufficient conditions constitutes the main challenge.

In a scenario where – having addressed the main business environment barriers – Nigeria substitutes just 10% of business and computer services that the UK imports from India, Nigeria's exports to Britain would increase by $330 million. **This**

would make services exports as high as those of the oil and gas sector to the UK.

1 Introduction

1.1 Background

This report contains a set of results and recommendations that are derived from the analysis of the data and information collected in multiple interviews and questionnaires with government officials, companies and specialists in both the UK and Nigeria.

Nigeria is the largest economy in Africa and it is expected to become one of the largest economies worldwide, in terms of both population and gross domestic product (GDP), by mid-century. Whether the increase in the size of the economy will be explained only by the growth in population depends on Nigeria achieving the transformation of its production and economic structure. Achieving economic transformation will facilitate the reduction of poverty alongside economic and social development.

Currently, Nigeria's economic structure is characterised by a high level of reliance on oil production and exports. Macroeconomic performance is explained primarily by the evolution of the variables (e.g. prices) associated with this commodity. Oil and gas represent 85% of Nigerian exports.

Although 90% of GDP is explained by non-oil sectors, in general these are largely uncompetitive. Their survival depends primarily on the highly closed nature of the Nigerian economy. On the one hand, this is explained by the high degree of protection provided by high tariffs, poor infrastructure and discriminatory regulations; on the other, only locals can navigate the cumbersome regulatory and institutional space in the country. This protection explains the low productivity and low competitiveness, in general, of the non-oil sector in Nigeria. In essence, Nigeria's lack of competitiveness is the result of a vicious cycle.

Addressing these issues is the only way to facilitate the diversification of the Nigerian economy. Working towards removing protection, addressing bottlenecks and improving the business environment is a necessary but not sufficient condition to facilitate this process. This will help increase exports and bring investments, which constitute a critical factor in the economic transformation process. At the moment, Nigeria receives only half of the investment necessary to sustain economic growth. And its current rate of growth is not fast enough to help the population break out of poverty due to much faster population growth.

This process can be facilitated by strengthening links with key trade, investment and development partners in the continent (e.g. through the African Continent Free Trade Area) and in the rest of the world.

The UK remains one of the most important Nigerian investors, customers and development partners. However, while development support has been oriented towards unlocking potential in the non-oil sector, UK investment and imports remain oriented primarily towards the oil and gas sector: 98% of UK investments are in the oil sector and 95% of Nigerian exports to the UK are in oil and gas.

The combination of development support, investment and trade between Nigeria and the UK could contribute decisively to economic transformation in Nigeria. In addition to the two countries' common features (e.g. language, legal background and cultural links and time zone), the large and thriving UK–Nigerian community constitutes a major enabler to increased trade and investment in the non-oil sector. All this explains the enormous potential for growth and partnership opportunities between the countries.

Moreover, the increasing importance of Nigeria in the global economy and the departure of the UK from the EU are ramping up the relevance of Nigeria as an economic partner for the UK. This presents a radical departure from the traditional one-way relationship between the countries. In economic terms, the UK needs Nigeria to become a larger and more developed economy. The UK wants to invest more in and import more from Nigeria, as well as increasingly wanting to export more to Nigeria too.

This generates the foundations for a win-win partnership whereby, in addition to the relationship between the governments, firms and institutions engage in the delivery of economic development and opportunities for both countries. This implies changing the view of firms as objects in economic development to prioritise them as subjects and drivers of the process.

A good deal of policy design is required to address existing barriers that prevent trade and investment between the countries. Given the varied nature of the constraints, a single approach will not be sufficient. Moreover, each barrier is of a different magnitude and, consequently, will require a different effort.

This project aims to identify and suggest ways to address the barriers that affect trade and investment between the countries in the non-oil sector, including both goods and services. Much of the effort will be put into identifying the sort of simple measures and actions that both countries can take individually and jointly to unlock some of the potential of the relationship. This implies trying to collect the low-hanging fruit of the relationship while both countries continue working together to address the most binding constraints in the relationship. It does not imply underestimating the importance of these barriers, but rather obtaining some benefits through addressing the other issues and preparing the field for trade and investment to thrive as soon as the main barriers are eliminated.

In addition to identifying and addressing barriers, the project aims to highlight the opportunities in bilateral trade and investment between the countries. This implies looking into the enhancing factors (e.g. the UK–Nigerian community) and the complementarities between the countries. These go beyond the typical North–South relationship of Nigeria and the UK being providers of low- and high-value-added goods and services, respectively. The approach aims to look also into the within-sector complementarities between firms, allowing for more horizontal cooperation.

As mentioned, report presents results and recommendations. An ongoing process of analysis will lead to additional advice with respect to actions, as well as the deepening of the advice presented in this document. We hope nevertheless that this report can help start the process of negotiation and implementation of actions in both countries.

After a review of the methodology in Section 2, Section 3 of this report focuses on the structure of and trends in trade and investment between Nigeria and the UK. Special attention is given to identifying what is different between bilateral and general trade and investment patterns. This should lead to a first assessment of the opportunities to trade and invest that exist.

Section 4 attempts to review and collect available information and data on all the barriers already identified by the literature. This effort goes beyond the pure bilateral barriers to include general measures associated with the business climate and ease of doing business.

Section 5 aims to address the market access issues that affect Nigerian exporters when exporting to the UK. This analysis will help identify potential opportunities that may arise from addressing these types of issues.

Section 6 goes deeper into a series of issues highlighted by interactions with stakeholders through interviews and a questionnaire. Moreover, to address the highlighted issues, we present a series of actions and policies for each country to adopt. We present some preliminary conclusions in Section 7.

2 Approach and methodology

2.1 Approach

This study starts from the premise that the existing economic relationship between the UK and Nigeria is important and that both countries share complementary comparative advantages that can support each other's economic transformation strategies. In this sense, the study aims to focus on identifying opportunities to deepen the existing UK–Nigeria relationship, and creating and/or expanding opportunities in other sectors. Therefore, the study aims to examine and consult with the following in detail, and to extract relevant lessons and recommendations:

***Nigerian diaspora*:** The Nigerian diaspora in the UK is very important to the Nigerian economy. According to the World Bank, in the five years between 2013 and 2017, Nigeria's remittances inflows almost reached $ 21 billion per year.

UK–Nigerians are particularly active and entrepreneurial in many areas. This constitutes a major source of investment opportunities in Nigeria, to take advantage of the decisive knowledge and networks that UK–Nigerians have related to the social, political and economic environment in both the UK and Nigeria. Therefore, these are critical actors in the UK–Nigeria investment relationship.

A study carried out for the Policy Development Facility identified various types of diaspora remitters and diaspora investors. The study found that, of the 62 members of the Nigerian diaspora in the UK who were interviewed, 66% were sending remittances, and another 66% were investing in Nigeria (Dalberg Advisors, 2017).

In addition to investing, UK–Nigerians are the primary consumers of some Nigerian final products (e.g. through consumption of nostalgia products) and can also be instrumental in promoting Nigerian products beyond the diaspora. They can contribute to modifying Nigerian products and services (e.g. Nollywood) to make them more appealing to a wider UK market.

UK service providers and investors: The UK has a major global comparative advantage in financial, insurance and business services. These types of services are increasingly important across all production sectors as they represent a growing share of the value-added generated in these sectors. Therefore, having access to efficient services is key to promoting economic transformation.

UK firms can provide information about what elements need to be in place to ensure that investments and trade from these sectors flow to Nigeria. They can contribute to the identification of barriers to, as well as opportunities for, investment. In addition, they can highlight the additional support they need from the UK and Nigerian governments to facilitate these investments.

Investors in the non-services sector need to be considered as well. The investments of UK firms in the food and beverage sector (e.g. Diageo), for example, are extremely important in the generation of employment in Nigeria.

This study does not consider only companies that are currently operating or thinking of operating in Nigeria, but also companies that have left the Nigerian market in recent years, as these can offer useful insights into the challenges facing investors.

Nigerian firms: The population of Nigerian firms includes global leaders (e.g. Dangote) and other firms more oriented to the domestic market. Engaging with both types of firms will provide critical information. Large, globally oriented Nigerian firms can identify opportunities to partner with UK firms in joint ventures in Nigeria, taking advantage of their respective comparative advantages. Small firms, on the other hand, can suggest what barriers matter in the export decision and how a change of UK policies can trigger more trade.

Governments and development partners: Both the Nigerian and the UK governments are designing policies to promote trade and expand investment. It will be key to understand how these policies and institutions are working. Our engagement with policy-makers and key decision-makers in government and associated development partners would involve discussion about investments made by specific development institutions (CDC) as well as how official development assistance (ODA) is used to develop public goods that promote trade and investment.

Investment management and financial services companies: Investment management companies contribute to investment in Nigeria and have a good understanding of the challenges in the trade and investment environment.

2.2 Methodology

The study involves a major effort to collect and analyse information and data at different levels. Some information collection efforts (e.g. interviews with stakeholders) are expected to provide input for multiple tasks. In this sense, the study will involve a combination of desk-based work, interviews with stakeholders and questionnaires.

Investment and trade flow analysis: This involves the collection and analysis of data on trade and investment (flows and stocks) from databases such as UN Comtrade, EU ComExt, Nigeria's National Bureau of Statistics, the UK's Office for National Statistics, the UN Conference on Trade and Development (UNCTAD) and OECD.

Review of literature and publications: The study involves the analysis of existing literature and publications in relation to trade, investment and economic transformation in Nigeria and the UK. It will also require the analysis of existing initiatives and strategies to boost trade and investment between the UK and Nigeria as well as existing regulations and treaties governing investment between the UK and Nigeria.

Interviews with private and public sector stakeholders: The study collects qualitative information through interviewing stakeholders in the public and private sectors. So far, it has interviewed officials and specialists from these firms and organisations.

Based in Nigeria:

- Ministry of Trade, Industry and Investment
- Nigerian Office of Trade Negotiations
- Nigerian Investment Promotion Council
- Nigerian Export Promotion Council
- Standards Organisation of Nigeria
- British High Commission (various teams)
- Policy Development Facility (meetings with officials and with companies supported by the programme)
- National Export Promotion Council (meetings in Abuja and Lagos involving more than 80 Nigerian exporters)
- International Chamber of Commerce
- Community of Practice
- Lagos Chamber of Commerce and Industry
- Nigerian-British Chamber of Commerce
- PricewaterhouseCoopers
- British Airways
- Outsource Global
- LADOL Ltd
- ACA Group
- British businessmen and women based in Nigeria
- Professor Ademola Abbas (Personal Adviser to Lagos state government)

Based in the UK

- UK Export Finance (London and Accra teams)
- CDC
- Blackrock
- Prudential
- Sainsbury's
- Rectella Ltd
- Nigerian Diaspora Trade and Investment Association (meeting with UK–Nigerian businessmen and women)
- Commonwealth Enterprise and Investment Council
- Standard Chartered

- Unilever
- Virgin Atlantic
- Rt Hon Mark Simmonds

Interviews with Nigerian stakeholders were conducted during two visits to Lagos (primarily with the private sector stakeholders) and Abuja (government) facilitated by the Nigeria Export Promotion Council (NEPC) and the DFID-funded programme Policy Development Facility (PDFII). Interviews with UK-based firms will be held in parallel with the interviews with Nigerian firms.

For the purpose of preserving anonymity, we are not making direct attribution of the evidence used to any of the sources.

Questionnaires: The study has prepared a set of questionnaires to undertake systematic data collection on Nigerian firms. The questionnaire aims to collect different dimensions of information. Moreover, it makes it possible to expand the reach to cover more firms and stakeholders.

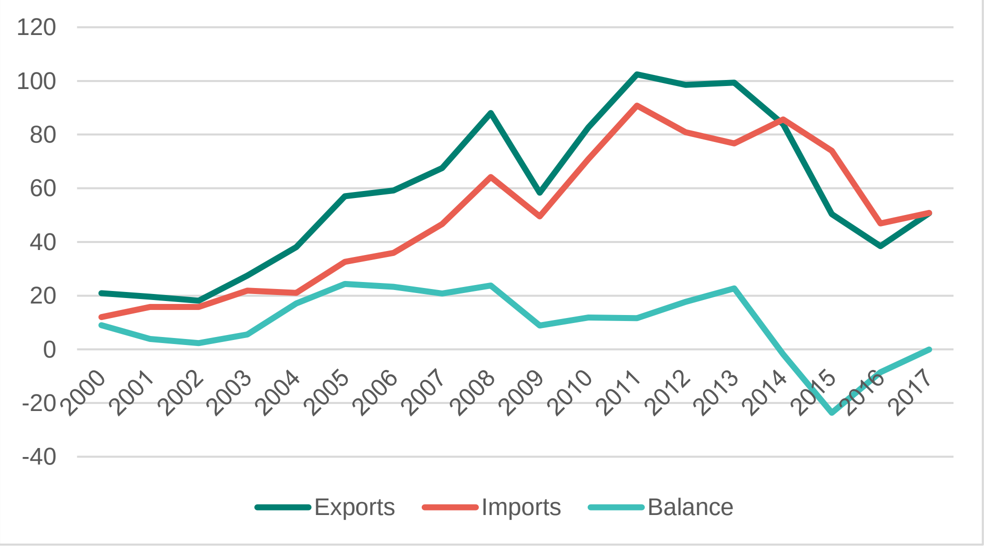
3 UK–Nigeria trade and investment diagnostic

This section examines recent bilateral trade and investment patterns between Nigeria and the UK and contextualises these within both countries' broader trade and investment profiles. We highlight trends in the structure of trade and investment flows between the two countries at the product and/or sectoral level.

3.1 Trade in Nigeria

Nigeria has recorded strong growth in overall trade (both imports and exports) since 2000 (see Figure 1Figure 1 Nigerian trade in goods and services ($ billion), 2000–2017). However, after registering a net trade surplus up until 2013, the country's trade balance deteriorated as the overall value of imports eclipsed exports. In 2015, Nigeria's trade deficit grew to $23.6 billion – representing a sharp reversal from the trade surplus of $22.8 billion recorded in 2013. A declining import bill (down from $74 billion in 2015 to $47 billion in 2016 and $50.9 billion in 2017), rather than major growth in exports, meant the trade balance has recovered since somewhat in the recent past. By 2017, the trade deficit had narrowed to $0.1 billion.

Figure 1 Nigerian trade in goods and services ($ billion), 2000–2017



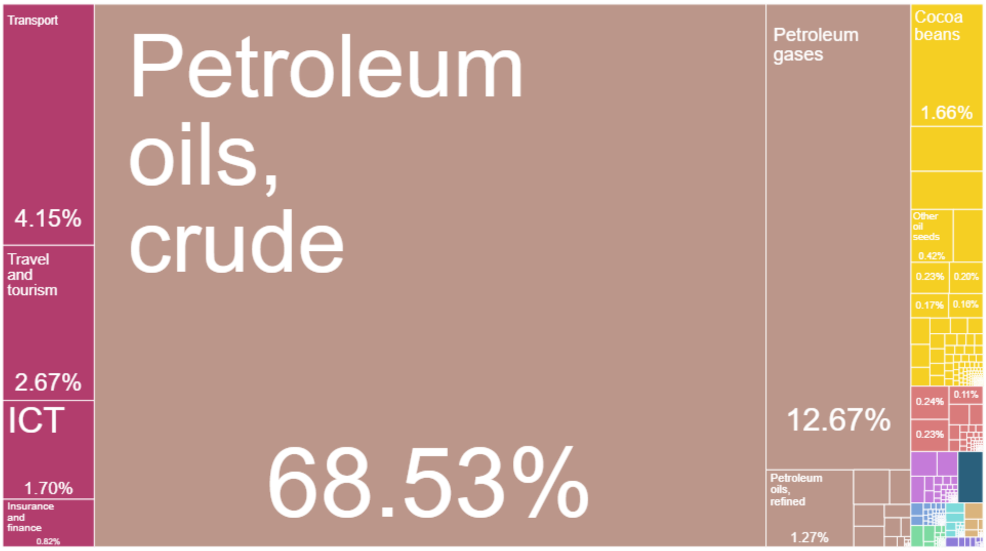
Source: World Bank World Development Indicators (2019)

Nigeria's exports are heavily concentrated in petroleum products. The visualisation in Figure 2 (disaggregated to the HS 4-digit level) shows that crude petroleum oils and petroleum gases collectively accounted for 81.2% of Nigeria's total exports to the world in 2016. Refined petroleum oils contributed a further 1.3% to total exports.

The heavy reliance on oil exports explains the trade balance issues. From 1998 to 2014, oil prices increased ten-fold, from US$ 10 to US$ 100 per barrel. However, in 2015 oil prices collapsed down to US$ 40 per barrel, and even though they started increasing they have not yet reached the values of 2014. In the short-term Nigeria could not increase oil exports, and therefore resorted to reducing imports (Arndt et al., 2018).

Services exports from Nigeria are the second largest after oil and gas - – transport, travel and tourism and information and communications technology (ICT) services accounted for 8.5% of Nigeria's global exports in 2016.

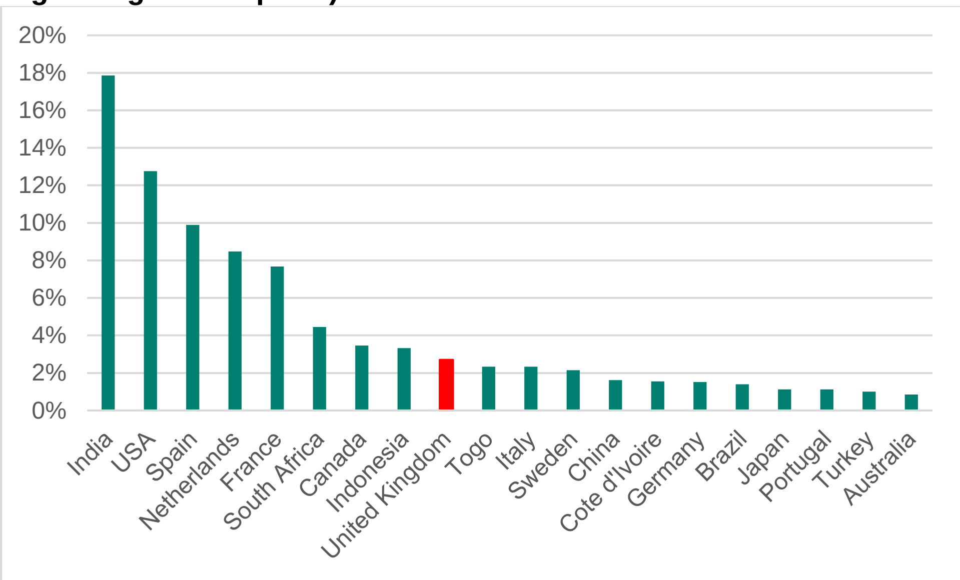
Figure 2 Composition of Nigeria's goods and services exports to the world (share of total exports in parenthesis), 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

Nigeria's good exports are also concentrated in a relatively small number of countries. Figure 3 shows that, in 2017, five export destinations – India, the US and three EU member states (Spain, the Netherlands and France) – absorbed more than half (56.6%) of Nigeria's goods exports globally. The UK was Nigeria's ninth largest export destination in 2017, accounting for 2.7% of total goods exports.

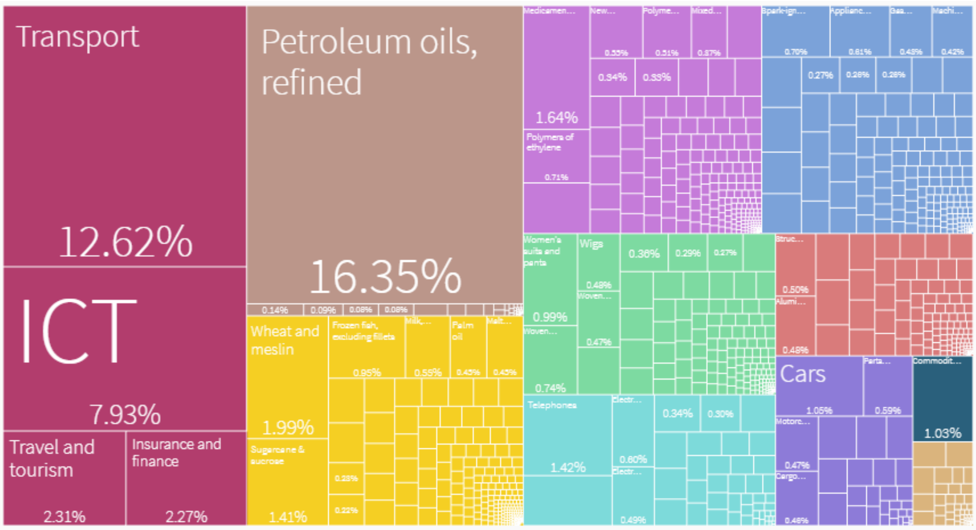
Figure 3 Nigeria's top goods export destinations in 2017 (% of total Nigerian goods exports)



Source: Own calculations using UN Comtrade data

Nigeria's imports of goods and services from the world are notably more diversified compared with its exports. While exporting mostly crude petroleum oil, Nigeria imported a significant share of refined petroleum oil products from the rest of the world, a situation indicative of a wider reality in which Nigeria exports mostly raw materials or intermediate products and imports finished products or those embodying higher levels of value addition. Services imports also constituted a significant share of Nigeria's total imports in 2016, with transport, ICT, travel and tourism, and insurance and finance services collectively accounting for a quarter of Nigeria's total imports in that year.

Figure 4 Composition of Nigeria's goods and services imports from the world, 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

3.2 Nigeria exports of goods and services to the UK

For much of the past decade, Nigeria has enjoyed a trade surplus with the UK. Figure 5 shows that this surplus peaked in 2012, with Nigerian exports to the UK valued at approximately $9 billion in comparison with nearly $2.4 billion in imports from the UK. The performance of the Nigeria's exports to the UK in 2011 and 2012 can be explained by the increased export of a handful of commodities. In 2011 and 2012, Nigeria exported $ 3 billion worth of natural rubber (HS 4001) each year, compared to much smaller quantities in the years before and after. In 2012, Nigeria also exported $500 million worth of milk and cream (HS 0401) which does not feature in its export structure in the following or previous years. Finally, petroleum oils and gases (HS 2709 and 2711) were exported in very large amounts (to the tune of $ 4-5 billion every year) in the period 2011-2013, but these exports declined afterwards (ITC Trade Map).

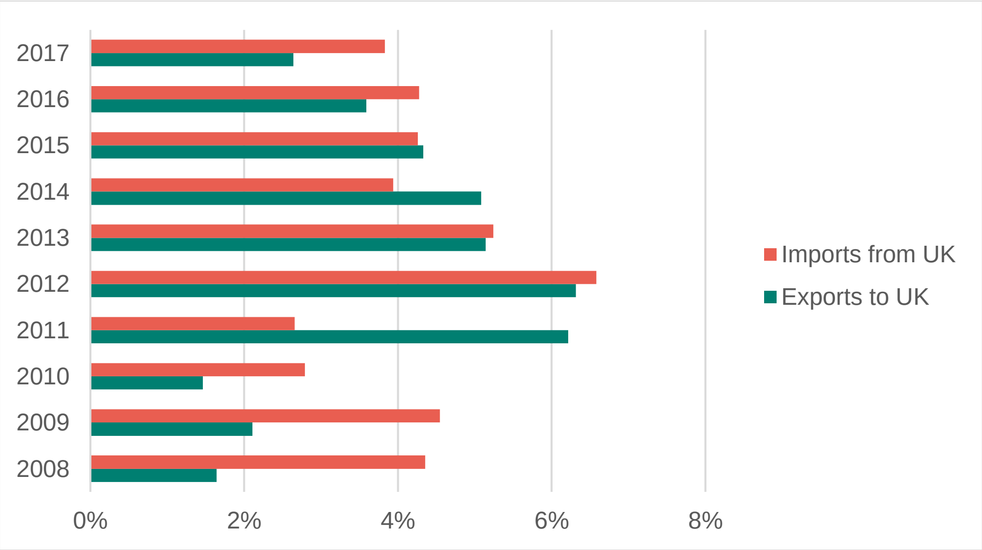
However, the surplus narrowed significantly in the years that followed as the value of Nigeria's goods exports to the UK declined steadily. In 2016 and 2017, the values of Nigerian goods exports to the UK were eclipsed by imports from the UK, resulting in trade deficits in both years ($324.1 million in 2016 and $32.8 million in 2017).

Figure 5 Nigeria's goods trade with the UK ($ billion), 2008–2017

Source: ITC TradeMap data

The share of the UK in Nigeria's total goods exports has declined in recent years, as has the UK's share in Nigeria's total goods imports (see Figure 6). In 2017, 2.6% of Nigeria's overall goods exports were destined for the UK. In turn, the UK accounted for 3.8% of Nigeria's total imports of goods in that year.

Figure 6 Trade share of the UK in Nigeria's total exports and imports of goods, 2008–2017

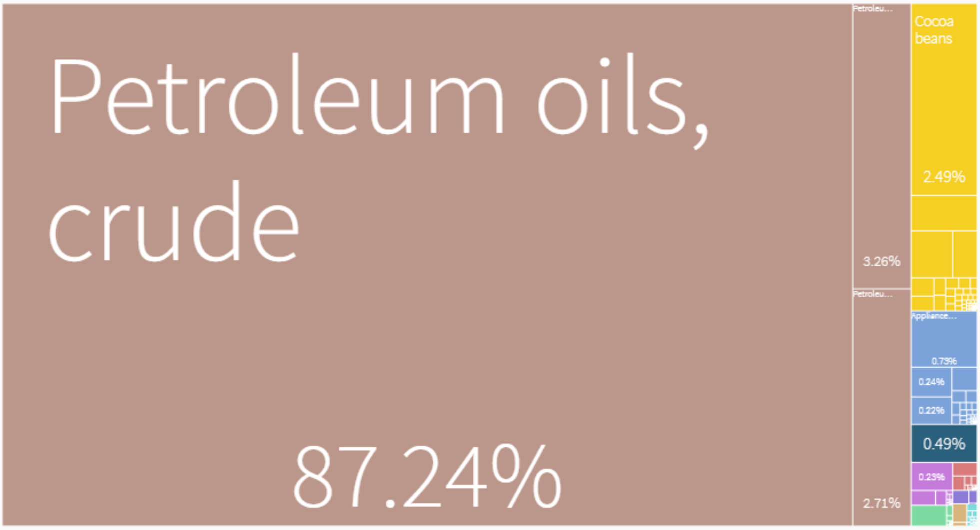


Source: Own calculations using ITC TradeMap data

As with Nigeria's broader export profile, exports to the UK are heavily concentrated in crude petroleum oils. These products accounted for more than 87%

of Nigeria's goods exports to the UK in 2016 (see Figure 7). Other products occupying relatively significant shares of total exports to the UK include petroleum gases, refined petroleum oils and cocoa beans.

Figure 7 Composition of Nigeria's goods exports to the UK, 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

An alternative view of the composition of Nigerian exports to the UK is provided in Table 1, which outlines Nigeria's top 10 goods exports (at the HS 2-digit level) to the UK, based on three-year average export values for the period from 2015 to 2017. The final three columns of Table 1 compare the respective shares of these products in Nigeria's total goods exports to the UK and the world as well as in the UK's total imports of each product. As above, mineral fuels and oils and related products dominate Nigerian exports to the UK, accounting for 98% of all goods destined for the UK in 2017. Even in these products, however, Nigeria's market share in the UK is relatively small, at just 2%. Fuels and oils aside, the list of Nigeria's top 10 goods exports to the UK includes a variety of manufactured products – including ships and boats, aircrafts and related parts, machinery and plastics, along with beverages, spirits and vinegar. These are, however, much small quantities compared to the export of fuels and oil.

Interestingly, for a lot of these exports excluding oil, the trade balance is close to zero or negative (especially for 2016 and 2017), indicating that Nigeria re-imports the same quantity or more than what it exports. This is the case for ships and aircrafts (HS 88 and 89), rubber (HS 40), machinery (HS 84) and other products in the list. One potential reason is that some of these goods are re-imports from the UK. For example, the boats, ships and machinery could be sent to the UK for servicing before being re-imported into Nigeria. It is worth noting that the UK Temporary Tariff Schedule to be applied in case the UK leaves the EU without a deal slashes the UK MFN for these categories to zero.

Table 1 Nigeria’s top 10 goods exports to the UK (HS 2-digit) based on three-year average values, 2015–2017

Product (HS 2-digit)	Value of exports to UK, three-year average, 2015–2017 ($ million)	Share of Nigeria’s total goods exports to UK in 2017 (%)	UK share of Nigeria’s total exports to the world in 2017 (%)	Nigeria's share of UK total imports in 2017 (%)
Mineral fuels, mineral oils and products of their distillation (HS 27)	1,214.3	98.0	2.7	2.0
Ships, boats and floating structures (HS 89)	178.5	0.5	2.0	0.2
Aircraft, spacecraft, and parts thereof (HS 88)	24.2	0.0	0.0	0.0
Cocoa and cocoa preparations (HS 18)	7.2	0.2	1.1	0.1
Rubber and articles thereof (HS 40)	5.9	0.1	2.4	0.0
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (HS 84)	4.9	0.1	12.8	0.0
Beverages, spirits and vinegar (HS 22)	4.0	0.3	15.2	0.0
Plastics and articles thereof (HS 39)	3.0	0.3	3.7	0.0
Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair (HS 67)	2.0	0.3	27.1	1.5
Miscellaneous manufactured articles (HS 96)	1.4	0.0	0.0	0.0

Source: ITC TradeMap data; shares are own calculations

Table 2 presents a more disaggregated picture, which again outlines the top 10 products exported from Nigeria to the UK in 2017, but this time at the HS 6-digit level (again based on three-year average export values for 2015–2017). As before, this underlines the dominance of crude petroleum oils in Nigeria’s exports to the UK. Outside of these products, where Nigeria holds around 5% of the market share against competing imports, Nigerian exports of false beards, eyebrows and eyelashes, as well as natural rubber, also account for relatively large shares of overall imports into the UK. In all 10 products, however, there appears to be significant room for Nigeria to boost its share of UK imports.

Table 2 Nigeria's top 10 goods exports to the UK (HS 6-digit), 2017

Product (HS 6-digit)	Value of exports to UK, three-year average, 2015–2017 ($ million)	Share of total goods exports to UK in 2017 (%)	UK share of Nigeria's total exports to the world in 2017 (%)	Nigeria's share of UK total imports in 2017 (%)
Petroleum oils and oils obtained from bituminous minerals, crude (HS 270900)	1,194.3	98.0	3.2	5.1
Light-vessels, fire-floats, floating cranes and other vessels (HS 890590)	175.1	0.0	0.0	0.0
Aeroplanes and other powered aircraft of an unladen weight > 15,000 kg (HS 880240)	20.4	0.0	0.0	0.0
Natural gas liquefied (HS 271111)	20.1	0.0	0.0	0.0
Technically specified natural rubber (HS 400122)	5.9	0.1	2.4	3.5
Cocoa butter, fat and oil (HS 180400)	4.9	0.2	5.9	0.9
Aeroplanes and other powered aircraft of an unladen weight > 2000 kg but <= 15,000 kg (HS 880230)	3.8	0.0	0.0	0.0
Beer made from malt (HS 220300)	3.5	0.2	36.4	0.3
Reciprocating positive displacement pumps for liquids (excluding those of subheading 8413) (HS 841350)	2.0	0.0	0.0	0.0
False beards, eyebrows and eyelashes, switches and the like, of synthetic textile materials (HS 670419)	2.0	0.3	27.0	11.6

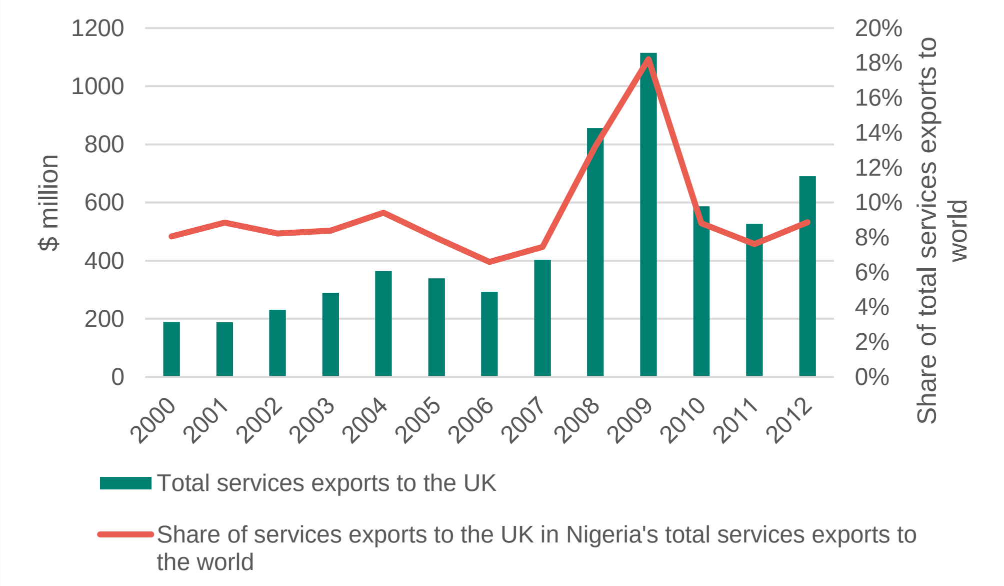
Source: ITC TradeMap data; shares are own calculations

The availability of equivalent data on Nigeria's services exports to the UK is limited, particularly for recent years. The most extensive data is available in the *OECD–World Trade Organization (WTO) Balanced International Trade in Services* (BaTIS) database, but much of what is available in the database is somewhat dated, with coverage only up to 2012 in many instances. Figure 8 presents trends in the total value of Nigeria's services exports to the UK between 2000 and 2012 using the OECD–WTO data. Overall, the value of Nigeria's services exports expanded significantly between 2000 and 2012, with notable spikes in 2008 ($855.6 million) and 2009 ($1,114.3 million). Over the entire 2000–

2012 period, the share of the UK in Nigeria's total services exports to the world generally fell within the range of 8–9%, but it climbed to as high as 18.2% in 2009.

The increase in services exports in the period 2000-2009 has been driven by the growth in communication, construction and other business services. The sharp decline experienced in 2011-2012 has been due to a decrease in export in all sectors, but the ones that experiences a stronger decline were the insurance, travel and government services sectors.

Figure 8 Nigeria's services exports to the UK (and UK share in Nigeria's total services exports), 2000–2012



Source: OECD–WTO BaTIS; shares are own calculations

In 2012, Nigeria's services exports to the UK were concentrated mostly in travel, transportation and construction along with other business services (see Table 3). Collectively, these four categories accounted for 95% of Nigeria's services exports to the UK. Among these, travel contributed a third of all services exports on its own.

Table 3 Composition of Nigeria's services exports to the UK, 2012

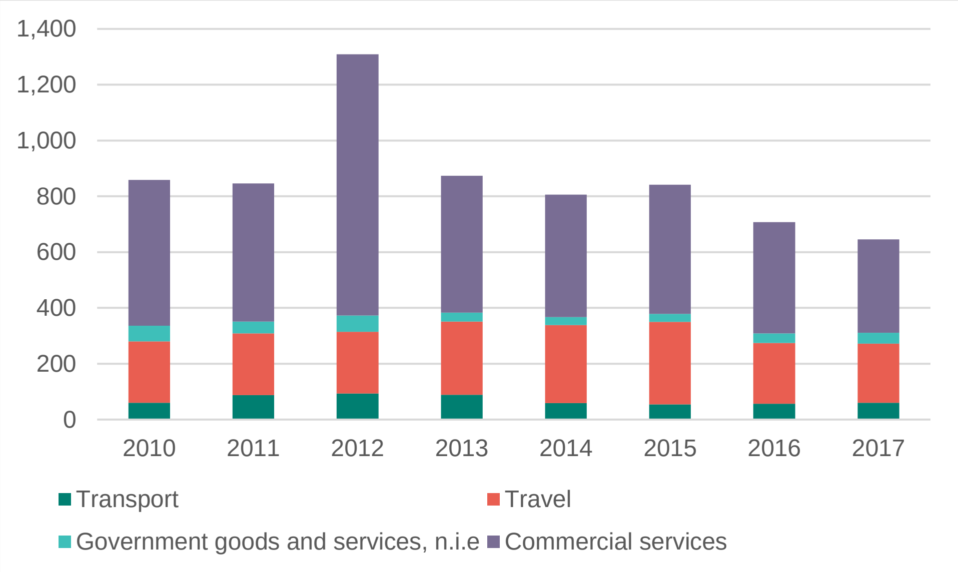
Service	Trade value ($ million)	Share of total services trade with the UK (%)
Travel	231.8	33.6
Transportation	194.3	28.1
Other business services	148.0	21.4
Construction	82.3	11.9
Communications services	13.5	2.0
Insurance services	7.0	1.0
Financial services	6.0	0.9
Government services, n.i.e.	3.9	0.6
Computer and information services	1.6	0.2
Royalties and license fees	1.4	0.2

Service	Trade value ($ million)	Share of total services trade with the UK (%)
Personal, cultural and recreational services	1.0	0.1

Source: OECD–WTO BaTIS; shares are own calculations

More recent data is available on UK services imports from Nigeria, spanning the period from 2010 to 2017. This covers only the smaller subset of services (commercial services, government goods and services, transport, travel) outlined in Figure 9, but does nevertheless provide an indication of the composition of recent flows of Nigerian services into the UK. Consistent with the earlier trends, UK services imports from Nigeria were concentrated mostly in the transportation services and travel and tourism subsectors. This is also consistent with the composition of Nigeria's overall exports to the world, which, as Figure 2 shows, included relatively large shares of transportation and travel and tourism services in 2016.

Figure 9 Value of UK services imports from Nigeria ($ million), selected services, 2010–2017



Source: OECD–WTO BaTIS

3.3 Nigeria's exports beyond the UK

There are products that Nigeria is currently exporting to other countries but not to the UK. Identifying these products and understanding why Nigeria does not export them to the UK is the first step to increase Nigeria's exports.

To do this, we first identify Nigeria's top exports to OECD countries. We limit our selection to OECD countries because we can expect these to be more similar to the UK in terms of import structure.

Table 4 below shows the 30 most exported products from Nigeria to OECD countries. These cover over 99% of the Nigeria's total exports to the OECD. Oil and related products dominate this structure. However, Nigeria also exports other products, albeit in much smaller quantities. These include oil seeds; cocoa beans and butter; metals (copper, aluminium, iron and steel; lead); crustaceans; leather, hides and skins; rubber; wood, charcoal; vegetables and plants; fertilisers; and spices (ginger). Of these, only cocoa butter is exported in considerable quantities to the UK ($7.2 million, or 11% of total exports to OECD in 2015). The remaining products are exported to other OECD countries, but they reach the UK in only minimal quantities.

Table 4 OECD countries' imports from Nigeria, 2015

Product codes	Products names	OECD countries' imports from Nigeria ($ '000s)	Share of total exports to OECD countries
270900	Oils; petroleum oils	19,165,388	71.95%
271111	Petroleum gases; liquefied, natural gas	4,785,196	17.96%
180100	Cocoa beans	498,134	1.87%
271012	Petroleum spirit for motor vehicles	494,718	1.86%
120740	Oil seeds; sesamum seeds	285,120	1.07%
271112	Petroleum gases; liquefied, propane	180,457	0.68%
740400	Copper; waste and scrap	122,065	0.46%
271113	Petroleum gases; liquefied, butanes	107,071	0.40%
271019	Petroleum oils and oils from bituminous minerals; preparations n.e.c.	99,161	0.37%
760120	Aluminium; unwrought, alloys	80,850	0.30%
30617	Crustaceans; frozen, shrimps and prawns	76,056	0.29%
180400	Cocoa; butter, fat and oil	67,942	0.26%
410530	Tanned or crusts skins	55,125	0.21%
410622	Tanned or crust hides and skins	44,378	0.17%
730890	Iron or steel; structures and parts thereof	40,262	0.15%
400122	Rubber	39,726	0.15%
440290	Wood; charcoal of wood other than bamboo	38,690	0.15%
121190	Plants and parts	35,064	0.13%
271119	Petroleum gases; liquefied, n.e.s.	33,108	0.12%
410621	Tanned or crust hides and skins	29,397	0.11%
410510	Tanned or crust hides and skins	22,774	0.09%
411310	Leather	16,570	0.06%
262029	Slag, ash and residues	16,483	0.06%
780110	Lead; unwrought, refined	16,227	0.06%
711299	Waste and scrap of precious metals	13,761	0.05%
310210	Fertilisers, mineral or chemical	10,656	0.04%
780200	Lead; waste and scrap	10,633	0.04%
121299	Vegetable products n.e.s.	10,362	0.04%
91011	Spices; ginger	10,179	0.04%
180320	Cocoa; paste	10,166	0.04%

Source: UN Comtrade data

The next step is to understand whether the UK has demand for these products currently exported by Nigeria to other countries. Table 5 below shows a product-by-product assessment. The first column shows the top non-oil exports of Nigeria to OECD countries. The second and third column show how much of these products the UK imports, and from where. The last column shows how much the UK imports from Nigeria.[1]

Products in this table are clearly divided into two main groups: i) products that the UK imports from other countries but not from Nigeria and ii) products that the UK imports in limited quantities (less than $10 million), or not at all.

The first group (products that Nigeria exports – and that the UK imports but not from Nigeria) includes a variety of products: cocoa and cocoa beans[2]; sesamum seeds; metals (copper, aluminium, iron, lead); crustaceans; rubber; wood; fertilisers; and ginger. These are products that Nigeria could export in larger quantities to the UK. These are marked in bold in Table 5.

The second group includes hides and skins, leather, lead, slag and ashes, vegetables and spices. The UK imports these products in smaller quantities (less than $10 million in 2015). Given the limited demand in the UK market, we do not consider these as viable export opportunities for Nigeria.

Table 5 UK's imports of selected products, 2015

Products	UK imports Value ($)	Main sources	UK imports from Nigeria ($)
180100 Cocoa beans	**160.5 million**	**Côte d'Ivoire, Ghana, Peru**	**-**
120740 Sesamum seeds	**21.2 million**	**India, China, Guatemala**	**-**
740400 Copper; waste and scrap	**99.9 million**	**Ireland, Netherlands, US**	**632,000**
760120 Aluminium; unwrought, alloys	**166.6 million**	**Netherlands, UAE, Spain**	**105,000**
030617 Crustaceans; frozen, shrimps and prawns	**392.2 million**	**India, Bangladesh, Vietnam**	**-**
410530 Tanned or crusts skins	2.8 million	Ethiopia, China, Nigeria	157,000
410622 Tanned or crust hides and skins	796,000	India, Pakistan, Bangladesh	51,000
730890 Iron or steel; structures and parts thereof	**662.8 million**	**Germany, China, Spain**	**-**
400122 Rubber	**48.5 million**	**Indonesia, Thailand, Luxembourg**	**1.1 million**
440290 Wood; charcoal of wood other than bamboo	**45.9 million**	**Spain, Namibia, South Africa**	**1.9 million**
121190 Plants and parts	**60.9 million**	**Germany, India, US**	**11,000**
410621 Tanned or crust hides and skins	167,000	Turkey, Morocco, Italy	-
410510 Tanned or crust hides and skins	40,000	New Zealand, France, USA	-
411310 Leather	2.4 million	Italy, India, France	-

[1] There could be several reasons why the UK imports some products, such as cocoa beans, from Cote d'Ivoire and Ghana but not from Nigeria. Some of these reasons may refer to the trading challenges pointed out in this report. Some other reasons may include that Ghana and Cote d'Ivoire have signed and Economic Partnership Agreement with the EU, of which Nigeria is not part.

[2] There have been recorded UK imports of cocoa from Nigeria in other years. However, they have always been less than 1% of the total UK demand.

Products	UK imports Value ($)	Main sources	UK imports from Nigeria ($)
262029 Slag, ash and residues	16,000	China, -	-
780110 Lead; unwrought, refined	**34.5 million**	**Ireland, Israel, China**	**-**
711299 Waste and scrap of precious metals	**705.1 million**	**Germany, US, Luxembourg**	**486,000**
310210 Fertilisers, mineral or chemical	**279.0 million**	**Algeria, Russian Federation, Netherlands**	**-**
780200 Lead; waste and scrap	9.3 million	Belgium, Netherlands, Russian Federation	-
121299 Vegetable products n.e.s.	7.1 million	China, France, India	-
091011 Ginger	**29.6 million**	**China, Netherlands, India**	**437,000**
180320 Cocoa paste	892,000	Belgium, Ireland, US	-

Source: UN Comtrade data

We thus turn our attention to the first group of products. Nigeria already produces and exports these products, which also have a market in the UK. Therefore, there is a chance for Nigeria to increase export of these products to the UK.

Is Nigeria an efficient producer of these goods? One way to address this question is to look at Nigeria's comparative advantage in these products. To measure the comparative advantage, we use the Revealed Comparative Advantage (RCA), introduced by Balassa (and therefore also called *Balassa Index*) in 1965.

The RCA uses trade flows to 'reveal' the products in which a country or a firm has a comparative advantage. It compares how much a country exports of a certain product (as a share of its total exports) to how much the world exports of a certain product. According to Balassa's definition, a country has an RCA in a product if the country exports more than the share of total world trade of that product.[3]

If the RCA is >1, a country has a comparative advantage in a product. If the RCA is <1, the country does not have a comparative advantage in that product.

Table 6 shows the RCA of the products selected as part of the first group. Out of a total of 13 products, only 5 have RCA >1. The products identified in this way, where Nigeria is an efficient producer and could export to the UK, are mostly agricultural products: cocoa beans, sesamum seeds, rubber, lead and fertilisers (marked in bold in the table).

Table 6 RCA of selected products (reference year: 2016)

Products	RCA (2016)
180100 Cocoa beans	**11.83**
120740 Sesamum seeds	**33.55**
740400 Copper; waste and scrap	0.02
760120 Aluminium; unwrought, alloys	0.29
030617 Crustaceans; frozen, shrimps and prawns	-
730890 Iron or steel; structures and parts thereof	0.01

[3] Unfortunately, given data limitation, it results impossible to calculate an RCA on goods and services together. Moreover, RCA on services are not widely available and easy to calculate. It is important to take this into consideration as, when services are included, comparative advantages in some goods may not be evident.

400122 Rubber	**1.99**
440290 Wood; charcoal of wood other than bamboo	0.19
121190 Plants and parts	0.04
780110 Lead; unwrought, refined	**1.61**
711299 Waste and scrap of precious metals	-
310210 Fertilisers, mineral or chemical	**3.32**
091011 Ginger	-

Source: Authors' calculations on UN Comtrade data

3.4 Trade in the UK

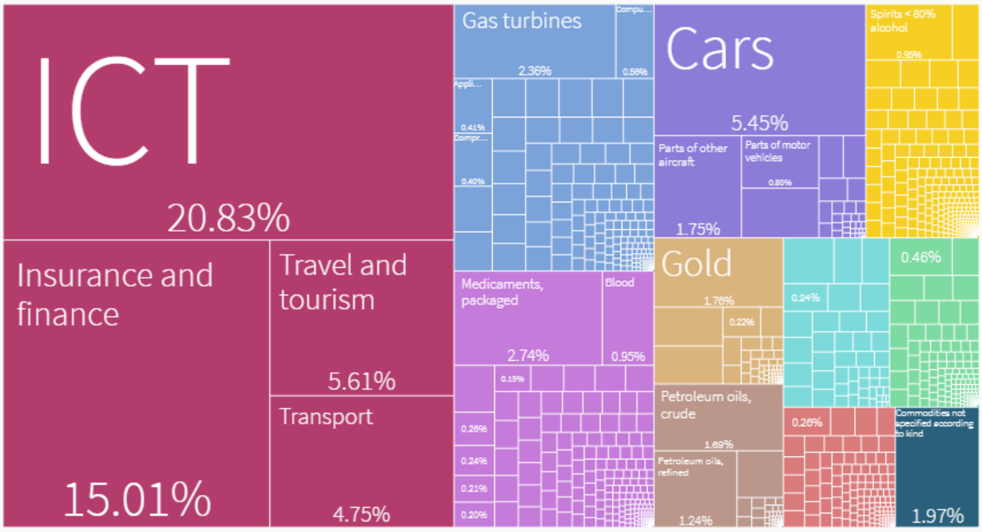
The UK has consistently registered a trade deficit since 2000. Over this period, growth in UK goods and services exports to the world has generally moved in line with the expansion of imports (see Figure 10). In 2017, the UK exported goods and services to the value of $796.4 billion, while importing $825.4 billion worth of goods and services, thus generating an overall trade deficit of $29 billion.

Figure 10 UK trade in goods and services ($ billion), 2000–2017

Source: World Bank World Development Indicators (2019)

The UK's exports are dominated by services, but its exports are notably more diversified compared with Nigeria's export profile. Figure 11 shows that, in 2016, ICT, insurance and finance, travel and tourism and transport services dominated the UK's exports to the rest of the world. Collectively, exports of these four services categories accounted for nearly half (46.2%) of the UK's overall exports. Cars, gas turbines and medicaments accounted for the largest shares of the UK's goods exports in 2016.

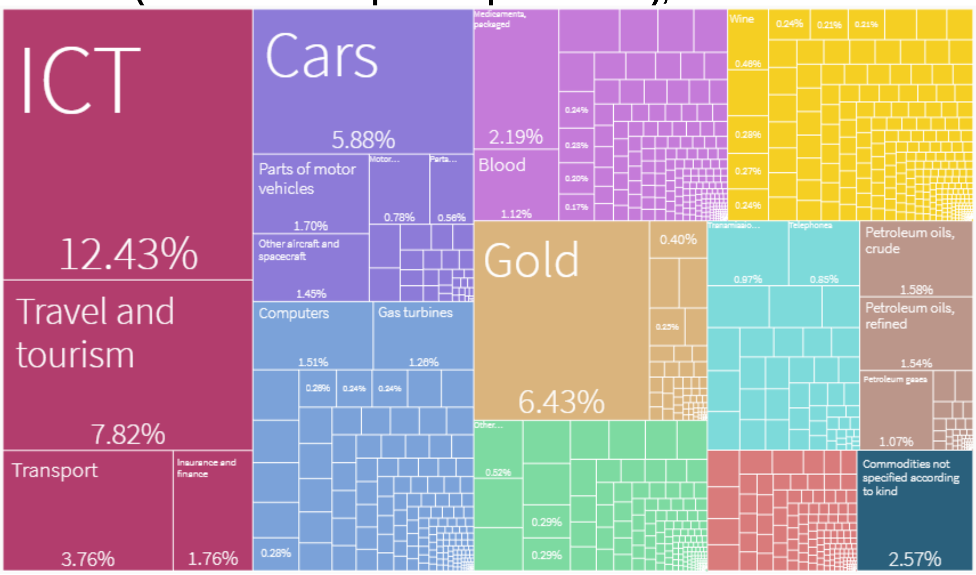
Figure 11 Composition of the UK's goods and services exports to the world (share of total exports in parenthesis), 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

As with exports, services also account for significant shares of overall imports into the UK. Collectively, ICT, travel and tourism, transport, and insurance and financial services accounted for 25.8% of total imports into the UK in 2016 (see Figure 12). Outside of services, imports of gold, cars, motor vehicle parts and medicaments accounted for the largest shares of goods imported into the UK in 2016.

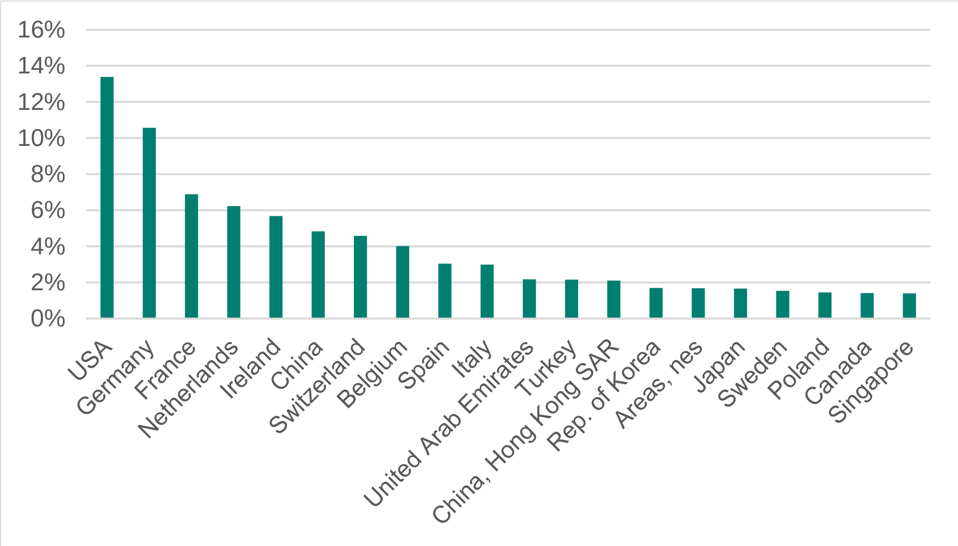
Figure 12 Composition of the UK's goods and services imports from the world (share of total imports in parenthesis), 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

The UK's exports are also less concentrated across trading partners compared with Nigeria. The US was the UK's most prominent export partner in 2017, followed by four fellow EU member states (Germany, France, the Netherlands and Ireland) and China. For its part, Nigeria was the 43rd largest export destination for UK goods, absorbing 0.3% of total exports in 2017. This placed Nigeria behind only South Africa (29th) and Egypt (40th) among the UK's various African export destinations in that year - thus making Nigeria the third largest African market for UK goods.

Figure 13 UK's top goods export destinations in 2017 (% of total UK goods exports)

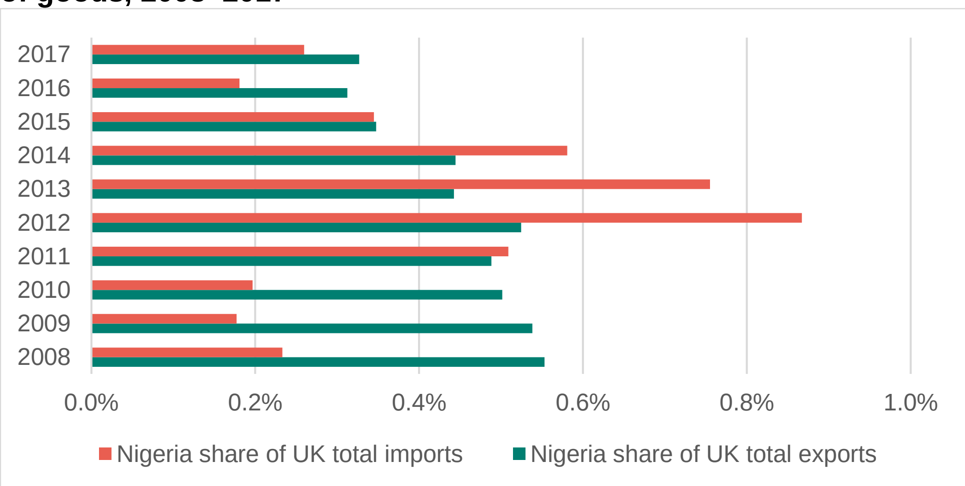


Source: Own calculations using UN Comtrade data

3.5 The UK's exports of goods and services to Nigeria

Nigeria remains a comparatively peripheral trade partner for the UK. As Figure 14 shows, Nigeria's share in the UK's total goods imports has increased marginally since 2008, but it still provides only 0.3% of all goods imported into the UK. At the same time, Nigeria has become a relatively less important partner for UK exporters in recent years, with the share of UK goods exports destined for Nigeria declining from 0.6% in 2008 to 0.3% in 2017.

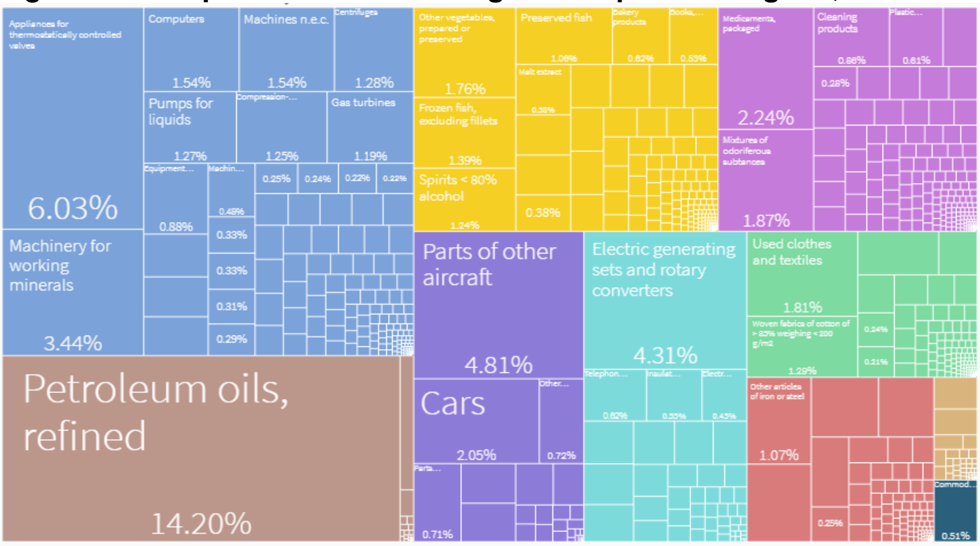
Figure 14 Trade share of Nigeria in the UK's total exports and imports of goods, 2008–2017



Source: Own calculations using ITC TradeMap data

Even so, the UK's goods exports to Nigeria are quite diverse. Figure 15, which is based on 2016 data, indicates that refined petroleum oils constitute the largest share (14.2%) of the UK's non-services exports to Nigeria. This contrasts sharply with the large quantities of crude petroleum oil exported by Nigeria to the UK (and other countries). Exports of appliances for thermostatically controlled valves, aircraft parts, electric generating sets and rotary converters, and machinery for working minerals also account for relatively substantial shares of UK goods exported to Nigeria.

Figure 15 Composition of the UK's goods exports to Nigeria, 2016



Source: Harvard CID Atlas of Economic Complexity (2019)

An alternative perspective is provided in Table 7, which lists the UK's top 10 goods exports (HS 2-digit level) to Nigeria, based on three-year annual average export values covering the period from 2015 to 2017. The main exports include several high-value manufactured products – nuclear reactors, boilers and machinery; electrical machinery and equipment; vehicles, optical, photographic, cinematographic and medical instruments; aircraft and spacecraft and associated parts.

Table 7 UK's top 10 goods exports to Nigeria (HS 2-digit) based on three-year average values, 2015–2017)

Product (HS 2-digit)	Value of exports to Nigeria, three-year average, 2015–2017 ($ million)	Share of UK's total goods exports to Nigeria in 2017 (%)	Nigeria share of UK total exports to the world in 2017 (%)
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HS 84)	298.0	16.5	0.4
Mineral fuels, mineral oils and products of their distillation (HS 27)	232.2	28.3	1.2
Electrical machinery and equipment and parts thereof (HS 85)	166.9	13.3	0.7
Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof (HS 87)	69.7	3.7	0.1
Iron and steel articles (HS 73)	66.3	2.5	0.7
Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories (HS 90)	54.8	2.8	0.2

Product (HS 2-digit)	Value of exports to Nigeria, three-year average, 2015–2017 ($ million)	Share of UK's total goods exports to Nigeria in 2017 (%)	Nigeria share of UK total exports to the world in 2017 (%)
Aircraft, spacecraft and parts thereof (HS 88)	53.6	0.9	0.1
Pharmaceutical products (HS 30)	52.8	3.5	0.2
Essential oils and resinoids; perfumery, cosmetic or toilet preparations (HS 33)	45.8	2.5	0.6
Preparations of vegetables, fruit, nuts or other parts of plants (HS 20)	32.7	1.9	3.7

Source: ITC TradeMap data; shares are own calculations

A more disaggregated picture is presented in Table 8, which again outlines the top 10 products exported by the UK to Nigeria in 2017, but this time at the HS 6-digit level. At this level of disaggregation, the diversity in the UK's main goods exports to Nigeria is especially evident, ranging from vehicles, engines and insulated electrical conductors to refined petroleum oil products, used clothing and vegetable preparations. In certain products, Nigeria represents a prominent market within the context of the UK's exports globally. For instance, Nigeria absorbs more than 15% of the UK's global exports of insulated electrical conductors and 13% of its overall exports of vegetable preparations. In other key products, the share of UK exports going to Nigeria is relatively limited (e.g. specific vehicles and engines), and these may represent promising avenues in which to boost bilateral trade.

Interestingly, one of the top UK exports to Nigeria is second-hand clothing (HS 6309), which is included in Nigeria's list of prohibited imports.[4] UN Comtrade data report trade in second-hand clothing both on the Nigerian side (as an import from the UK) and from the UK side (as an export to Nigeria), although the latter figures are much larger.

Table 8 UK's top 10 goods exports to Nigeria (HS 6-digit) based on three-year average values, 2015–2017

Product (HS 6-digit)	Value of exports to Nigeria, three-year average, 2015–2017 ($ million)	Share of UK's total goods exports to Nigeria in 2017 (%)	Nigeria share of UK's total exports to the world in 2017 (%)
Petroleum spirit for motor vehicles (HS 271012)	198.0	24.6	4.8
Petroleum oils and oils from bituminous minerals, not containing biodiesel, not crude, not waste oils (HS 271019)	32.3	3.6	1.4
Taps, cocks, valves and similar appliances; parts thereof (HS 848190)	30.2	1.6	3.7

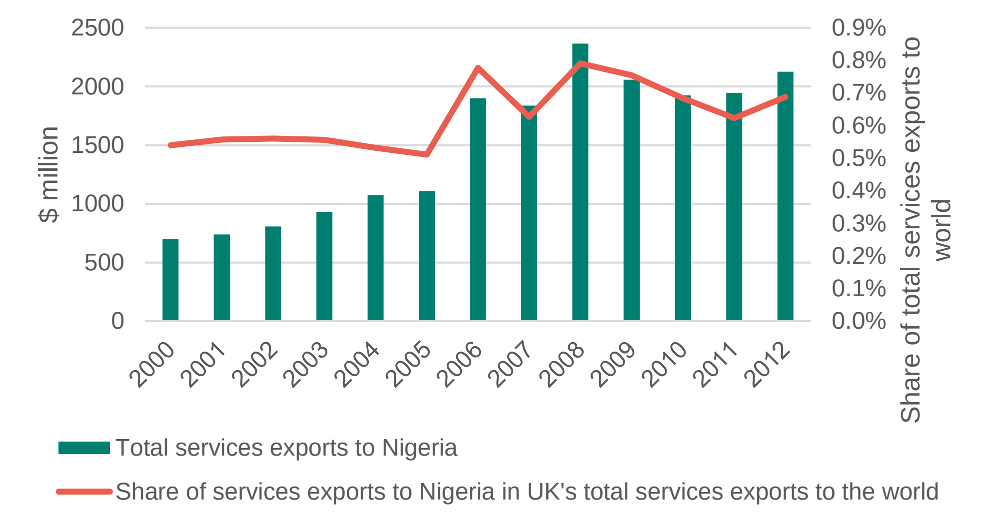
[4] Nigeria Customs Services (undated). *GOODS: THE IMPORTATION OF WHICH IS ABSOLUTELY PROHIBITED.* Available at https://www.customs.gov.ng/ProhibitionList/import_2.php

Product (HS 6-digit)	Value of exports to Nigeria, three-year average, 2015–2017 ($ million)	Share of UK's total goods exports to Nigeria in 2017 (%)	Nigeria share of UK's total exports to the world in 2017 (%)
Vegetables preparations; potatoes, prepared or preserved otherwise than by vinegar or acetic acid, not frozen (HS 200520)	28.9	1.8	13.0
Clothing; worn, and other worn articles (HS 630900)	28.1	2.8	8.1
Insulated electric conductors (HS 854442)	25.5	5.1	15.4
Odoriferous substances and mixtures (HS 330290)	24.7	1.5	3.9
Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves (HS 848180)	24.4	0.9	1.0
Vehicles; with only spark-ignition internal combustion reciprocating piston engine (HS 870323)	20.9	1.0	0.1
Engines; compression-ignition internal combustion piston engines (diesel or semi-diesel engines) (HS 840890)	19.9	1.1	0.9

Source: ITC TradeMap data; shares are own calculations

As with Nigeria's exports, the availability of corresponding data on UK services exports to Nigeria is limited, particularly for recent years. Drawing on the data that is available, Figure 16 charts the trend in the UK's total services exports to Nigeria from 2000 to 2012. The overall value of UK services exported to Nigeria tripled over this period, from $701.1 million in 2000 to more than $2.1 billion in 2012. This was accompanied by a marginal increase in Nigeria's share in the UK's total services exports globally (from 0.5% in 2000 to 0.7% in 2012).

Figure 16 UK services exports to Nigeria (and Nigeria's share in UK total services exports), 2000–2012



Source: OECD–WTO BaTIS; shares are own calculations

In 2012, the UK's exports of services to Nigeria were dominated by transportation, travel and other business services (see Table 9). Collectively, these three subsectors accounted for more than 81% of the UK's total services exports to Nigeria. Construction, financial services and government services followed in order of magnitude (measured by the value of exports). This pattern is very similar to the exports by France, Germany and the US to Nigeria, which are dominated by transportation, travel and other business services. France and the US also export to Nigeria considerable values of construction services.

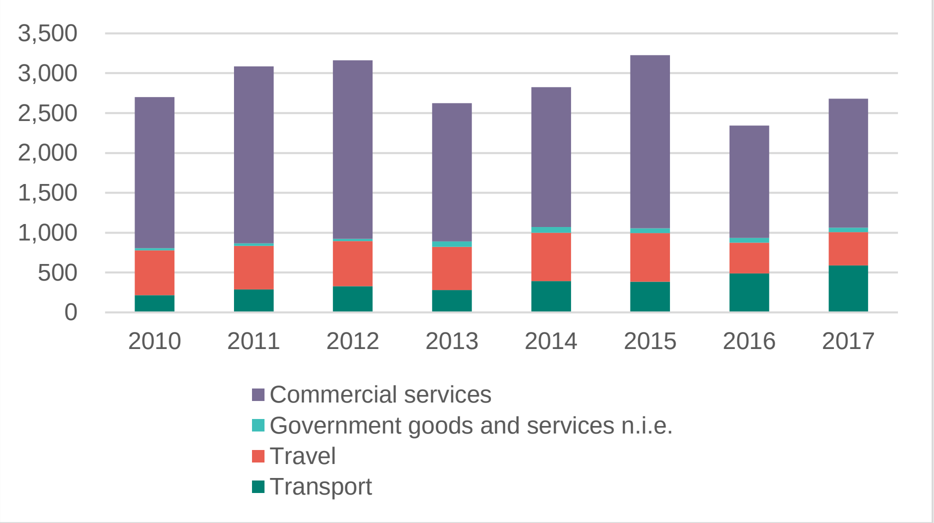
Table 9 Composition of UK's services exports to Nigeria, 2012

Service	Trade value ($ million)	Share of total services trade with Nigeria (%)
Transportation	428.8	20.2
Travel	522.9	24.6
Communications services	54.4	2.6
Construction	88.8	4.2
Insurance services	22.8	1.1
Financial services	83.5	3.9
Computer and information services	23.0	1.1
Royalties and license fees	28.4	1.3
Other business services	777.9	36.6
Personal, cultural and recreational services	23.3	1.1
Government services, n.i.e.	71.9	3.4

Source: OECD–WTO BaTIS

More recent data is available on UK services exports to Nigeria, spanning the period from 2010 to 2017, and is presented in Figure 17. This covers a smaller subset of services (commercial services, government goods and services, transport, travel), but does provide an indication of the composition of recent flows of UK services exports to Nigeria. Between 2010 and 2017, this trade is dominated by commercial services, which includes communications, constructions, insurance and financial, ICT services etc.

Figure 17 Value of UK services exports to Nigeria ($ million), selected services, 2010-2017



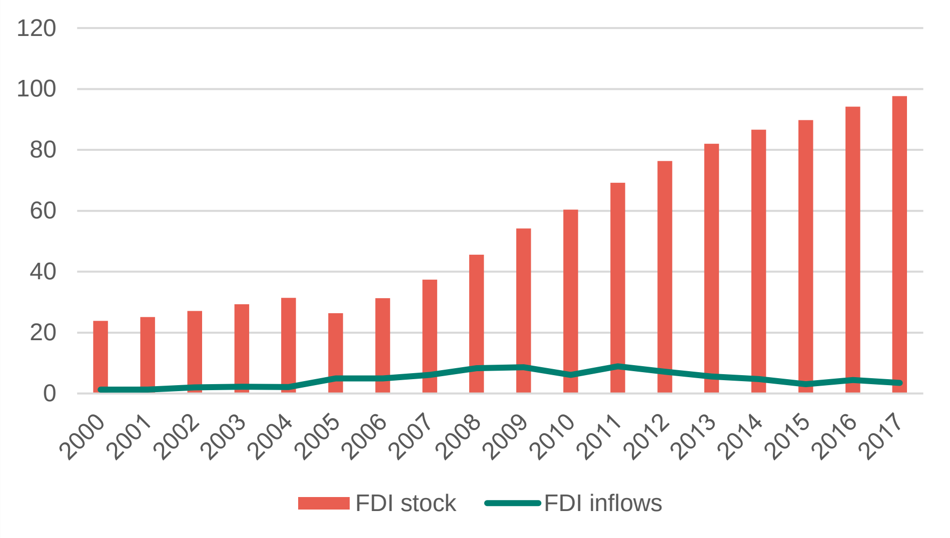
Source: OECD–WTO BaTIS

3.6 UK foreign direct investment in Nigeria

Despite boasting a large domestic market, significant economic potential and abundant resources, Nigeria's record in attracting foreign direct investment (FDI) has been sluggish. Risks associated with lack of economic diversification, insecurity, a poor investment climate and a sizeable infrastructure deficit continue to deter investors. In 2016, Nigeria ranked a lowly 19th on Quantum Global Research's Africa Investment Index, well behind the continent's leading investment destinations (Botswana, Morocco, Egypt, South Africa and Zambia).

Despite these challenges, the stock of FDI into Nigeria has grown steadily since 2000 – from $23.8 billion in 2000 to $97.7 billion in 2017. However, as Figure 18 shows, FDI inflows have been more erratic, expanding year-on-year in the first decade since 2000 but declining steadily after 2011. Between 2016 and 2017, FDI into Nigeria fell by 21% to $3.5 billion (to just 40% of the value of inflows registered in 2011).

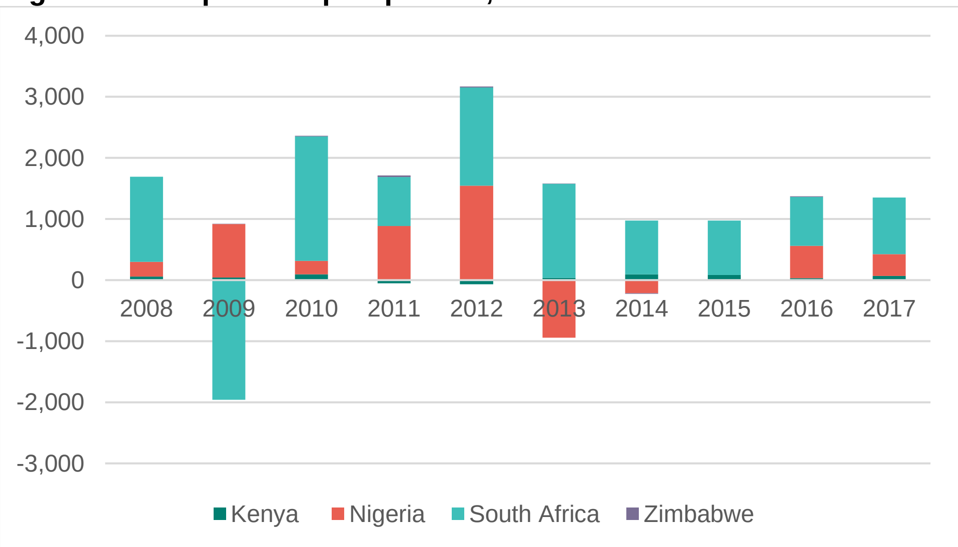
Figure 18 Nigeria's total FDI inflows and stock ($ billion), 2000–2017



Source: UNCTAD World Investment Report 2018 Annex Tables

Nigeria is an important destination for UK FDI into Africa, although the magnitude of net FDI flows from the UK has fluctuated considerably from year to year over the past decade. This is evident in Figure 19, which indicates net FDI flows from the UK to Nigeria eclipsed those to Kenya and Zimbabwe over this period – and, in certain years, came close to (in 2012) or exceeded (in 2009 and 2011) the equivalent net flows to South Africa.

Figure 19 UK net FDI flows to selected African countries (£ million) – Nigeria in comparative perspective, 2008–2017



Notes: Negative flows indicate a net disinvestment from the country. Data for Nigeria for 2015 are disclosive and thus not available.
Source: Office of National Statistics

The availability of sectorally disaggregated data on direct investment flows from the UK to Nigeria is very limited. For several sectors and years, recent data reported by the Office for National Statistics and other sources (including Eurostat) on UK investment flows to Nigeria are suppressed or not available because the data is disclosive. This is particularly relevant in the case of mining and quarrying (which includes oil and gas extraction), which constitutes the majority, by a large margin, of the UK investments in Nigeria. Nevertheless, some sectorally disaggregated data is available for 2016 (and 2014 in the case of manufacturing), reported in Table 10 below.

This data indicates that the bulk of UK direct investment flows to Nigeria went into manufacturing, services and finance and insurance activities. Activities related to transportation and storage in Nigeria were also important recipients of direct investment from the UK, albeit on a significantly smaller scale.

Table 10 UK direct investment flows to Nigeria by selected economic activities, 2016

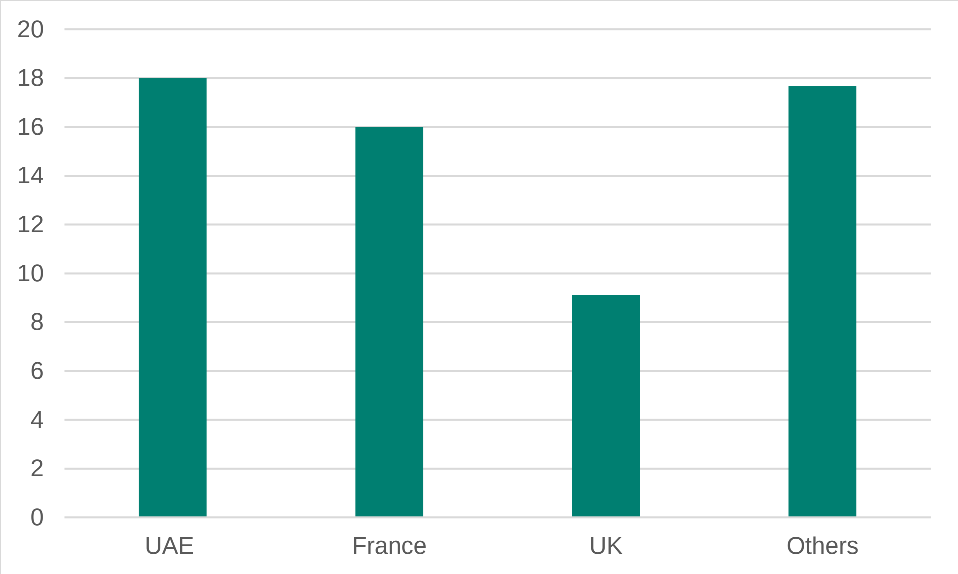
Economic activity (NACE classification)	Value (€ millions)
Manufacturing	**127.8***
Water supply; sewerage, waste management and remediation activities	0.0
Services	**76.6**
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.6
Transportation and storage	7.6
Information and communication	-3.9
Financial and insurance activities	49.4
Professional, scientific and technical activities	0.4
Arts, entertainment and recreation	0.0
All FDI activities	**674.5**

*Notes: * The value for manufacturing is for 2014.*
There are sectors that, for confidentiality reasons, are not disclosed in the source of information.
Source: Eurostat

Nevertheless, given that FDI flows include withdrawals made by headquarters as well as repayments of loans taken by subsidiaries, it is impossible to obtain a detail characterisation of bilateral and sectoral investment flows. There are sectors and partners with which the UK may have negative net outward flows.

Figure 20 presents the announcements of investment into Nigeria in 2018. Of course, there may be a difference between what was announced and what has been effectively disbursed. Based on this figure, the UK was the third largest FDI investor in 2018, with $9.12 billion. While the sectoral decomposition of this investment is not available, $9 billion corresponds to a single investment announcement by Royal Dutch Shell in the mining and quarrying sector (i.e. oil and gas extraction), which accounts for more than 98% of the total UK investment announcements in Nigeria. This is far from constituting an outlier, as in 2017 a single investment announcement made by BP represented 95% of the same volume.

Figure 20 Investments announcements in Nigeria ($ billion), 2018



Source: Own elaboration based on Nigerian Investment Promotion Commission (NIPC)

Given the lack of information about the composition of non-oil investment flows into Nigeria, Table 11 tries to capture the magnitude of UK FDI stocks into Nigeria. Unfortunately, the information is very limited, to just a few subsectors. Nevertheless, we see most of the UK stock of FDI in Nigeria is located in the secondary sector. This includes a wide range of manufacturing activities, as well as mining and construction, but not the agriculture sector. Most of the tertiary sector FDI is in the finance subsector.

Table 11 Stock of UK FDI in Nigeria and total by sector ($ million), 2016

Sector	Stock in Nigeria	Total UK outward stocks
Primary	**N/A**	**202,970**
Secondary	**1,245**	**255,667**
Tertiary	**327**	**1,034,517**
Finance	*267*	*518,424*
Transport, storage and communications	*27*	*180,151*
Business activities	*2*	*76,929*

Source: Own elaboration based on ITC investment Map

Therefore, assuming that the sectoral composition of FDI stocks follows a similar structure to the one for flows, we could say that most of the UK's non-oil flows of investment are directed to secondary activities, which would represent around 79% of non-oil investment flows. This is worth noting considering that most of the UK non-oil total FDI is in the tertiary sector (e.g. services).

4 Barriers to bilateral trade and investment

This section considers existing barriers hampering trade and investment between the UK and Nigeria as outlined in the literature. We first examine the UK and Nigeria's relative performance on various indicators of doing business and trade restrictiveness. We then focus on the Nigerian side and outline general barriers identified as affecting the UK (and other countries) trading with Nigeria. Thereafter, we turn to barriers affecting Nigerian exports to the UK. In the final part, we assess factors constraining investment flows between the UK and Nigeria.

4.1 Doing business and trade restrictiveness indicators

Nigeria is widely regarded as a difficult country in which to do business and with which to trade. It is ranked 146th out of 190 countries on the overall ease of doing business measure in the World Bank's 2019 Doing Business rankings. It performs even worse on the indicators directly related to trade, placing 182nd out of 190 countries on the trading across borders measure. This poor performance is evident in a few sub-indicators underpinning the trading across borders measure (see Table 12). By comparison, the UK is perceived as a far more conducive environment for doing business and trade. It is ranked 9th out of 190 countries on the World Bank's overall ease of doing business measure.

Table 12 shows that the time and costs involved in compliance with documentary and border requirements when exporting or importing in the UK are considerably lower than the equivalent indicators for Nigeria (measured at the subnational level for Lagos and Kano). While a comparison between the UK and Nigeria may be of limited value given the significant differences in the two countries' level of development, Nigeria performs poorly in this area even in comparison with the average for sub-Saharan African (SSA) (reported in the final column of Table 12).

Table 12 Comparison of time and cost indicators of compliance with border and documentary requirements for exporting and importing

	UK	Nigeria (Kano and Lagos)	SSA average
Exporting			
Time to comply with border requirements (hours)	24	135	97.3
Cost to comply with border requirements ($)	280	786	605.8
Time to comply with documentary requirements (hours)	4	119	72.8

	UK	Nigeria (Kano and Lagos)	SSA average
Cost to comply with documentary requirements ($)	25	250	168.8
Importing			
Time to comply with border requirements (hours)	3	264	126.3
Cost to comply with border requirements ($)	0	1077	684.3
Time to comply with documentary requirements (hours)	2	144	97.7
Cost to comply with documentary requirements ($)	0	564	283.5

Notes: 1) Time and cost for border compliance include time and cost for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures. 2) Time and cost for documentary compliance include time and cost for obtaining, preparing, processing, presenting and submitting documents.
Source: World Bank Doing Business 2019

Nigeria performs better on measures of services trade restrictiveness. Table 13 compares the UK and Nigeria's scores for financial, telecommunications, retail, transportation and professional services on the World Bank's Services Trade Restriction Index (STRI) with the average for SSA as well as the East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, Middle East and North Africa and South Asia regions. Except for retail services, Nigeria's trade regimes for services sectors are generally regarded as less restrictive, on average, than those in the rest of SSA. Similarly, Nigeria is generally less restrictive for services trade, on average, compared with countries in East Asia and the Pacific, the Middle East and North Africa and South Asia. However, except for trade in transportation and professional services, the opposite is true when Nigeria is compared with the country averages for Europe and Central Asia and Latin America and the Caribbean.

For its part, the UK has generally few restrictions on services trade outside the transportation and professional services sectors. Notably, however, trade involving professional services is regarded as more restrictive in the UK than in Nigeria. A closer analysis indicates that the higher restrictions on professional services the UK are generally associated with mode 4. In legal advice on domestic law and legal representation in court, foreign-licensed professional must reside in the UK. Moreover, foreign education is not generally recognised, and lawyers need to pass a local examination. However, foreign lawyers may have their qualifications recognised by applying for the Qualified Lawyers Transfer Scheme[5] or may receive a temporary license to appear in court in specific cases[6].

[5] http://www.sra.org.uk/solicitors/qlts.page
[6] OECD's Services Trade Restrictiveness Index (STRI) http://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-country-note-united-kingdom.pdf

Moreover, cross border provision of auditing services is not allowed, and commercial presence is required. Accounting services can be provided through mode 1.

Table 13 Nigeria's and the UK's services trade restrictiveness in comparative perspective

	Financial	Telecoms	Retail	Transportation	Professional
Nigeria	**25.9**	**25**	**25**	**23.8**	**36**
UK	**0.6**	**0.0**	**0.0**	**23.1**	**45**
SSA[7]	26.7	38.6	22.8	29.9	48.7
East Asia & Pacific[8]	31.1	34.4	28.1	43.5	61.1
Europe & Central Asia[9]	15.0	14.0	2.9	24.9	40.5
Latin America & Caribbean[10]	19.6	22.1	8.8	22.2	38.2
Middle East & North Africa[11]	36.8	32.8	21.9	51.8	66.0
South Asia[12]	38.1	45.0	30.0	50.4	60.7

Notes: 1) STRI indices take a value from 0 to 100, where 0 is completely open and 100 is completely closed; hence higher scores are associated with a more restrictive regime. 2) Regional data is averages across selected countries in each region. 3) Restrictiveness scores are overall indicators, covering multiple modes of services (1, 3 and 4).
Source: Own calculations using World Bank STRI

Digital trade is an increasingly important component of overall trade and the lines between physical and digital trade have become progressively blurred. In many instances, digitalisation has helped reduce production and transaction costs and provided a faster, easier and cheaper way to coordinate trade across borders (Banga and te Velde, 2018). Despite this, Nigeria remains quite restrictive when it comes to digital trade. It is ranked 16th most restrictive overall (out of 65 countries) on Ferracane et al.'s (2018) Digital Trade Restrictiveness Index (DTRI), and the most restrictive of the African countries included in the ranking. In comparison, the UK is ranked 44th overall on the DTRI.

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[7] Botswana, Burundi, Cameroon, Côte d'Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe

[8] Cambodia, China, Indonesia, Malaysia, Mongolia, Philippines, Thailand, Viet Nam

[9] Albania, Armenia, Belarus, Bulgaria, Czech Republic, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Lithuania, Poland, Portugal, Romania, Russia, Turkey, Ukraine, Uzbekistan

[10] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela

[11] Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Tunisia, Yemen

[12] Bangladesh, India, Nepal, Pakistan, Sri Lanka

Table 14 compares the rankings for Nigeria and the UK on the various clusters comprising the overall DTRI. Nigeria is regarded as more restrictive in almost all dimensions of digital trade. Even in the areas where it is considered less restrictive than the UK (intellectual property right (IPR) policies and restrictions on access to online content), barriers to digital trade still exist. For example, strict data localisation laws are applied in Nigeria, requiring all foreign and domestic firms to store data on Nigerian citizens within the country. Unless exempt, government data is also required to be stored locally. According to the US Trade Representative (USTR) (2018), these localisation requirements discriminate against foreign firms, whose data storage and processing is typically undertaken on a global level. Other stakeholders have also highlighted concerns about the ability of the Government of Nigeria to protect data effectively.

Despite Nigeria being ranked among the least restrictive countries from the perspective of IPR policies related to digital trade on the DTRI, weak enforcement of IPRs – in part because of resource limitations in government institutions and limited interagency cooperation – is considered a problem (USTR, 2018). Weak enforcement and low levels of protection emerge as issues not only around IPRs, but also around data policies and other regulations. The inadequacy of existing laws covering IPRs is said to be especially problematic for the exporters of entertainment and ICT services (DIT, 2018). Political wrangling continues to hamper efforts to pass legislation to address issues such as online piracy or to provide more funding to support enforcement of IPRs (ibid.).

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Table 14 Nigeria and the UK's relative digital trade restrictiveness

DTRI cluster	Sub-categories	Ranking (/65 countries) Nigeria	UK
Overall	**n/a**	**16**	**44**
Fiscal restrictions and market access	*Overall*	*8*	*23*
	Tariffs on digital goods; trade defence measures and restrictions targeting digital goods	5	42
	Taxation of digital goods and services or data usage; discriminatory implementation of subsidy schemes	10	57
	Limitations on participation in public procurement	15	18
Establishment restrictions	*Overall*	*46*	*62*
	Foreign investment restrictions	25	43
	IPR policies	65	59
	Competition policy	51	61
	Restrictions on business mobility	25	40
Restrictions on data	*Overall*	*32*	*15*
	Data policies	45	12
	Intermediate liability	13	43
	Restrictions on access to online content	60	23
Trading restrictions	*Overall*	*11*	*53*
	Quantitative restrictions impacting digital imports/exports	8	49
	Restrictive technical standards	18	22
	Restrictions on online sales and transactions	24	62

Notes: The DTRI covers 65 countries. A lower ranking on the DTRI is indicative of a greater level of trade restrictiveness.
Source: Ferracane et al. (2018)

4.2 Barriers affecting imports from the UK (and other countries) into Nigeria

This section considers barriers affecting the UK and other countries looking to export products to Nigeria.

Tariffs

Since 2015, Nigeria has applied the Economic Community of West African States' (ECOWAS) five-band Common External Tariff (CET) on imports entering the country from outside the region. The CET applies tariffs as follows:

- zero for essential social commodities

- 5% on essential commodities, raw materials and capital goods
- 10% on intermediate products
- 20% on consumer goods and
- 35% on specific goods for economic development.

Nigeria's average applied most-favoured nation (MFN) rate was 12.7% in 2017 (WTO, 2017). The average MFN tariff on raw materials is 10.5%, compared with 10.2% and 14.7% on semi- and fully processed products, respectively (ibid.). Table 15 outlines the top 20 products facing the highest average applied MFN tariff rates for imports into Nigeria. Imports of meat and fish products face the highest average MFN tariffs, while tariffs on soaps and various washing products and beverages, spirits and vinegar exceed 20%. The final column of Table 15 presents the annual value of UK exports to Nigeria (averaged over 2014–2016) for each of these products. For some products, the UK's annual exports to Nigeria are substantial. UK exports of soap and other washing preparations (HS 34); beverages, spirits and vinegar (HS 22); other made-up textile articles, sets, worn clothing and worn textile articles, rags (HS 63); preparations of cereals, flour, starch or milk, pastrycooks' products (HS 19); and vehicles and parts and accessories thereof (HS 87) all exceeded $20 million annually, on average, between 2014 and 2016. In the case of vehicles and parts and accessories, UK exports to Nigeria exceeded $95 million.

Table 15 Top 20 products facing the highest average MFN tariff rates on imports into Nigeria

Product description	Simple average applied MFN tariff	Value of UK exports to Nigeria ($), average 2014–2016
Meat and edible meat offal (HS 02)	31.4	22,711
Preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates (HS 16)	24.1	908,193
Soap, organic surface-active agents, washing preparations, lubricating preparations, waxes (artificial, prepared), polishing or scouring preparations, candles and similar articles, modelling pastes, "dental waxes" and dental preparations with a basis of plaster (HS 34)	23.0	20,890,796
Beverages, spirits and vinegar (HS 22)	20.5	21,763,737
Cocoa and cocoa preparations (HS 18)	20.0	1,068,770
Manufactures of straw, esparto or other plaiting materials; basketware and wickerwork (HS 46)	20.0	76,300
Carpets and other textile floor coverings (HS 57)	20.0	482,306
Knitted or crocheted fabrics (HS 60)	20.0	9,887
Articles of apparel and clothing accessories, knitted or crocheted (HS 61)	20.0	5,083,749
Articles of apparel and clothing accessories, not knitted or crocheted (HS 62)	20.0	8,530,057

Product description	Simple average applied MFN tariff	Value of UK exports to Nigeria ($), average 2014–2016
Prepared feathers and down and articles made of feathers or down; artificial flowers; articles of human hair (HS 67)	20.0	650,644
Works of art, collectors' pieces and antiques (HS 97)	20.0	1,169,432
Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery (HS 58)	19.6	1,907,396
Edible fruit and nuts; peel of citrus fruit or melons (HS 08)	19.6	101,024
Clocks and watches and parts thereof (HS 91)	19.4	11,073,379
Other made up textile articles; sets; worn clothing and worn textile articles; rags (HS 63)	19.4	22,551,188
Miscellaneous manufactured articles (HS 96)	19.3	2,200,712
Preparations of cereals, flour, starch or milk; pastrycooks' products (HS 19)	19.0	32,362,323
Edible vegetables and certain roots and tubers (HS 07)	18.5	531,440
Vehicles other than railway or tramway rolling- stock, and parts and accessories thereof (HS 87)	18.4	95,865,000

Source: WTO Tariff Analysis Online

At a disaggregated industry level, there has been positive escalation in Nigerian tariffs in most industries, including food and beverages, textiles and apparel, wood products, paper, printing and publishing, meaning that effective rates of protection in these industries are higher than the nominal rates (WTO, 2017).

Nigeria's final bound tariff rates are high, on average – 117.3% across all products and even higher on agricultural products (150%), although lower on non-agricultural goods (49.3%) (WTO, 2017). At the same time, there is currently low tariff binding coverage – just 19.2% of total tariff lines (ibid.). Taken together, the high final bound tariff rates and low binding coverage imply there is plenty of room to raise tariffs, resulting in a less predictable tariff regime.

The combined effectively duty (the sum of the tariff and additional levies) exceeds 50% in more than 156 tariff lines; and there are more than 80 tariff lines in which the effective duty exceeds the limits prescribed by the ECOWAS CET – which stipulates the total effective rate should not exceed 70% (Export.gov, 2018; USTR, 2018). For example, the effective rate of protection is 135% for cigars and cigarettes, 120% for rice, 100% for wheat flour, 85% for tobacco and tobacco products and 80% for sugar (USTR, 2018).

Other border taxes, levies, charges and fees

The application of a range of additional border taxes, charges, fees and levies is an important reason why Nigeria has high effective rates of protection. These additional charges, some of which are available to all ECOWAS countries, include the following:

- **Comprehensive Import Supervision Scheme (CISS)** fee – applied at 1% of the f.o.b. value of imports

- **ECOWAS community levy** – 0.5% levy imposed on goods from non-ECOWAS member states, used to support the work of the ECOWAS Commission and community institutions (WTO, 2017)

- **Import Adjustment Tax (IAT)** – allowing flexible application of the ECOWAS CET for up to five years from 1 January 2015. The list of products for which the IAT can be applied is extensive and includes account books, note books and order books; beverages; cereals; cotton; electrical machinery and equipment and parts; iron and steel; paper and paperboard; portland cement; plastics; registers; spirits and vinegar; tobacco and manufactured tobacco substitutes; vehicles other than tramway or tramway rolling stock, and parts and accessories; and wheat or meslin flour. The magnitude of the IAT ranges from 5% to 60% and is highest (60%) on cereals imported into Nigeria (WTO, 2017)

- **safeguard measure** – permitting the imposition of additional import duties or quantity restrictions for up to 10 years to protect specific industries (Hearne, 2017)

- **statistical tax** – applied at 1%

- **Supplementary Protection Tax (SPT)** – can be added to imports on top of the ECOWAS CET when the volume or price of imports of a product exceeds certain thresholds. Application of the SPT is limited to 3% of products and the maximum total rate when the SPT is applied along with the customs duty and IAT should not exceed 70% (Coste and von Uexkull, 2015; Hearne, 2017).

In addition to these taxes and levies, Nigeria also applies some sector-specific levies on certain imported products. These include a National Automotive Council levy of 15% on imports of new and used vehicles and 5% on tyres (WTO, 2017), and a special levy of 15% on imports of portland cement.

Import restrictions, prohibitions and licensing

Prohibitions and restrictions

The use of import prohibitions is permitted in Nigeria to protect the country's domestic industries as well as to address balance of payment deficits or moral or safety concerns (WTO, 2017). The actual application of import prohibitions is extensive and affects many products. For example, imports of meat (including beef, port, mutton, goat meat, edible offal, frozen chicken, poultry) from all countries are prohibited, as are imports of cement in bags and motor vehicles older than 10 years. There are two formal import prohibition lists: an import prohibition list by trade (see

Table 16) and an absolute import prohibition list (see Table 17). Import prohibitions can raise the price of products in the domestic market. In the case of Nigeria, Treichel et al. (2012) estimate that **import prohibitions increase the domestic price of the prohibited products by 77%, on average**.

Table 16 Nigeria's import prohibition list by trade

Product categories	
Live or dead birds including frozen poultry	Soaps and detergents
Pork, beef	Mosquito repellent coils
Birds eggs	Rethreaded and used pneumatic tyres
Refined vegetable oils and fats	Corrugated paper and paper boards
Cane or beet sugar and chemically pure sucrose	Telephone re-charge cards and vouchers
Cocoa butter, powder and cakes	Carpets and other textile floor coverings
Spaghetti/noodles	All types of foot wear, bags and suitcases
Fruit juice in retail packs	Hollow glass bottles of a capacity exceeding 150ml
Waters, including mineral waters and aerated waters containing added sugar or sweetening matter or flavoured	Used compressors & used fridges/freezers
Bagged cement	Used motor vehicles above 15 years from the year of manufacture
Medicaments (HS 3003 & 3004)	Ball point pens and parts including refills (excluding tip)
Waste pharmaceuticals	Tomato paste or concentrate put up for retail sale

Source: Nigeria Customs Service

Table 17 Nigeria's absolute import prohibition list

Product categories	
Air pistols	Manilas
Airmail photographic printing paper	Matches made with white phosphorous
All counterfeit/pirated materials or articles including base or counterfeit coin of any country	Materials deemed to create a breach of peace or offend religious views of any class of persons in Nigeria
Beads composed of inflammable celluloid or other similar substances	Meat, vegetables or other provisions declared by a health officer to be unfit for human consumption
Blank invoices	Piece goods and all other textiles including wearing apparel, hardware of all kinds' crockery and china or earthenware goods bearing inscriptions (whether in Roman or Arabic characters) from the Koran or from the traditions and commentaries on the Koran
Coupons for foreign football pools or other betting arrangements	Pistols disguised in any form
Cowries	Second-hand clothing
Exhausted tea or tea mixed with other substances	Silver or metal alloy coins not being legal tender in Nigeria

Product categories	
implements appertaining to the reloading of cartridges	nuclear industrial waste and other toxic waste
Indecent or obscene prints, painting, books, cards, engraving or any indecent or obscene articles	Spirits (alcoholic bitters, liqueurs, cordials and mixtures; brandy; drugs and medicinal spirits; gin; methylated or denatured spirit; perfumed spirits; rum; spirits imported for medical or scientific purposes; spirits totally unfit for use as portable spirits; whisky)

Source: Nigeria Customs Service

Nigeria has also listed 42 categories of imported products for which access to foreign exchange from the Central Bank of Nigeria is banned. This is another measure designed to protect certain domestic sectors and is in place to encourage local production with a view to reducing import dependency, diversifying production and achieving 'self-sufficiency' (WTO, 2017; USTR, 2018). The listed product categories effectively restrict imports in more than 800 tariff lines.[13] Products covered under the foreign exchange ban include cold rolled/galvanised steel sheets, cosmetics, glass, plastics, some financial products (e.g. Eurobonds, foreign currency shares and bonds), soap, steel drums, steel pipes, textiles and wire rods (Hearne, 2017). Restricting access to foreign exchange makes it difficult for foreign firms to export these products to Nigeria and also constrains Nigerian firms' ability to import inputs required for production (USTR, 2018). As we will see, many firms complained about the lack of adequate and compliant packaging (including glass and metal containers) for their products for export. This is the result of high tariffs and the unavailable foreign currency to import them.

Licences and quotas

Import licences and quotas are applied for specific products imported into Nigeria. For example, there is an import licence quota limit of 2.5 million metric tonnes on bulk cement (European Commission Market Access Database). Since 2014, frozen fish imports have also been subjected to quotas, and these have been reduced annually by 25% over four years. Traders in the EU have complained about a lack of transparency and insufficient detail on the list of fish species affected by the quotas (ibid.).

Licensing approval is also required for all pharmaceutical products imported into Nigeria. This includes standard products that are globally accepted and sold worldwide (WEF, 2019). The licensing process for each product can take between three and six months (ibid.).

Non-tariff measures and barriers

Non-tariff measures (NTMs) and non-tariff barriers (NTBs) affecting imports into Nigeria (and, in some cases, exports from Nigeria as well) are extensive. These barriers can be grouped broadly into standards-related barriers, sanitary and phytosanitary (SPS) measures, trade facilitation issues, local content requirements and certain sector-specific NTBs.

Table 18 presents a summary of the top 10 most imposed NTMs applied by Nigeria on imports from other countries (including the UK and the rest of the world). Pre-shipment inspection is the most heavily imposed measure, affecting 3,402 different product exports with a value of more than $48 million. Labelling requirements also affect a large number of products, along with authorisation and registration

[13] http://madb.europa.eu/madb/barriers_details.htm?isSps=false&barrier_id=10282

requirements for reasons related to technical barriers to trade (TBT). Other registration requirements, along with restrictions on the use of certain substances in food and feeds, SPS authorisation requirements and tolerance limits on residues of non-microbial substances, also affect large numbers of products imported from outside Nigeria.

Table 18 Top 10 most imposed NTMs on imports into Nigeria

Measure	NTM coverage ratio (%)[i]	NTM frequency ratio (%)[ii]	Number of NTM-affected products[iii]	Value of NTM-affected trade ($)[iv]
Pre-shipment inspection and other formalities	83.7	74.5	3,402	48,059,773
Labelling requirements (B310)[v]	20.6	18.1	828	11,841,436
Authorisation requirement for TBT reasons	19.2	19.5	890	11,042,777
Registration requirement for importers for TBT reasons [vi]	17.7	14.3	654	10,160,026
Restricted use of certain substances in foods and feeds and their contact materials	11.2	10.2	466	6,430,855
Labelling requirements (A310)[vii]	9.7	10.2	467	5,572,827
Registration requirements for importers[viii]	9.7	10.2	465	5,555,672
Tolerance limits for residues of or contamination by certain (non-microbiological) substances	9.7	10.2	465	5,555,672
Special authorisation requirement for SPS reasons	9.6	10.0	456	5,532,724
Product registration requirement	9.4	9.9	454	5,373,647

Notes: i) Calculated by determining the value of imports of each commodity subject to NTMs, aggregating by applicable HS commodity group, and expressing the value of imports covered as a percentage of total imports in the HS commodity group. ii) Accounts for the presence or absence of a NTM, and indicates the percentage of traded products to which one or more NTMs are applied. iii) Count of traded HS 6 digit products that are subject to one or more NTM measures. iv) Sum of gross imports or gross exports that are affected by one or more NTM measures. v) B310: A certification is requested by some official norm, it is not private or optional/voluntary. The certification required by the importing country and could be granted either in the exporting or importing country. vi) Importers may need to be registered in the importing country for TBT reasons. Vii) A310: Certification required by the importing country that could be granted either in the

exporting or the importing country. Viii) Importers may need to be registered in the importing country.
Source: WITS

Further details on some of these measures, and specific NTBs affecting products imported into Nigeria, are outlined below.

Standards certification

Products imported into Nigeria must be certified through the Standards Organization of Nigeria (SON) Conformity Assessment Programme (SONCAP). This certification is required for each container and product, meaning the cost of certification – which is said to be $600 per container or per product – rises in direct proportion to the number of containers and products imported (WTO, 2017). According to reports in the European Commission's Market Access Database, the certification process is not only costly but also burdensome, particularly when certification is required for several products. Each product must be registered prior to shipment and e-registered with SON. A SONCAP certificate of conformity must also be obtained from an authorised service provider – a third party certifier and/or the exporters' national authority, depending on the product – prior to shipment (USTR, 2018). This certificate is mandatory for goods to be cleared by the Nigeria Customs Service when entering Nigeria. A valid test report and photographs of each exported product must also be provided to a local SON country office (WTO, 2017). Moreover, the certificates are valid only for a single year and must be renewed annually even if no changes are made to the product, thus resulting in additional costs for importers (European Commission Market Access Database).

Sanitary and phytosanitary barriers

A range of products must also be registered with the National Agency for Food and Drug Administration and Control (NAFDAC). This applies to imported chemicals, cosmetics, detergents, drugs, food, medical devices and packaged water (WTO, 2017). Traders in the EU have complained that the registration process is complex, burdensome and lengthy (European Commission Market Access Database).[14] The listed products must be registered by a competent regulatory body in the exporting country before they are manufactured, imported and circulated in the Nigerian market. All product types must be registered, and even different sizes of the same product incur separate registration fees (ibid.). EU traders have also complained of continuous and excessive increases in registration fees, which they believe are much higher for imported products than for locally manufactured goods (ibid.).

In certain instances, samples must be sent to NAFDAC laboratories for testing at least three months prior to the arrival of the product in Nigeria. NAFDAC representatives also physically inspect all production facilities and new products sold in Nigeria (ibid.). Limited capacity within Nigeria to review certificates, carry out inspections and conduct testing is a concern for this, and other, certification processes (USTR, 2018).

Foreign companies looking to export to Nigeria have also complained of difficulties met when trying to register goods at NAFDAC. One complication is that a Nigerian partner (such as a distributor) is required to register the products in its name, with the result that the local partner (and not the foreign exporter) holds the import rights. This may create problems in instances where the partner

[14] http://madb.europa.eu/madb/barriers_details.htm?barrier_id=11182

subsequently needs to be changed (European Commission Market Access Database).[15]

Trade facilitation issues

Nigeria is a signatory to the WTO Trade Facilitation Agreement (TFA) and has ratified the agreement in January 2017. However, challenges remain in the implementation of the agreement.

An array of issues related to trade facilitation affect imports into Nigeria, and many of them also create challenges for Nigerian exporters. Customs barriers and inefficiencies in customs procedures are said to be a major issue. The time and costs incurred to comply with border and documentary requirements when exporting from Nigeria or importing into Nigeria are markedly higher than the SSA average as well as the equivalent times and costs involved in trading in the UK. One reason for this is that the number of documents required when exporting from Nigeria (9) or importing to Nigeria (13) are high in comparison with other emerging economies (Hoffmann and Melly, 2015).

Nigeria's customs regulations are often applied erratically and inconsistently. According to Hoppe (2013), certain duties and procedures are negotiated on a case-by-case basis and vary considerably according to the location of the border crossing, the weather and time of day, the scale of operation and the type of product being imported or exported. Some variation also owes to capacity limitations among customs officials, who may interpret HS codes differently, apply unclear product classifications or reclassify certain products into different product codes with higher duties (DIT, 2018; WEF, 2019). Moreover, the World Economic Forum (WEF) (2019) reports that government agencies may ask for documentation without communicating requirements in advance or charge duties and fees exceeding the statutory rates.

Inefficiencies in the application of customs procedures at Nigeria's borders also reportedly arise as a result of shortages of technical equipment (such as large scanners) at ports and land border crossings, the presence of a large number of government agencies (e.g. there are 14 government agencies/departments involved in Nigerian ports, well above the prescribed number of 8), disputes between government agencies over the interpretation of regulations, general mismanagement and widespread bribery and corruption (Hoffmann and Melly, 2015; Hearne, 2017; LCCI, 2018; USTR, 2018; WEF, 2019).

Inefficiencies in the operation of customs and other procedures at Nigerian ports are especially problematic. The process of clearing goods through ports is lengthy and involves numerous government agencies, with limited coordination between them and often with duplication of efforts for importers and exporters (Global Alliance for Trade Facilitation, 2018). Traders from the EU have complained of the overuse of physical inspections and erratic valuation methods as well as incorrect and unauthorised application of procedures, resulting in unnecessary costs and delays in clearing goods through Nigeria's ports (European Commission Market Access Database; Hoffmann and Melly, 2015).

The rate of physical inspections of consignments and related documents by the Nigeria Customs Service, measured as the number of goods checked by customs officials in the red lane, doubled between 2011 and 2016 and, in the latter year, accounted for 70% of all goods cleared through customs (WTO, 2017). Traders are

[15] Ibid.

also required to obtain a multitude of signatures at Nigerian ports – up to 20 different signatures are required for imports and 30 when exporting (LCCI, 2018).

The inefficient procedures are exacerbated by the absence of integrated advanced cargo and customs clearance systems at Lagos Port (LCCI, 2018). Container scanning is used sparingly, covering only an estimated 10% of activities in the port, and there is a shortage of modern technology (e.g. surveillance equipment and tracking systems) (ibid.). In general, the integration of electronic platforms and physical procedures at customs is poor. The Nigerian authorities have introduced modern processes (such as ASYCUDA++) but requests to submit paper documents in person are reportedly widespread (Hoffmann and Melly, 2015). The Nigerian customs authorities continue to rely mainly on manual examinations of containers. In addition, the single window customs platform has not been implemented effectively and is used only for the payment of customs duties, with other agencies seemingly reluctant to use it (ibid.).

Containers can be grounded for up to three to four weeks in Nigerian ports. These delays are especially problematic for importers of time-sensitive or temperature-controlled products. The average time to clear a 20-foot equivalent unit (TEU) through a port in Nigeria is 14 days, well above the global standard of 48 hours (LCCI, 2018). The volume and value of goods cleared through ports in Nigeria also lags behind those in other African countries. The Lagos Chamber of Commerce and Industry (LCCI) (2018) indicates that just 1.5 million TEUs pass through Nigerian ports, compared with 3.8 million TEUs in Morocco, 5.3 million TEUs in South Africa and 9.4 million TEUs in Egypt.

Another challenge is the lack of stakeholder consultations before the introduction of new procedures. The Global Alliance for Trade Facilitation (2018) highlights that there is no official communication channel between the private sector and the government, often resulting in the misalignment of customs procedures. To address this challenge, a Trade Community of Practice was set up, facilitated by Nigeria's Policy Development Facility financed by the DFID

The impact of delays at ports is compounded for Nigerian firms, many of which face the consequences of port inefficiencies twice – first when importing intermediate inputs or capital goods and later when exporting final products (von Uexkull and Shui, 2014).

The costs to use Nigerian ports are also high, compounding the impact of delays and inefficiencies. High berthing and unloading costs, alongside substantial demurrage charges for containers, mean operational costs to use Nigerian ports are among the highest in the world (USTR, 2018).

These challenges are compounded by a multitude of infrastructure deficiencies, some of which affect port operations indirectly and hamper trade. For instance, the poor state of the access road leading to Apapa port in Lagos, together with high traffic volumes, generates significant delays for trucks accessing the port (DIT, 2018). It also creates challenges for goods leaving Lagos Port and destined for onward transit inland (Hoffmann and Melly, 2015). The absence of a functioning railway means there are no alternatives for moving goods in and out of the port.

The efficiency of trade facilitation processes is also undermined by extensive corruption, including at Nigerian ports. A survey of 79 industry leaders by the LCCI (2018) suggests 91% of port users highlight corruption as a big issue at ports. Truckers and traders at border crossings and ports are often subjected to unofficial taxation and unauthorised charges as well as harassment by state officials and agency representatives (Hoffmann and Melly, 2015). Other sources indicate that customs valuations of cargo can be inconsistent and unpredictable, as identical goods can be assigned different values. The Nigerian Customs Services is financed through a share of the collected revenues, which creates an incentive for inflating valuations (Global Alliance for Trade Facilitation, 2018).

In summary, trade facilitation challenges remain pervasive in Nigeria. Many of the trade facilitation systems that are in place are not fully implemented or utilised to the best of their potential. It is important to address these challenges as these are a big hindrance to trade and reduce Nigeria's competitiveness as a producer and exporter.

Local content requirements

Nigeria applies, or has applied, local content policies in a range of different sectors, including oil and gas, cement and food processing (McCulloch et al., 2017). These policies are especially restrictive in the oil and gas sector, where the use of local content is mandated through the Nigeria Oil and Gas Content Development Act. Certain policies, such as the 10% advantage provided to Nigerian investors over foreign bidders and preferential treatment for Nigerian firms when awarding oil blocks and oil field or oil lifting licences and for Nigerian goods and services, have raised concerns about discriminatory treatment (European Commission Market Access Database;[16] USTR, 2018).

In the ICT sector, telecommunications firms are required to utilise Nigerian companies for at least 80% of the value added provided on their network (USTR, 2018). Guidelines published in 2013 for Nigeria Content Development in ICT stipulate that original equipment manufacturers operating in Nigeria should assemble all hardware products locally and multinationals should source all ICT hardware from local suppliers. Mobile telecommunications firms may also use only locally manufactured SIM cards and are required to use indigenous firms when building cell towers or base station. According to the international business community, these guidelines do not match the reality of local capacity.

Government procurement also favours local suppliers. A federal government directive grants preference to domestic manufacturers, contractors and service providers in all government procurement (Export.gov, 2018). It further states that a minimum of 40% of procurement expenditure for construction materials, food and beverages, furniture and fittings, information technology, motor vehicles, pharmaceuticals, stationery and uniforms and footwear should be directed to locally manufactured items.

The survey we conducted among Nigerian companies dug deeper on the Nigerian companies' imports from the UK. We asked these companies if they import any inputs or intermediate goods from the UK. Most respondents (9 out of 13) stated that they do not import inputs from the UK. Those who do, quoted several reasons for importing, including strong relationships with UK partners and quality of British products, as shown in Table 19 below.

Those companies that did not import from the UK mentioned a variety of reasons. The most common ones where the high prices of UK inputs and raw materials, and the lack of access to suppliers in the UK.

This highlights two main areas of work. The first is potentially investigating ways to match UK producers with Nigerian importers. The second is to strengthen the financial support for the export of these inputs, given that the answers suggest weak

[16] http://madb.europa.eu/madb/barriers_details.htm?isSps=false&barrier_id=11181

financial options in this area. This could be included in trade and export promotion schemes, and potentially be facilitated by the DIT.

Table 19 Reasons for importing inputs/intermediate goods from the UK

Reason	Votes*
I have a reliable and longstanding partner/supplier in the UK	3.4
Quality of the British input	3.2
Price of the British product	2.8
I have access to better financial options when importing from the UK	0.8

*Notes: * The 'votes' were calculated as follows. We asked the survey respondents to identify the main challenges faced when exporting to the UK from a list provided, and then to rate them from less serious (1) to more serious (5). The 'votes' are an average of the figures indicated by the respondents.*
Source: Survey of Nigerian exporters conducted by the authors

4.3 Barriers affecting Nigerian exports to the UK

Nigerian firms looking to export products to the UK may encounter a range of challenges, not only stemming from tariff (albeit low) and market access requirements imposed by the UK (currently through EU legislation) but also because of trade facilitation issues and certain restrictions on exports imposed by the Nigerian authorities. We discuss these varied issues below.

Trade facilitation challenges and export restrictions

The trade facilitation challenges discussed above – especially those related to burdensome and inefficient customs processes and procedures, inefficiencies and high costs at Nigerian ports and infrastructure deficiencies – also affect Nigerian exporters. The LCCI (2018) estimates that delays and congestion at Apapa Port in Lagos cause Nigerian exporters to lose as much as $10 billion each year.

In addition to these costs, the Government of Nigeria imposes export taxes on certain products. These were introduced through the Nigerian Export Promotion Council Amendment Degree in 1992, as a way to encourage processing and value addition. All agricultural and mineral raw materials, together with other unprocessed commodities, are subject to export taxes prescribed by the Nigerian Export Promotion Council (NEPC) (WTO, 2017). These taxes are levied at $5 per tonne on exports of unprocessed cocoa beans and $3 per tonne on other raw material exports (ibid.). A levy of 0.5% is also imposed on non-oil exports through the National Export Supervision Scheme.

Exports of certain other goods from Nigeria are prohibited. The list of prohibited goods includes:[17]

- all imported goods
- artefacts and antiquities
- maize
- raw hides and skin (including Wet Blue and all unfinished leather)

[17] https://uk.practicallaw.thomsonreuters.com/w-016-4262?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1

- scrap metals
- timber (rough or sawn)
- unprocessed rubber latex and rubber lumps
- wildlife animals.

UK (and EU) tariffs on Nigerian exports

Nigeria exports to the UK under the EU's Generalised System of Preferences (GSP) scheme. Around 66% of all product tariff lines face reduced or zero EU import duties under the scheme. But certain imported products still face relatively high ad-valorem (AV) duties under the GSP (e.g. various tobacco products, grape must). Even so, most of Nigeria's key exports to the UK enter duty free under the GSP. **Currently, 98.9% of imports from Nigeria enter the UK at MFN zero tariffs** and 1.01% of Nigeria's exports to the UK are covered by GSP preferential tariffs (0.25% of which face zero tariffs) (DIT, 2018). Table 20 compares the simple average AV duties applied to the UK's top 20 most imported products (by value, annual average for the period 2015–2017) from Nigeria, along with the equivalent MFN duties. Except for cocoa (butter, fat and oil), ethylene polymers, sweetened or flavoured waters (including mineral and aerated water) and sauces, condiments and mixed seasonings, the remainder of the top 20 most imported products from Nigeria enter the UK duty free. Therefore, tariffs are not the main impediment for Nigerian duties entering the UK.

It is less clear whether certain products are not exported, or not exported in significant volumes to the UK, because of the tariffs applied on imports under the GSP scheme.

Table 20 Simple average ad-valorem duties (GSP and MFN) for the UK's top 20 most imported products from Nigeria

Product (and HS 6-digit code)	Simple average AV duties (GSP)	Simple average AV duties (MFN)	Value of UK imports from Nigeria ($), average 2015–2017
Oils; petroleum oils and oils obtained from bituminous minerals, crude (HS 270900)	0.0	0.0	1,575,653,485
Cocoa beans; whole or broken raw or roasted (HS 180100)	0.0	0.0	32,501,948
Petroleum gases and other gaseous hydrocarbons; liquefied, natural gas (HS 271111)	0.0	0.0	28,349,460
Petroleum oils and oils from bituminous minerals (HS 271019)	0.0	1.97	13,304,638
Petroleum spirit for motor vehicles (HS 271012)	0.0	3.92	5,164,143
Cocoa; butter, fat and oil (HS 180400)	4.2	7.7	5,053,577

Product (and HS 6-digit code)	Simple average AV duties (GSP)	Simple average AV duties (MFN)	Value of UK imports from Nigeria ($), average 2015–2017
Beer; made from malt (HS 220300)	0.0	0.0	3,632,353
Machinery; industrial, for bakery and manufacture of macaroni, spaghetti or similar products (HS 843810)	0.0	1.7	2,770,020
Wood; charcoal of wood other than bamboo (HS 440290)	0.0	0.0	2,624,022
Taps, cocks, valves and similar appliances (HS 848190)	0.0	2.2	2,581,225
Rubber (HS 400122)	0.0	0.0	2,356,625
Ethylene polymers; in primary forms (HS 390120)	1.5	3.25	2,073,352
Machinery parts; not containing electrical connectors, insulators, coils, contacts or other electrical features (HS 848790)	0.0	1.7	1,682,132
Waters; including mineral and aerated, containing added sugar or sweetening or flavoured (HS 220210)	6.1	9.6	988,413
False beards, eyebrows and eyelashes, switches and the like (HS 670419)	0.0	2.2	983,878
Turbines; gas-turbines (HS 841182)	0.0	4.1	981,309
Electric motors; AC motors (HS 850151)	0.0	2.7	758,360
Waste and scrap of precious metals (HS 711299)	0.0	0.0	709,350
Sauces and preparations therefor; mixed condiments and seasonings (HS 210390)	1.4	2.57	684,992
Wigs; complete, of synthetic textile materials (HS 670411)	0.0	2.2	643,854

Source: WTO Tariff Analysis Online; UN Comtrade data

Other market access barriers

Certification and compliance

Some Nigerian exporters have raised concerns about the high cost of quality certification (e.g. Hazard Analysis Critical Control Point (HACCP), International Standards Organization (ISO), Ecocert, organic, Fairtrade) required to access EU markets (including the UK), particularly for small and medium enterprises (NEPC, 2018). This is complicated further by the lack of accredited testing laboratories in Nigeria, which means that in many cases test results for products exported from Nigeria are not accepted internationally.[18]

Food standards

Compliance with strict EU health standards for imported food appears to be a major a barrier for Nigerian and other West African food producers and exporters. A look at the EU's Rapid Alert System for Food and Feed (RASFF) notifications for Nigerian exports to the UK/EU provides an indication of the type of issues facing Nigerian food exporters looking to access the UK/EU market. Since November 2003, a total of 301 notifications have been made relating to perceived food safety risks associated with Nigerian food export consignments to the UK (and in some cases other EU countries as well). Table 21 summarises and aggregates the various reasons provided for these**. The highest number of notifications by a considerable margin involves food exports containing aflatoxins. Exports containing other unauthorised substances is also a prominent reason for notifications**.

Table 21 EU RASFF notifications for Nigerian exports to the UK since November 2003

Subject of notification	Notifications since November 2003
Absence of certified analytical report and/or of Common Entry Document (CED)	2
Absence of health certificate(s) and/or certified analytical report and/or CED and/or labelling	11
Attempt to illegally import or suspicion of attempt to illegally import	11
Attempt to illegally import and absence of health certificate(s)	5
Bad hygienic state	1
Contains aflatoxins	107
Contains arsenic and lead	1
Contains benzo(a)pyrene	2
Contains dioxins	1
Contains lead	8
Contains Salmonella	1
Contains unauthorised substance(s)	63
High count of Escherichia coli	1
Illegal import	2

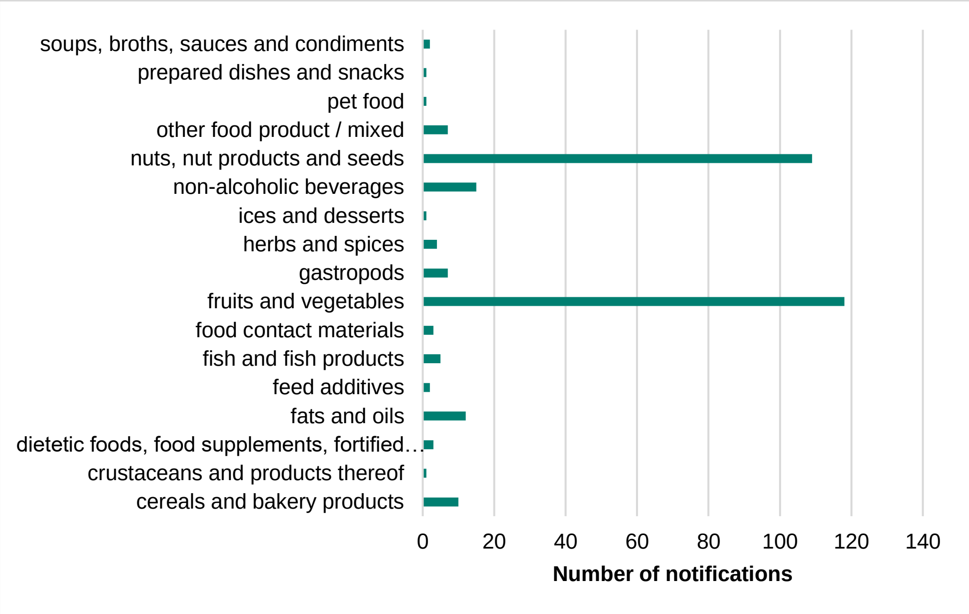
[18] http://www.acp-eu-tbt.org/pageprojects.cfm?id=279CC3E89126DCC6C78B90A8D1ED66FDD5E380FBF584FA6D1FCEE8E906FEFEC8DD

Subject of notification	Notifications since November 2003
Infestation with insects	2
Migration of primary aromatic amines	3
Risk of chemical contamination	1
Spoilage	1
Too high content of colour and/or benzoic acid	13
Unauthorised colour	18
Unauthorised genetically modified	1
Unauthorised irradiation	1
Unfit for human consumption	1
Unlabelled irradiation	1
Total	301

Source: Own calculations using EU RASFF data

Focusing on food and beverage products, Figure 21 provides a disaggregated, product-specific look at the number of notifications on food and beverage exports from Nigeria to the UK since November 2003. Notifications for nuts, nut products and seeds, and fruits and vegetables are by far the most numerous, by large margins. Notifications are also relatively more prevalent, albeit on a much smaller scale, for non-alcoholic beverages, fats and oils, and cereals and bakery products.

Figure 21 EU RASFF notifications for Nigerian food and beverage exports to the UK since November 2003, by product



Source: Own calculations and elaboration using EU RASFF data

Sanitary and Phytosanitary Standards

The equivalent data, but at an EU-wide level, for plant health interceptions reported on the EU's Europhyt notifications in 2018 suggests Nigeria is among the top five countries (fifth) with the highest number of interceptions of plant and produce exports to EU member states and Switzerland, owing to concerns about harmful organisms. A total of 85 interceptions were made during the year. Only the Dominican Republic (112), Kenya (89), Uganda (89) and Israel (87) suffered more interceptions of harmful organisms in plant and produce commodities in that year. Nigeria also suffered a comparatively high number of interceptions (68, the 19th highest across all countries affected) of plants and produce for reasons other than the presence of harmful organisms in 2018.

Importantly, the Europhyt data, and the RASFF data in Table 20 and Figure 21, need to be interpreted with caution. This is because it does not provide information on the number of consignments exported. A high number of notifications for a single product or for a specific reason may still represent a relatively small share of overall consignments of the product sent for export.

Non-tariff barriers

Nevertheless, the importance of meeting product quality, certification and registration requirements and complying with inspections for access to EU markets is echoed in the EU-wide data on the most prevalent NTMs applied on imports. Table 22 shows that requirements related to labelling and packing, product inspection, registration and certification, and restrictions on the use of certain substances affect large numbers of products imported into the EU and significant shares of the value of total imports covered by NTMs into the EU. This is not specific to UK-Nigeria trade, but rather covers the entire EU group.

Table 22 Top 10 most imposed NTMs on imports into EU countries

Measure	NTM coverage ratio (%)[i]	NTM frequency ratio (%)[ii]	Number of NTM-**affected products**[iii]	Value of NTM-affected trade ($)[iv]
Labelling requirements	72.79	70.37	3,645	1,375,659,312
Inspection requirement	60.03	42.43	2,198	1,134,527,751
Product quality or performance requirement	57.53	47.2	2,445	1,087,378,139
Certification requirement	54.86	50.83	2,633	1,036,848,669
Registration requirement for importers for TBT reasons	50.87	30.5	1,580	961,370,007
Prohibition for TBT reasons	42.83	32.92	1,705	809,568,779
Authorisation requirement for TBT reasons	37.51	34.81	1,803	709,022,464
Testing requirement	36.55	35.39	1,833	690,703,489
Packaging requirements	34.24	24.67	1,278	647,071,762
Restricted use of certain substances	30.74	29.34	1,520	581,040,748

Notes: i) Calculated by determining the value of imports of each commodity subject to NTMs, aggregating by applicable HS commodity group, and expressing the value of imports covered as a percentage of total imports in the HS commodity group. ii) Accounts for the presence or absence of a NTM, and indicates the percentage of traded products to which one or more NTMs are applied. iii) Count of traded HS 6 digit products that are subject to one or more NTM measures. iv) Sum of gross imports or gross exports that are affected by one or more NTM measures.
Source: WITS

Survey findings

Our survey of exporters confirmed a number of these challenges, as shown in Table 23. Interestingly, the main challenge that most of companies surveyed indicated was the difficulty in identifying a UK partner to work with. This suggests the potential appetite for a matching programme between UK and Nigerian companies interested in trading with Nigeria. However, for a matching programme to be successful, issues of standard compliance and certification of standards remain critical. This may suggest a phased or dual approach – addressing standards issues and at the same time (or in sequence) identify potential matching. The second main challenge highlighted points to infrastructure issues in Nigeria. Beyond that, the other challenges refer to the fact that many Nigerian companies struggle to get to UK/EU product standards, both in terms of meeting the requirements and covering the costs. Challenges with UK/EU paperwork, tariffs and transport costs do not constitute major issues for our survey respondents.

Table 23 Main challenges affecting Nigerian exporters to the UK

Challenge	Votes*
Could not find a partner in the UK	4.3
Infrastructure issues in Nigeria	3.4
High UK quality or safety standards difficult to meet	3.3
Certificate of compliance with UK standards too expensive	3.0
UK standards costly to meet	2.9
Could not secure funding	2.9
High transport costs in UK	2.8
Cumbersome paperwork in UK	2.8
Nigerian export taxes too high	2.8
High UK tariffs	2.8
Not enough demand in the UK	2.6
Products seized in EU due to food safety or plant health risks	2.4
Product(s) export prohibited	2.4
RoO (rules of origin) difficult to meet	2.4
Product(s) test results not accepted internationally	2.0
UK labelling/ packaging requirements too difficult or costly	1.9
Product(s) contained substances prohibited in UK	1.5

*Notes: * The ‘votes’ were calculated as follows. We asked the survey respondents to identify the main challenges faced when exporting to the UK from a list provided, and then to rate them from less serious (1) to more serious (5). The ‘votes’ are an average of the figures indicated by the respondents.*
Source: Survey of Nigerian exporters conducted by the authors

4.4 Barriers to UK (and other country) investment in Nigeria

Bright prospects and a very large domestic market make Nigeria an attractive destination for new investment. Nigeria is already a major recipient of FDI into West Africa, accounting for up to half of the FDI inflows into the region (Hoffmann and Melly, 2015).

The UK is a major investor and the largest source of FDI into Nigeria (WTO, 2017). Investment is regulated by a Bilateral Investment Treaty, which was signed by the two governments and which entered into force in December 1990.

Even so, there are restrictions on foreign investment in certain sectors and a range of challenges hamper the flow of outside investment into the country. Foreign investors across all sectors must be locally incorporated as limited liability companies (WTO, 2017). In addition, qualification for a business permit and to register with the Nigeria Investment Promotion Commission (NIPC) is permitted only with foreign participation in companies holding a minimum share capital of N10 million (ibid.).

There are also specific restrictions on foreign investment in certain sectors. In Nigeria's petroleum sector, for instance, foreign ownership is not permitted, and production licences are restricted to Nigerian citizens. Foreign investment in the sector is allowed only through joint ventures (JVs) or production-sharing agreements (ibid.). Concerns about a lack of sovereign guarantees and Nigeria's ability to meet JV obligations make these restrictions even more onerous (DIT, 2018).

Investors in the oil and gas sector must also contend with an array of taxes, charges and local content requirements. There is also a lack of clarity in the legislative and policy frameworks governing the sector. Research by the DIT (2018) suggests that delays in passing the Petroleum Industry Bill, along with the more general absence of a clear policy framework, have hindered investment and resulted in estimated losses of $15 billion on foregone investment each year. The process involved in awarding oil and gas contracts is also said to lack transparency and can take up to 36 months.

In the mining sector, a complex mineral levy structure, comprising multiple conflicting taxes and levies, may deter investment (DIT, 2018). In agriculture, difficulties and complexities involved in acquiring land have the same effect. The latter is exacerbated by a lack of clearly marked land for investment (ibid.).

More generally, controls on foreign exchange have adversely affected investment flows and deterred new investment. They have, for instance, made it difficult for foreign firms to import finished or semi-finished goods to support their Nigerian operations. For example, in 2016 a United States company reported difficulty in importing one covered item despite using privately sourced foreign exchange (USTR, 2018). In 2015 the Central Bank of Nigeria issued a list of import items, including rice, steel products, furniture and textiles, that were excluded from official foreign-currency channels for financing payments (Hoffmann and Melly, 2015).

Portfolio investment inflows have been particularly affected, declining significantly from $10.4 billion 2013 to just $0.9 billion in 2015 (WTO, 2017). Nigeria's rigid and often poorly functioning banking regulations exacerbate the challenges created by these controls. This, for example, pushes small traders to exchange their naira into the parallel exchange market (Hoffmann and Melly, 2015).

Other general issues likely to undermine or discourage UK investor interest in Nigeria include the following (DIT, 2018; USTR, 2018):

- complex tax procedures
- arbitrary application of regulations
- frequent violations and poor enforcement of contracts and agreements, including in government procurement
- unreliable and potentially biased systems for settling commercial disputes
- inadequate protection of intellection property rights, a particular concern for UK firms operating in the ICT and entertainment industries

Table 24 Summary of UK–Nigeria trade and investment – key sectors and barriers

	Main products/activities/sectors	Main barriers
UK exports to Nigeria	Goods • petroleum spirit for motor vehicles • petroleum oils, not crude • taps, cocks, valves and similar appliances • vegetables preparations; potatoes, prepared or preserved • used clothing • insulated electric conductors • odoriferous substances and mixtures • vehicles (with spark-ignition internal combustion reciprocating piston engine) • engines Services • travel • transportation • other business services • construction • financial services • government services • communications services	**High tariffs** on some imported products Additional **border taxes, levies, charges and fees** (e.g. statistical tax, ECOWAS community levy, CISS fee) **Import prohibitions** – 24 product categories prohibited by trade; 20 categories on absolute import prohibition list) **Ban on foreign exchange** for 41 categories of imported products Complicated and burdensome processes (e.g. registration, testing) for **standards certification and SPS compliance** Major **trade facilitation** issues (e.g. customs inefficiencies, delays at ports and high costs for using ports) Inadequate **IPR protection**
Nigeria exports to the UK	*Goods*: • petroleum oils (98% of total goods exports in 2017) • light vessels, fire-floats, floating cranes • aeroplanes and other powered aircraft • liquefied natural gas • technically specified natural rubber	Difficulty **complying with UK/EU quality and health/safety standards** and other certification requirements Major **trade facilitation challenges** affecting movement of goods out of Nigeria (e.g. customs inefficiencies, high costs and

	Main products/activities/sectors	Main barriers
	• cocoa butter, fat and oil • beer made from malt • reciprocating positive displacement pumps for liquids • false beards, eyebrows and eyelashes, switches and the like, of synthetic textile materials *Services*: • travel • transport • other business services • construction	inefficiencies at ports, infrastructure deficiencies) **Export taxes and prohibitions** on exports of certain goods from Nigeria
UK investment in Nigeria	Manufacturing Services Financial and insurance activities Transportation and storage	**Restrictions** on foreign investment in certain sectors (e.g. petroleum/oil and gas) **Specific requirements** for foreign investors (e.g. must be locally incorporated as limited liability companies, minimum share capital requirement for business permits and registration with NIPC, cumbersome procedures for capital repatriation) **Lack of clarity in legislative and policy frameworks** (e.g. delays passing Petroleum Industry Bill, complex mineral levy structure, difficulties in land acquisition) **Foreign exchange controls** **Inadequate IPR protection** and **poor enforcement of contracts** and agreements

In our survey of investors, we asked Nigerian companies whether they had considered bringing in foreign investors. 27 out of 30 respondents indicated that they had not considered bringing in foreign investors in their companies. The reasons for this are presented in Table 25. Companies are reluctant to bring in foreign partners due to challenges linked to investment climate and regulations in Nigeria, including issues around breach of contract, foreign exchange, banking and other regulations.

When asked to indicate what other challenges they envisaged, a few respondents mentioned that they did not know how to identify suitable and potentially interested foreign investors. This does not only apply to small firms – a relatively large firm was among those which highlighted this issue. This opens the opportunity to promote matching/cooperation between UK and Nigerian companies.

Table 25 Challenges identified in bringing in foreign investors

Reason	Votes*
Potential investors are put off by weak protection of intellectual property rights and perceptions of poor enforcement of contracts	2.4
Nigeria's foreign exchange controls make it difficult to attract foreign investment	2.3
Nigeria's banking regulations make it difficult to attract foreign investment	1.9
The procedures/legal aspects are not clear	1.8
The red tape is too cumbersome	1.7
My company does not meet the minimum share capital requirement (N10 million) for registration of companies that have foreign participation	1.6
I want to continue being recognised as a fully domestically owned Nigerian company	1.2
I do not want to give equity	1.2
I do not want to lose control on my operations	0.8
Foreign investment is not permitted in the sector in which I operate	0.5

*Notes: * The 'votes' were calculated as follows. We asked the survey respondents to identify the main challenges faced when exporting to the UK from a list provided, and then to rate them from less serious (1) to more serious (5). The 'votes' are an average of the figures indicated by the respondents.*
Source: Survey of Nigerian exporters conducted by the authors

5 Market access issues

As a lower-middle-income country, Nigeria does not qualify for the Everything But Arms (EBA) preference regime of the EU. This regime, which provides duty-free quota-free access into the EU for almost every good, is reserved for least developed countries. Nigeria has not been granted the GSP+ preferences, which are reserved for developing countries that are considered vulnerable (i.e. it is not competitive enough in the EU market and it does not have a diversified export base).[19] It ratifies and implements 27 core international conventions on human and labour rights, sustainable development and good governance.

Nigeria benefits from the Standard GSP regime, which offers much more limited preferential access. Duties on non-sensitive products are eliminated (except for agricultural components). AV duties on sensitive products are reduced by 3.5 percentage points. Non-AV duties (very frequent in agricultural products) are not reduced. Considering products where the MFN duty is zero, the Standard GSP offers duty-free access in a third of the goods.

The effects of a given market access need to be analysed in terms of the internal structure of a regime (e.g. whether there is tariff escalation) and with respect to the preferential regime available to countries with a similar export structure. Based on analysis of the Nigerian export structure to the UK and the tariff rates applied to each product, more than 99% of exports to the UK do not attract any duty. More precisely, only 0.6% of products exported to the UK would pay a positive duty.

Table 26 Exports to the UK by product and duty type, average 2015–2017

Type of product and duty	US dollars ('000s)	Share in total exports (%)
Oil and gas (zero duty)	1,349,946	94.6
Non-oil and gas (zero duty)	68,930	4.8
Non-oil and gas (positive duty)	8,652	0.6
Total	*1,427,527*	

Source: Eurostat

Based on 6 digits product description of the HS, Nigeria attracts a positive tariff in only 71 products. The average tariff is 6.3% and the maximum is 23% (cigarettes containing tobacco). For the MFN regime, the average tariff would be almost 10%, with the maximum tariff near 34%.

However, the benefits of a preferential regime also need to be looked in comparison with the regime available for other countries. While the EU in the latest reform of the GSP has excluded some large emerging economies,[20] and, consequently, improved its benefits, many other competitors of Nigeria, or those

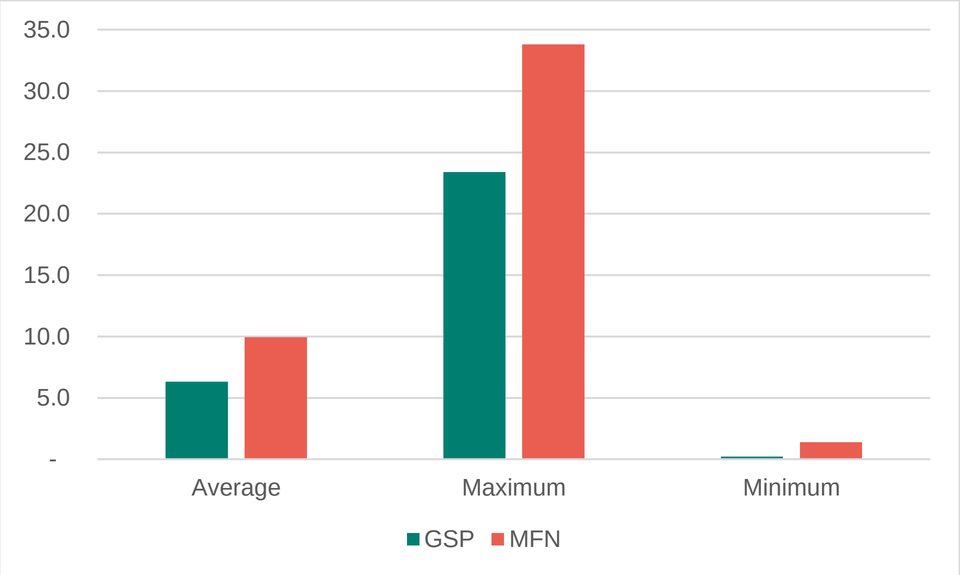
[19] See Regulation (EU) No. 978/2012

[20] Argentina, Brazil and China, among others.

with similar levels of development, have better market access. Some, namely the Least Developed Countries (LDCs) benefit from EBA (e.g. Bangladesh, Ethiopia) or GSP+ (e.g. Ecuador, Pakistan), which offers better market access in most of the products that Nigeria exports to the UK. Others have negotiated Free Trade Agreements (FTAs) with the EU (e.g. Ghana, Cote d'Ivoire, Cameroon, South Africa) that provide them with duty-free quota-free access to the UK as – unlike Nigeria - they signed an Economic Partnership Agreement (EPA) with the EU.

A single example may clarify the issue. Nigerian exports to the UK of cocoa butter (HS 180400) were valued, on average, at around $4 million between 2015 and 2017. The MFN duty is 7.7% and the GSP duty, which Nigeria benefits from, is 4.2%. The duty paid by Côte d'Ivoire, Ghana, Peru and Mexico (all EU FTA partners) and Ecuador (a GSP+ beneficiary) is zero. Only Indonesia (Standard GSP beneficiary) pays the Standard GSP duty. In commodities, by virtue of low margins, small duty differences may generate important effects. The small preference that these competitors have with respect to Nigeria may mean the difference between being a major or a marginal exporter.

Figure 22 Description of GSP and MFN duties applicable to Nigerian products exported to the UK, 2015–2017



Note: Calculations based on HS 6 digits.
Source: Own elaboration based on TRAINS

Nevertheless, the effect of tariffs on imports cannot be estimated in straightforward manner. Although it is possible to anticipate that a tariff reduction will generate an increase in imports, assessing the magnitude of the change requires some assumptions about how imports will react to changes in the import price generated by a potential tariff reduction. The effect will depend on how importers substitute imports from other origins for those from the now cheaper origin.

We use a very simple partial equilibrium model to assess the effect of existing tariffs applied to Nigerian exports to the UK. This can also be used to estimate the effects on Nigeria's exports of a potential FTA with the UK or a change in the GSP regime that UK may make after Brexit.

The model aims to estimate the import behaviour of the UK based on the imperfect substitutes' assumption (Armington, 1969). UK demand is characterised through a nested demand function, where at the top-level consumers substitute among domestic and imported varieties through a given elasticity of substitution. Among imported varieties, demand is also modelled based on a similar approach, where consumers substitute between products of different origin. As mentioned, there is imperfect substitution, ruling out the possibility that a tariff reduction will shift demand entirely to the origin/product with the lowest tariff. Supply of imports is assumed to be infinitely elastic, suggesting that exporters will supply whatever quantity is demanded.

As a mathematical representation, this needs some initial values that replicate the average UK imports between 2015 and 2017 at HS 6 digits, disaggregated into values imported from Nigeria and the Rest of the World. Given lack of consistent data, the UK domestic supply component is not captured. Therefore, the model captures only import behaviour. Tariffs are set at the respective Standard GSP (for Nigerian imports) and at MFN for the Rest of the World. It does not matter that within the Rest of the World there are multiple tariff regimes that will reduce notably the tariff applied to this group of countries. What matters in this exercise is how one changes with respect to the other.

The results are, consequently, influenced by existing volumes of trade. Therefore, in products where there are no UK imports from Nigeria, there will be no trade creation. This means that UK imports on these products will continue to be zero regardless of the change in the tariff. There is no way to calculate the difference between the applied and the autarky rates (i.e. the so-called water on the tariff) and other supply-side considerations. Any estimate about import behaviour on these products in this and any other model exercise is speculative. The exercise is limited to those products where the existing GSP tariff is positive. This result is obvious as tariffs already at zero cannot be reduced further and, consequently, will not have any effect on UK imports.

Finally, as ‘partial’ in opposition to general, the model treats each market (e.g. product) in complete isolation. There are no cross-product effects to consider. For example, any effect that an increase in the exports of processed cocoa may have on raw cocoa (e.g. in general exports of processed products should lead to a reduction in the exports of unprocessed products) is completely ignored. Therefore, the aggregation of the results needs to be treated with some care as products may be sharing the same resources in production.

Table 27 presents the results of the exercise. Given that the analysis is circumscribed to a limited set of products (i.e. 71 products imported by the UK from Nigeria with positive tariffs), we present the full set. The table presents the current value of imports from Nigeria and the Rest of the World, under the Standard GSP and MFN rates currently being applied.

It also presents the results (in percentage and in value) on how UK imports from Nigeria will increase as a result of an elimination of the duties applied on imports from Nigeria. The analysis is made under two scenarios of elasticity of substitution. The low elasticity scenario assumes that the substitution between origin is twice the existing between domestic and imported varieties[21]. The high elasticity scenario supposes that the elasticity of substitution is twice as high the existing under the low elasticity scenario.

Making abstraction of the considerations related to the summation of partial equilibrium effects, any general elimination of duties applied on UK imports

[21] World Bank Overall Trade Restrictiveness Indices and Import Demand Elasticities https://datacatalog.worldbank.org/dataset/overall-trade-restrictiveness-indices-and-import-demand-elasticities

from Nigeria (regardless of whether it is achieved through an FTA or through an improvement of the Standard GSP regime) will be very modest. In the high elasticity scenario, which captures a situation where demand considers import varieties extremely substitutable, and consequently will make imports from Nigeria increase strongly, imports from Nigeria in these 71 products will increase by around 18%.

This is low using any lens. On the one hand, it will mean an increase of just 2% in non-oil imports. While this may be important for some products, it is unlikely that such a change will generate a significant change in the economic and trade structure of a country the size of Nigeria. On the other hand, in pure monetary terms, the increase in UK imports will be at just $1.5 million, which is less than 0.1% of the total value of UK imports from Nigeria.

Based on the value of the increase in imports, the total effects are dominated by the increase in imports of cocoa butter (180400), water and non-alcoholic non-fruit-based beverages (220210), polyethylene (390120) and sauces/condiments (210390). However, the magnitude of the effects is substantially below $1 million in every case.

Overall, **the impact of a reduction in tariffs remains minimal, given the existing low tariffs**. However, NTMs considerably affect Nigerian exports, as shown in Table 18. This suggests that **one of the most effective way to promote Nigerian exports would be to address non-tariff and trade facilitation issues, which decrease competitiveness across the board**.

Table 27 Partial equilibrium results of simulated elimination of duties applied by the UK on imports from Nigeria

						Change in imports from Nigeria			
		UK imports 2015–2017 ($ '000s)		Applied tariffs (%)		Low substitution elasticity		High substitution elasticity	
		Nigeria	RoW	GSP	MFN	Change (%)	Change ($ '000s)	Change (%)	Change ($ '000s)
030627	Shrimps and prawns, other than cold-water, not frozen	1.1	8,056	3.4	12.5	8.7	0.1	15.4	0.2
030629	Crustaceans, Others, Live, Frsh, Chlld, Dried, Saltd Or In Brine, Or	2.7	5,353	3.4	8.7	8.7	0.2	15.4	0.4
070960	070960 -- - Fruits of the genus Capsicum or of th	7.3	436,477	1.9	4.0	4.8	0.4	8.4	0.6
070999	070999 -- (2012-) -- Other	4.0	213,225	7.6	10.9	20.2	0.8	37.0	1.5
071290	071290 -- - Other vegetables; mixtures of vegetab	0.6	58,162	8.0	9.7	21.2	0.1	39.0	0.2
080310	080310 -- (2012-) - Plantains	21.8	33,629	12.5	16.0	34.2	7.5	65.6	14.3
091091	091091 -- -- Mixtures referred to in note 1(b) to	2.8	34,627	1.4	4.2	3.6	0.1	6.3	0.2
091099	091099 -- -- Other	41.3	28,503	1.7	5.0	4.3	1.8	7.5	3.1
110610	110610 -- - Of the dried leguminous vegetables of	36.6	5,983	4.2	7.7	10.8	4.0	19.2	7.0
110630	110630 -- - Of the products of Chapter 8	79.3	13,606	5.3	8.8	13.8	10.9	24.8	19.6
151190	151190 -- - Other	45.2	146,929	3.1	9.0	7.8	3.5	13.7	6.2
151590	151590 -- - Other	11.9	48,038	3.8	6.6	9.8	1.2	17.4	2.1
151620	151620 -- - Vegetable fats and oils and their fra	3.6	67,722	5.8	9.3	15.2	0.5	27.4	1.0
170490	170490 -- - Other	9.5	568,636	9.3	18.1	24.9	2.4	46.4	4.4
180400	180400 -- Cocoa butter, fat and oil	3,976.3	303,471	4.2	7.7	10.8	428.0	19.1	758.8
180500	180500 -- Cocoa powder, not containing added sugar	9.9	52,923	2.8	8.0	7.1	0.7	12.6	1.2
180610	180610 -- - Cocoa powder, containing added sugar	25.4	28,020	2.8	21.9	7.1	1.8	12.6	3.2
190220	190220 -- - Stuffed pasta, whether or not cooked	4.0	131,888	2.9	13.0	7.4	0.3	13.0	0.5
200811	200811 -- -- Groundnuts	0.2	73,776	8.3	12.0	22.1	0.0	40.8	0.1
200899	200899 -- -- Other	50.2	132,876	11.7	17.3	31.8	16.0	60.5	30.4
200989	200989 -- (2012-) -- Other	18.3	90,121	11.1	24.4	30.2	5.5	57.2	10.5
210112	210112 -- (1996-) -- Preparations with a basis of	1.3	66,382	8.0	11.5	21.2	0.3	39.1	0.5
210330	210330 -- - Mustard flour and meal and prepared m	1.9	24,213	3.7	6.0	9.4	0.2	16.7	0.3
210390	210390 -- - Other	648.5	604,771	2.1	3.9	5.3	34.6	9.3	60.4
210410	210410 -- - Soups and broths and preparations the	25.6	109,060	8.0	11.5	21.2	5.4	39.1	10.0

		UK imports 2015–2017 ($ '000s)		Applied tariffs (%)		Change in imports from Nigeria			
						Low substitution elasticity		High substitution elasticity	
		Nigeria	RoW	GSP	MFN	Change (%)	Change ($ '000s)	Change (%)	Change ($ '000s)
210420	210420 -- - Homogenised composite food preparatio	3.6	86,488	9.8	14.1	26.3	1.0	49.3	1.8
210690	210690 -- - Other	2.5	1,902,337	9.7	7.0	26.0	0.7	48.7	1.2
220210	220210 -- - Waters, including mineral waters and	894.0	533,182	6.1	9.6	15.9	142.5	28.8	257.9
220290	220291 -- (2017-) -- Non-alcoholic beer	19.2	619,478	6.1	9.6	16.0	3.1	28.9	5.6
240220	240220 -- - Cigarettes containing tobacco	1.3	233,489	23.4	33.8	69.2	0.9	146.2	2.0
320412	320412 -- -- Acid dyes, whether or not premetalli	17.5	19,246	2.2	6.5	5.6	1.0	9.8	1.7
390120	390120 -- - Polyethylene having a specific gravit	2,073.4	725,622	2.3	4.9	5.7	118.4	10.0	207.0
392321	392321 -- -- Of polymers of ethylene	4.0	621,198	3.0	6.5	7.7	0.3	13.5	0.5
410411	410411 -- (2002-) -- Full grains, unsplit; grain s	34.7	2,419	0.5	1.4	1.2	0.4	2.1	0.7
551694	551694 -- -- Printed	1.7	1,751	6.4	8.0	16.8	0.3	30.4	0.5
560900	560900 -- Articles of yarn, strip or the like of	3.0	22,426	4.6	5.8	11.9	0.4	21.3	0.6
600199	600199 -- -- Of other textile materials	1.5	3,576	6.4	8.0	16.8	0.3	30.4	0.5
600690	600690 -- (2002-) - Other	1.2	8,548	6.4	8.0	16.8	0.2	30.5	0.4
610290	610290 -- - Of other textile materials	3.8	10,356	9.6	12.0	25.8	1.0	48.1	1.8
610610	610610 -- - Of cotton	1.4	107,316	9.6	12.0	25.8	0.4	48.1	0.7
610910	610910 -- - Of cotton	7.3	1,626,019	9.6	12.0	25.8	1.9	48.1	3.5
611490	611490 -- - Of other textile materials	2.2	23,707	9.6	12.0	25.8	0.6	48.1	1.0
611790	611790 -- - Parts	1.1	5,856	9.6	12.0	25.8	0.3	48.1	0.5
620349	620349 -- -- Of other textile materials	6.0	50,685	9.6	12.0	25.8	1.5	48.1	2.9
620422	620422 -- -- Of cotton	1.3	7,200	9.6	12.0	25.8	0.3	48.1	0.6
620463	620463 -- -- Of synthetic fibres	5.2	324,763	9.6	12.0	25.8	1.3	48.1	2.5
620469	620469 -- -- Of other textile materials	1.4	198,107	9.6	12.0	25.8	0.4	48.1	0.7
620610	620610 -- - Of silk or silk waste	3.4	60,945	9.6	12.0	25.8	0.9	48.1	1.6
620899	620899 -- -- Of other textile materials	1.8	10,939	9.6	12.0	25.8	0.5	48.1	0.9
621050	621050 -- - Other women's or girls' garments	1.3	134,490	9.6	12.0	25.8	0.3	48.1	0.6
621490	621490 -- - Of other textile materials	1.5	28,679	6.4	8.0	16.8	0.3	30.5	0.5

						Change in imports from Nigeria			
		UK imports 2015–2017 ($ '000s)		Applied tariffs (%)		Low substitution elasticity		High substitution elasticity	
		Nigeria	RoW	GSP	MFN	Change (%)	Change ($ '000s)	Change (%)	Change ($ '000s)
621710	621710 -- - Accessories	128.0	44,342	5.0	6.3	13.0	16.6	23.2	29.7
630399	630399 -- -- Of other textile materials	3.1	43,726	8.9	11.2	23.8	0.7	44.2	1.4
630690	630690 -- (2012-) - Other	2.7	21,432	9.6	12.0	25.8	0.7	48.1	1.3
630720	630720 -- - Life jackets and lifebelts	1.9	13,936	5.0	6.3	13.0	0.2	23.3	0.4
630790	630790 -- - Other	10.9	351,204	5.8	7.3	15.1	1.6	27.2	3.0
630900	630900 -- Worn clothing and other worn articles	91.6	35,395	4.2	5.3	10.8	9.9	19.2	17.6
690990	690990 -- - Other	0.2	4,688	1.5	5.0	3.8	0.0	6.6	0.0
691110	691110 -- - Tableware and kitchenware	17.1	155,086	8.4	12.0	22.3	3.8	41.3	7.0
691190	691190 -- - Other	1.5	12,113	8.4	12.0	22.3	0.3	41.3	0.6
761090	761090 -- - Other	4.1	438,864	3.0	6.5	7.7	0.3	13.5	0.5
761290	761290 -- - Other	16.5	125,769	2.5	6.0	6.4	1.1	11.2	1.8
761510	761510 -- - Table, kitchen or other household art	1.8	130,573	2.5	6.0	6.4	0.1	11.2	0.2
810890	810890 -- - Other	4.1	460,858	3.4	6.7	8.6	0.4	15.2	0.6
852580	852580 -- (2007-) - Television cameras, digital ca	16.7	995,506	0.4	4.0	0.9	0.1	1.5	0.3
852859	852859 -- (2007-) -- Other	22.4	486,692	9.8	14.0	26.3	5.9	49.3	11.0
852872	852872 -- (2007-) -- Other, colour	1.5	2,020,737	9.8	14.0	26.3	0.4	49.3	0.8
870323	870323 -- -- Of a cylinder capacity exceeding 150	48.2	7,144,394	6.5	10.0	17.1	8.2	31.0	14.9
870324	870324 -- -- Of a cylinder capacity exceeding 300	144.8	1,308,368	6.5	10.0	17.0	24.7	31.0	44.9
871150	871150 -- - With reciprocating internal combustio	8.2	411,735	2.5	6.0	6.4	0.5	11.2	0.9
940510	940510 -- - Chandeliers and other electric ceilin	1.3	615,558	0.2	2.2	0.6	0.0	0.9	0.0
	Total	**8,651.6**	**25,476,245**			**10.2**	**880.9**	**18.2**	**1,572.1**
	Total non-oil imports	77,581.2				1.14		2.03	

6 Issues affecting bilateral trade and investment

6.1 Infrastructure

We cannot hold a discussion about issues affecting trade and investment without making reference to Nigerian infrastructure. This is the single most mentioned issue, by almost every company, stakeholder, government official and specialist.

This is confirmed by our survey, which identifies infrastructure as a key issue for many Nigerian companies trying to export to the UK and other markets, as shown in Table 23. Our survey also identifies that these challenges seem to have worsened in the past five years. Those who talked about their transport time, only 25% said this had decreased or remained the same in the previous 5 years; the other 75% all indicated an increase in transport times for exports to the UK and elsewhere.

The quality and quantity of the transport and logistics infrastructure in Nigeria is so poor that the country is virtually land-locked. Due to the poor infrastructure and trade facilitation systems at the ports, many interviewed companies rely on air transport, the most expensive (hence inefficient) form of transport, to export their products. Poor trade facilitation and infrastructure hinder trade and the integration into global value chains making exports from Nigeria highly unreliable and uncompetitive. If the Federal Government is indeed committed to diversify the country's export base and grow the non-oil economy, it will have to prioritise these issues before or alongside mere trade protection measures. It will be almost impossible to consider increasing trade and enabling the economic transformation of Nigeria without addressing this issue. Transport costs are so high that it is unlikely that any action to increase market access (e.g. an FTA with export markets) will offset these.

Poor power supply and communication infrastructure mean companies operating in Nigeria have to rely on their own resources and/or contract these services to multiple suppliers to guarantee a continuous supply. This leads to very high production costs that make Nigerian products uncompetitive.

Poor infrastructure makes Nigerian exports unreliable. Many interviewed companies mentioned that contents in containers arrived in the UK (and other destinations) in poor condition, because of the long transport times and delays. Participating in international value chains, which rely on a continuous supply of inputs, is virtually impossible. This means many Nigerian firms find it impossible to become suppliers of certain inputs for, for example, UK companies.

Nevertheless, some actions have been taken. The development of Special Economic Zones (SEZs) and Export Promotion Zones (EPZs) in Nigeria has facilitated trade for some companies. In the case of SEZs, in addition to advantages from the agglomeration effect, companies receive improved water and power services. The provision of collective security services also reduces companies' costs.

The choice of locating in one type of area of zone depends on multiple factors. Export-oriented assembling firms, that import inputs to process and being exported, will find beneficiary in investing in an EPZ as import duties will tend to be zero. Other firms may take advantage of some agglomeration effects by investing in SEZs. Although the benefits are not limited exclusively to firms in the manufacturing sector, they tend to be the primary beneficiaries. Services firms generally prioritise urban location (EPZs or SEZ could be located away of the main urban areas.

In some cases, these zones have better transport connections (e.g. those located in the main ports), and they have improved facilities. Lagos Deep Offshore Logistics Base (LADOL) operates on an island in Apapa in Lagos with its own port facilities, which facilitates the arrival of imported inputs and the exporting process, eliminating the need to use the congested port and road infrastructure. It also has a heliport, which facilitates connections with the rest of Nigeria.

EPZs and SEZs represent a good way to overcome many of Nigeria's infrastructure and, as we will see, institutional problems. There exist around 20 spread across the country, which underlines their convenience. However, this solution is not available to all companies in Nigeria. Companies need to build their own facilities in the SEZs, which requires funding that is not available to most small and medium enterprises (SMEs). On the other hand, there is a risk that these 'islands' will become disconnected from the rest of the economy, with no industrial linkages created. Therefore, EPZs and SEZs provide only a very partial and limited solution to the infrastructure issue in Nigeria.

However, if infrastructure problems were resolved today, a great many other issues that are having a negative impact on competitiveness remain. There are multiple hurdles to jump for Nigerian companies wanting to export. Infrastructure is the highest but certainly not the only one.

This report focuses not on infrastructure but rather on potential solutions to these other issues. The aim is twofold. On the one hand, addressing some of these issues may contribute to improved competitiveness in some sectors and for some firms. This may help some exports filter through the cracks in the bad infrastructure wall.

On the other hand, it may prepare Nigeria for a boom when the main infrastructure bottlenecks are resolved, through contributing to bringing down subsequent walls as the main one is addressed. More importantly, it will also help facilitate business for domestic firms.

6.2 The 'bad reputation': Business climate and security

A recurrent issue raised by many firms and stakeholders is related to the 'reputation' that Nigeria has for investors and traders worldwide, especially in the UK. This can often be an insurmountable barrier to trade and investment. Based on this reputation, many investors immediately discard the possibility of investing or doing business in Nigeria, and thus do not proceed further in any analysis of a prospective investment.

Although the media fuels and exacerbates this reputation, it is true that there are structural issues that represent a foundation for these perceptions. Therefore, addressing these issues will unlock the potential for more investment and businesses.

The sources of Nigeria's bad reputation are its difficult business climate and security situation. As we will see, each of these issues taken in isolation is sufficiently serious to constitute a very high barrier to trade and investment. In Nigeria, both issues co-exist to jointly construct the country's bad reputation.

Nevertheless, it is easier from an analytical point of view to look separately at the components of this bad reputation, as well as some of the effects on trade and investment.

The business climate

The survey and the interactions with multiple stakeholders suggest an underlying and widespread perception of a bad business climate in Nigeria. This is consistent with the information and assessments available from multiple international rankings and other synthetic indicators. Although Nigeria's specific position with respect to other countries on these rankings may be debatable, there is a generalised feeling that doing business in Nigeria is very difficult.

This perception has concrete informal and institutional manifestations that increase uncertainty and risk in business operations, affecting trade and investment. On the informal side, corruption seems to spread across all levels of the government in Nigeria. On the formal and institutional side, regulations change constantly without consultation of those affected. Moreover, there is some overlap among agencies between the federal, state and city levels and within each level of government.

Corruption

Interviewed stakeholders and survey answers suggest corruption is a major issue, affecting Nigerian and foreign firms alike. Corruption is spread along the business cycle, affecting production and trade. Stakeholders considered it the most important component in the so-called 'reputation' of Nigeria.

Corruption is facilitated by the country's very unstable, unclear and discretionary regulatory framework. Given that, rather than facilitating business, trade and investment regulations tend to pile up, it is virtually impossible to avoid violating some of them. Following the latest regulation will not guarantee a that a firm is not accountable for non-compliance with a previous one, presumably replaced by the new one. This system creates opportunities to extract private rents and benefits through public regulations.

Moreover, corruption seems to be facilitated in some places by lack of effective controls by the relevant level of government. This facilitates the operation of groups that, through either violence or cohesion, demand payments from firms, traders and transporters. Many companies operating in the north of the country (e.g. Kano and Kaduna) complain about informal taxation on the road to the port. Each roadblock (of which there can be many) demands payment of a minimum of N10,000. This suggests a minimum of N500 per tonne transported at every one of these roadblocks. If we consider that, for a tonne of yuca (e.g. cassava), producers are paid around N40,000,[22] each roadblock reduces the income of the farmer by 1.25%. At the same time, it leads to an increase in the export price. **Just three of these informal roadblocks on the road to Lagos** (and they are far many more) **offset the margin of preference received under the Standard GSP**. Considering

[22] https://punchng.com/cassava-glut-farmers-processors-squabble-over-prices/

that production of yuca in Nigeria was 47,000,000 tonnes in 2017 (FAOSTAT), these **roadblocks may be costing Nigeria around $63 million** a year.

Corruption has important implications in terms of the value of investments. Firms need to consider additional costs deriving from bribes or other informal payments in their investment project, which reduces the internal rate of return (IRR) of the project. In a context of high real interest rates, this reduces the number of profitable prospective investment projects. A limited number of investment projects with a high IRR and, consequently, higher risk are doable. Therefore, corruption leads to lower but riskier investment, which reinforces the general macroeconomic instability situation in the country.

Alongside these typical cost effects of corruption, corporate protocols may make investment in Nigeria very difficult. Legal and public oversight requirements make global corporations particularly wary of corruption. In some cases, they allocate specific resources in the form of dedicated staff, and design internal regulations to deal with these requirements. This implies that very complex processes need to be designed to avoid potential complications. This makes the cost of operating in Nigeria higher than in places where corruption is less of an issue.

In many cases, corruption blocks investment completely. Some corporations have very strict regulations that directly block any possibility of investing or doing business in countries with low corruption standards. These corporations, typically those that operate in multiple locations and must meet multiple standards with respect to corruption, prefer to avoid any risk.

Institutional organisation

Nigeria is organised under federal principles. Therefore, each level of government (federal, state, city) has specific attributions as well as duties. They are also responsible for the collection of dedicated duties and taxes that fund their respective activities. This system operates in multiple countries and it does not present a disadvantage *a priori*. Brazil and the US, for example, are organised under this principle.

However, in Nigeria the system manifests in a very chaotic situation of overlapping agencies between levels that deal with similar issues. But it is also interesting that there are overlapping attributions and mandates within each level of government. This is not evident from the respective institutional mandates, but it is clear in the new areas that are not still properly regulated. The overlapping in mandates between SON and NAFDAC constitutes a clear example. SON sets standards but both agencies play a role in enforcing them. This provides confusion and additional bureaucratic complications to exporters.

For example, there is a multitude of regulators with respect to insurance through mobile phones. This new activity and investment opportunity is under the regulation of at least three difference agencies: the National Insurance Commission (NAICOM), the Nigerian Communications Commission (NCC) and the Central Bank of Nigeria (CBN). Not only there is no agreement with respect to the regulatory framework that this particular activity should have, but also there is no uniformity on criteria to apply until a common regulatory framework is in place. Assuming a low penetration rate (0.5% of GDP), just life insurance could be worth a little as $2 billion in Nigeria. Therefore, just this one example of lack of clarity with respect to regulatory frameworks and institutional overlap is generating sizable damage.

Unclear, unstable, unconsulted and discretionary rules

The other issue related to the business climate is that associated with its ever-changing rules. Both Nigerian and UK firms confirm the status of darkness that exists regarding regulations. Companies complain that these rules change without minimum consultation of the affected parties. No consideration is made with regard to how a change in regulation may affect businesses. This brings a high degree of discretionary power into decision-making, which does little to attract investment, contributes to increased corruption and further damages Nigeria's reputation.

Moreover, even when they are clear, regulations are complex. In addition to the multitude of institutions dealing with similar policy issues at every level of government, the regulations themselves are very complicated. Frequent addenda are made to clarify and rectify issues, which themselves bring the need for further clarifications and rectifications. This issue is attributed to the lack of consultation conducted on regulations. One specialist in business environment highlighted that even measures designed to support businesses were complicated, and many potential beneficiaries were discouraged from applying.

The degree of discretionary power in the application of regulations and tax collection is extremely high. Officials have excessive powers to make *ad hoc* interpretations of regulations and laws. This is facilitated by the complexity of the norms, the lack of clarity and the multitude of regulatory agencies. For example, many companies complain they face tax bills based on unrealistic estimations of the value of their business and operations. These estimations are enabled by the existence of very vague and general regulations. Moreover, the procedures to challenge these calculations are complicated, with uncertain outcomes.

The security situation

In addition to their social and political effects, terrorism and general low levels of security have serious negative impacts on the Nigerian economy. Many firms, especially UK firms operating in Nigeria, raised issues of security as important. Nigerian firms, on the contrary, did not raise such issues as a concern.

Domestic firms seem to have internalised the security situation as a feature of working in Nigeria. For these firms, this is part of the natural state of affairs and, consequently, of doing business. Other issues (e.g. high taxes) worry them more. However, domestic firms do tend to recognise the importance of security when dealing with UK or foreign companies in general or when trying to export. In both cases, having appropriate mechanisms to deal with security issues constitutes a sort of branding or signalling given to its partners or customers.

For large UK firms, on the other hand, the security situation requires dedicated measures. In addition to visible measures taken in facilities, there is a permanent ongoing exercise to assess changes in the situation.[23] Foreign and local staff need to be properly trained about risks and their management. Companies need to ensure they have adequate people on the ground to deal with security issues.

It is unclear whether these different perceptions are, depending on the case, over- or under-stated. However, in both cases there are important implications. Regardless of the reasons why they are in place, higher security measures mean higher operational costs. These costs are added to the already high costs of electricity and logistics. At the extreme, Shell spent £244 million over a three-year period in Nigeria to protect staff and installations (Platform, 2012). It is unclear

[23] One of the authors attended a briefing in Lagos to UK citizens on security during the election period.

how much this represents of total costs but, taking Shell's oil production of 631,000 barrels a day[24] and the price of oil of $56/barrel, we might suggest that security represents no less than 1% of the operation costs.[25] Although this is just the example of one company, it indicates how high these costs may be on average.

Although for Nigerian companies security may rank similarly to other issues, it still requires adequate provisions. Even SMEs in Nigeria need to allocate a certain budget to deal with security. This budget, as mentioned, needs to be increased when firms do business with foreign firms.

The bad business climate and the security situation, in addition to issues associated with unreliable energy and poor logistics, notably affect the competitiveness of both Nigerian and UK firms. For Nigerian firms, they imply a higher cost that needs to be either translated to export prices or deducted from profits. Competitors in countries with an improved security and business climate (e.g. Ghana) will have lower prices.

For foreign firms investing in Nigeria, the whole set of factors that affect cost is translated into a higher required rate of profitability for projects. A private equity fund manager investing in consumer goods, telecommunications, finance, power and real estate in Nigeria said that, **to be included in the portfolio, an investment needed to have a minimum IRR equivalent to 25% in US dollars (35% in Naira), to provide for all the high business climate costs. This has the immediate effect of reducing the number of investable projects** that this fund, for example, will consider. Investment projects with a lower rate of return, which in other contexts will find funding, fail to come to fruition. Based on the existing non-oil UK FDI into Nigeria (see Table 10), **a reduction of 1 percentage point in the required IRR may unlock UK investments in Nigeria by at least £30 million**.[26] Of course, the reduction in costs will trigger investments from other countries too.

Areas of work and cooperation

It is Nigeria, in the widest sense, that has the main responsibility for addressing these issues. This is a complex process, as it involves taking decisions with major political implications. The problems need to be resolved through Nigerian institutions and respecting the national political dialogue. However, it is the responsibility of the Nigerian Government to start this process by support the rhetoric with concrete actions. The UK can support this process however, the allocation of resources and the political will need to be expressed and materialised initially by the Nigerian Government followed by all the political forces.

However, the issues affect investors in general, and UK investors in particular. While the UK Mission in Nigeria is sympathetic to the problems UK investors face when operating in Nigeria, it can do very little to overcome the main issues affecting businesses in Nigeria. The UK can however provide extra support to investors interested in Nigeria, to help address some of the issues and partially help to reduce the risks. This support could take two major forms.

Investment mentoring / Investment-cycle account management

The UK can play a more active 'minding' role for UK investors. This implies taking prospective investors by the hand and helping them navigate the

[24] https://www.shell.com.ng/media/nigeria-reports-and-publications-briefing-notes/economic-contribution.html

[25] A more accurate calculation should be made based on the total costs of production, which are not available. This calculation, based on the notional value of production, at least points to a lower bound for such a share.

[26] This is a very conservative estimate. By virtue of the opportunities associated with population and economic growth, investment will increase at a higher rate.

complexities of Nigerian institutions and regulations. This should help reduce some of the risks UK firms face when investing in Nigeria.

British large firms have manifested their interested in doing business in Nigeria despite the difficulties. Nigeria constitutes, in that sense, a long-term strategy and these companies are in position of affording many of the higher costs and provide for the operation in a risky environment. Smaller firms, on the contrary, are not in position of making these arrangements and, consequently, tend to be out of the investment picture.

The UK Mission in Lagos is already playing a very valuable role in supplying investors with relevant information and suggesting business connections with local and existing companies. UK regulations in terms of personal and business information-sharing prevent staff from providing much more effective support in this regard. The UK Mission also supports and speaks in favour of UK investors that are experiencing some of the complications discussed in this section with existing investments.

However, there seems to be some missing support in the middle. Support is either available before the investment is made or once it has been made. There is nothing to help investors go through the administrative and institutional complications of registering their business with the federal, state and city authorities; registering for all taxes (at every level of government); dealing with customs; etc. This requires more than just informing investors about these issues.

One way to address these issues is for the UK Mission, for example, to inform the relevant Nigerian authorities about a prospective investor that will make an application or register. This can be done formally through the establishment of a joint investment mentorship scheme with the NIPC. The UK Mission, in addition, could help to connect British investors with reputable providers of business development services to assist them to navigate the complicated business environment. In parallel, the UK Mission can also adopt an informal approach in supporting British businesses. For example, it can make use of the open communication channels with the relevant authorities with the aim of informing them about a coming application. This will help the relevant Nigerian official inform their subordinates, expedite the process and avoid complications that may arise because of corruption. This may prevent the emergence of complications that discourage investors in the early stages of the investment process.

The UK Mission in this case will act as an *amicus curiae* of the investor. Nevertheless, this support should not involve the violation of any Nigerian laws and regulations. Moreover, while the UK Government will support the investor in the process of the investment, this will not imply any involvement with the activities performed once the investment is live. In any case, this support nursing support should last until the investment is up and running.

Investment guarantee

These soft measures can be supported by some form of financial guarantee that the UK Government could provide to investors in Nigeria. In the same way that UKEF, for example, provides guarantees for loans for exports, a similar approach could be taken to investment.

This presents a series of challenges. On the one hand, investors may change their business decisions if a guarantee removes the risk. For example, an investor may make take riskier business decisions if it perceives that the UK Government will bail them out. This is the so-called ‘moral hazard’ problem. On the other hand, the

UK Government will need to allocate a large amount of resources to identify secure investments to support.

However, these are issues that can be overcome. Moral hazard can be reduced by guaranteeing only a part of the investment; the investor will still bear the risk on the other part. The UK Government, through the BHC, has information that can help determine whether an investment is risky and, consequently, a guarantee could be provided.

Moreover, the guarantee should not be free. By reducing the Nigerian institutional risk, the UK Government would be providing a direct service to the investor. This is not a public good whereby the beneficiary cannot be identified and from which it cannot be excluded. Therefore, the investor must pay for the service. The proceedings of these payments can contribute to the sustainability of the guarantee fund.

Addressing such investment push factors is unlikely to be as effective as work on the pull factors that Nigeria has to complete on its side. However, although extremely important, addressing the latter will take longer than what can be done from the UK side. Therefore, this constitutes a relatively easy way of increasing UK investments in Nigeria.

6.3 Compliance with standards and quality of products

An extremely important issue in relation to Nigerian exports to the UK relates to meeting the minimum quality requirements of both public bodies and customers. Here, we need to make two important distinctions.

First, we need to distinguish between compliance and certification of compliance. These are separate issues that require different approaches. Compliance refers to whether the firm producing, or trading a given product is meeting the quality (including packaging) and/or safety requirements of either EU public bodies or UK customers. This is related to whether production practices and characteristics of the product meet the requirements of UK customers and authorities. Certification is the process that makes it possible to show the relevant body or customer that the product in question meets the quality and/or safety standard in question. A product that meets all required standards will not be allowed in the UK or will be rejected by a customer if the exporter cannot show the necessary certificates.

The other distinction is between public standards and quality requirements that UK customers (e.g. supermarkets) request. Public standards are designed by the EU and enforced by the respective customs authorities in each member state. They constitute minimum requirements that a product coming into the EU must meet to be admitted for trading within the EU and, consequently, are compulsory. They may be technical requirements (e.g. type, quantity and organisation of the information related to a product that must be included in a package) or SPS requirements (e.g. maximum levels of aflatoxins in beans). They are designed to protect the health and wellbeing of humans, animals and plants within the EU.

This needs to be distinguished from customer quality and production requirements. A product that is certified to meet the EU standard may not meet the quality requirements that a supermarket requests. Some of these requirements may be related to the quality or characteristics of the product (e.g. being organic) and/or associated with the production process of the product or its components. In this category fall requirements related to minimum working conditions, fair payment to farmers, no employment of children and other ethical considerations. It is important to note that some of these requirements are expressed in the form of private standards such as Global G.A.P., the Forest Stewardship Council (FSC), Sedex Members Ethical Trade Audit (SMETA), FairTrade and others. This may present some confusion with public compulsory standards.

However, it is not a requirement to export to the UK to meet these private standards. It is possible to commercialise some products through lower quality but less structured outlets in the UK. These independent stores have less stringent quality standards and, in general, meeting the EU standards is generally enough from the quality point of view. Some Nigerian products are commercialised in the UK, particularly in shops own by the British-Nigerian community, without meeting these standards. The requirement of meeting private standards does not apply also to the online commercialisation. E-Bay, for example, provides a business-to-consumer platform and does not impose major quality requirements to the products commercialised through its platform. The same applies to Amazon Marketplace.

Capability of meeting UK public standards

Production standards

Interviews, the survey and administrative records (see , Table 21, Table 22 and Table 23) indicate the problems Nigerian exporters face in terms of compliance with EU standards – both SPS and technical requirements. UK importers, Nigerian exporters and relevant government bodies raised this issue. There is, therefore, a common understanding about the importance and relevance of the issue among stakeholders. These problems seem to be explained by four main reasons:

Inadequate production practices; There is some divergence about the source of the problem. In the agriculture sector, some stakeholders highlighted that farmers failed to understand the importance of meeting these standards and adhered to production practices (e.g. excessive use of agrochemicals) that, although tolerable within Nigeria, generate unacceptable residues in exports to the UK. In general, this was attributed to the lack of adequately information in a clear and plain language. Some stakeholders, for example, praised the success of some EU-funded programmes that 'took farmers by the hand' in relation to compliance with EU standards.

Inadequate national standards: Also, some stakeholders attributed the issue to lack of or complete inadequacy of quality standards within Nigeria. Efforts by the relevant authorities in Nigeria (e.g. SON), such as leaflets and flyers to inform farmers about what needs to be done to export to the EU, seem to be insufficient. Although it is not possible to design and enforce in Nigeria standards compatible to those applied by the EU, some form of minimum quality requirements to be applied nationally may contribute to compliance with the higher EU standards.

Actions of middlemen: In other cases, farmers who have made the effort to meet the required standards are affected by the actions of traders and other middlemen who mix produce from compliant and non-compliant sources. The problem here is in the handling of the finished product rather than in its production. Those farmers who jointly organise trading (e.g. through a cooperative) tend to observe much lower rates of rejection.

Inadequate packaging/cargo practices: A separate issue mentioned by exporters and importers, and confirmed by cargo operators, is the practice of putting in containers additional items not listed in the manifesto. This is done to use the container to send items to relatives in the UK. In addition to constituting a customs infraction, this can contaminate otherwise compliant products and lead to their rejection. Because of this, consignments originating in Nigeria are frequently opened and inspected when they arrive in the UK, despite all their paperwork being in order.

The issue of compliance with SPS standards affects agricultural products in different ways. As already mentioned, residues of certain agrochemicals used to treat plantations against insects and other pests are not accepted in the EU. In 2015, the EU suspended the importation of dry beans from Nigeria because of aflatoxins.[27] This ban will be in place at least until July 2019.[28]

Moreover, aflatoxins are frequently found in cassava, peanuts, sesame seeds and cashew nuts. This is critical, as these are among the most important agricultural products exported by Nigeria. As we have seen in Table 21, aflatoxins tend to be one of the most important sources of rejections at the border in the EU.

Packaging

Most issues associated with standards are related to SPS. Stakeholders did not raise significant issues associated with compliance with technical standards. The only exception is related to packaging. Many stakeholders indicated a lack of suitable producers in Nigeria of adequate and EU regulation-compliant packaging.

Importing compliant packaging is one solution. However, some stakeholders complained of the cumbersome procedures involved in importing into Nigeria. Moreover, boxes, sacks and bags used for packaging can attract a tariff of between 20% and 35% in Nigeria, making them extremely expensive. The lack of domestic production, the high tariffs and the cumbersome import procedures make it very complicated for Nigerian exporters to meet the EU's regulations on packaging.

Certification issues

A separate but related issue is associated with the cost of certification, and facilities available to producers in this regard, to prove the compliance of their product with the relevant EU standards. Not only does the product have to meet the standards but also it is necessary to be able to prove or certify this compliance.

The SON as well as NAFDAC provides certification services. However, there are only two public laboratories in Nigeria credited with providing such certification. This is not enough. Moreover, although certification costs are low in regional terms, the process is not fast enough, and many exporters prefer to obtain certification through laboratories in Ghana.

Meanwhile, the lower costs can still be significant. SON's fees range between $300 and $1,300 per product and $100 and $300 per consignment.[29] Moreover, these fees do not cover some related costs, such as the proper testing, factory site inspection, auditing, witnessing the loading of a container and other costs.

Lastly, NAFDAC product certifications bear no relevance for export. So manufactures focused on export alone need to go through a double certification stage, one from NAFDAC as the product originates from Nigeria and the other from EU recognised certifying agencies, amounting to multiple costs and time of compliance.

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[27] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015R0943
[28] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016R0874
[29] https://verigates.bureauveritas.com/wps/wcm/connect/064d6375-b246-408e-a6be-085a3314d946/GSIT+-+NIGERIA+%28SONCAP%29+Datasheet+Rev+5.pdf?MOD=AJPERES

It is unclear what will happen to UK standards after Brexit. In the short term, they are likely to remain similar even in case of a no deal. It is possible that, in the long run, some EU standards that protect production in some EU countries but that are irrelevant in the UK may change. However, there is no appetite for a substantial relaxation of standards in the UK, even in the long run, as a radical change in UK standards will affect trade between the UK and the EU even more significantly. Therefore, orienting efforts towards compliance and certification is critical.

Assistance in compliance

Many of the interviewed companies indicated that producers and farmers were either unaware or lacked comprehension of the importance of complying with standards. Efforts adopted to communicate this importance have been ineffective. This is primarily because the companies rely on a passive approach, with farmers and producers expected to adopt recommendations.

In this sense, interviewees praised support received from the EU and the UN Industrial Development Organization to strengthen standard compliance. This support, delivered through the National Quality Infrastructure Project,[30] brought EU specialists to Nigeria to explain to farmers and producers the importance of compliance with standards as well as what needed to be done to guarantee it. This project implied a more active role from development partners and, more importantly, from the Government of Nigeria in taking information directly to producers. As it was mentioned, there is a need of a more coherent approach in the dissemination of information and coordination between the organisations in charge of designing policy (Ministries of Agriculture, Health and Industry and Trade), implementation agencies (SON and NAFDAC) and promotion (NEPC). The UK Government could support the process by facilitating technical studies to define the strategy. At the same time, interviewees mentioned issues associated with the handling by middlemen of goods that may be standard-compliant. Any effort needs to take a value chain approach, with every link in the chain properly informed.

The UK can work together with the Government of Nigeria to inform farmers and producers about compliance. This should involve developing a programme where specialists, customs and standard compliance agents visit Nigeria to inform *in situ* stakeholders and show them compliant production techniques they could use.

To focus efforts and maximise the benefits, programming should be oriented to all farmers who either exported, or tried to export to the UK. This will ensure the beneficiaries are in a position to use the support. The UK could ensure the information reaches firms in a position to export; Nigeria through SON, NAFDAC, NEPC and the Ministry of Agriculture could facilitate the diffusion of the information to the wider business community.

Additionally, both governments could support the organisation of JVs between companies that currently export to the UK and companies that wish to do so with the aim of securing the transfer of knowledge and expertise. This support could be extended the creation of JVs among British and Nigerian companies for the compliance with UK standards, if it does comply with OECD's DAC rules.

Moreover, to address issues of packaging, the Nigerian Government, with assistance of the UK, could support the provision of packaging design services. This could be implemented in two stages. First, the UK Government can contract the services of a brand design company from the UK to pass expertise to Nigerian counterparts on how packaging can comply with EU standards and be appealing to

[30] https://www.nqi-nigeria.org/?q=home/14

the public. Second, both Governments can support the development of the direct provision of Nigerian design services to producers and farmers.

However, fundamentally, Nigeria needs to eliminate or reduce substantially the tariff currently applied on packaging including boxes, crates and bags. The 35% duty applied to these products constitutes a serious hindrance to facilitate the addition of value and diversification of exports. Inputs, like packaging, should be either duty free or exempt when the contained product is subsequently exported.

Certification

Many Nigerian firms find that, although their products comply with standards, they are unable to obtain the required certification. A relatively short-term effort could take the form of direct financial support (grants or loans) for firms to certify their produce. This needs to be oriented towards those firms productive and competitive enough to export – for example those that have managed to export elsewhere.

However, it may be more effective to support SON/NAFDAC and/or other institutions to certify compliance with UK public standards. This should lead to these institutions eventually being accredited to issue certificates of compliance with the British Standards Association. Consequently, over the long term, the UK and Nigeria should aim to negotiate the necessary mutual recognition of conformity assessment. This can be further facilitated by contributing to the establishment of a partnership between the relevant bodies in Nigeria and the relevant authorities in the UK. This support to SON/NAFDAC and other institutions could aim to encourage an increase in the number of laboratories for certification and of metrology facilities.

6.4 Quality issues

Although frequently confused with public standards, the quality requirements that wholesalers, retailers and firms in the UK demand often present a major constraint for Nigerian exporters. These are requirements in terms of quality of materials, assembly and presentation as well as information that exceed those demanded by the UK/EU for the product to be allowed to be commercialised. Moreover, in multiple cases, customers demand that production processes follow certain guidelines or have certain characteristics. In this sense, even though a product may be of excellent quality, it may fail to find a suitable customer if the production has not followed the prescribed procedures related to ethical considerations (e.g. reasonable payments to farmers), efficient use of certain inputs (e.g. natural resources) or avoidance of certain practices (e.g. child labour).

The confusion with public standards arises because these private quality requirements are defined through a series of private standards. These private standards determine the quality requirements of products and production processes. They are international and apply to multiple retailers. Therefore, being able to meet and be certified for compliance with these standards opens a wide range of business opportunities beyond the UK. However, some retailers may also have specific and exclusive requirements.

A major private standard for agricultural products is Global G.A.P.[31] This is a set of voluntary standards for the certification of agricultural products aiming to increase good agricultural practices to increase food safety and sustainability. It is critical in the commercialisation of agricultural products in the UK. Retailers headquartered in the UK such as Asda, M&S, Sainsbury's, Morrisons and Tesco, and

[31] https://www.globalgap.org/uk_en/who-we-are/about-us/

headquartered elsewhere such as Aldi and Lidl, tend to request that produce and other food products they commercialise meet the Global G.A.P. standards.[32]

In addition to these quality standards, retailers in the UK are increasingly concerned about the welfare and safety of those involved in the production process. This responds to the ethical concerns of many UK consumers.[33] SMETA provides a series of standard and audit methodologies covering responsible business practices in labour, health and safety, environment and business ethics.[34] Sainsbury's, Tesco, Aldi, Lidl, M&S and Waitrose are members and require their suppliers to pass a SMETA audit. Even non-food retailers such as Argos are members. Food producers in the UK such as Diageo and KP Snacks (nuts) are also members.

Moreover, some products have specific standards. FSC[35] provides a forest certification system to allows consumers to identify, purchase and use wood, paper and other products from well-managed forests.[36] Fairtrade,[37] on the other hand, offers a set of practices and standards to ensure companies along the value chain pay sustainable prices to farmers and workers in developing countries. Some shops and companies only commercialise or use Fairtrade-certified products.

Complying with and being certified for these standards is often a necessary condition to commercialise products in the respective retail chain. An interviewee representing a major retailer in the UK highlighted that being Global G.A.P.- and SMETA-certified was a condition to start business discussions with a supplier.

In addition to the main retail channels, there is large number of independent retailers in the UK. Supplying these channels presents a series of advantages for Nigerian suppliers. On one side, they can retain some control on their production process as well as on their branding. On the other side, their quality requirements tend to be lower than the main retailers.

Whilst supplying these outlets may be preferred and easy, it may represent a less than satisfactory strategy. On one side, the benefits of retaining their own branding are particularly small in a market as big as the UK with a very strong competition. To take advantage of their own branding, it is necessarily to make investments in terms of publicity and visibility that are unaffordable by most of the Nigerian exporters. Consequently, the benefits of retaining their own branding are minimal.

On the other hand, this channel, frequently occupied by the convenience stores, represents 20% of the market value of grocery retail in the UK[38]. Whilst this is a sizable share of the market, the portion occupied by the independent convenience stores is falling as increasingly large retailers also occupy this space. Consequently, the share of the market that independent stores occupy is decreasing.

Finally, as it was mentioned, these independent stores are not structured in a unique network and, consequently, they are difficult to contact and establish business

[32] We interviewed a supplier compliance officer from a major chain.

[33] The Rana Plaza accident in Bangladesh in 2013 meant greater attention from consumers and retailers in the UK to working conditions along the supply chain.

[34] https://www.sedexglobal.com/smeta-audit/

[35] https://www.fsc-uk.org/en-uk/about-fsc/what-is-fsc

[36] A UK charcoal importer said that the lack of FSC-certified charcoal in Nigeria limited substantially the expansion of its imports from the country.

[37] https://www.fairtrade.org.uk/

[38] https://www.statista.com/statistics/326415/forecast-grocery-retail-market-value-by-channel-in-the-united-kingdom-uk/

relationships. Rather than target these stores, it will be more efficient to target wholesalers, many of these are not located in the UK but in the EU instead.

The issue of quality is also less problematic in the massive e-commerce platforms. E-Bay and Amazon Marketplace provide only business-to-consumer platforms, with minimum intervention on the quality. Products traded in these platforms need to meet the mandatory EU standards. Nevertheless, in virtue of the transport costs, times and complications in supplying from Nigeria, this channel is only open for those businesses that have warehousing and other logistics facilities in the UK.

Failure to achieve the minimum quality that UK customers require is recognised among many Nigerian exporters and importers to the UK. Product quality is either very low or just good enough to reach Nigerian shops in the UK, oriented to the Nigerian diaspora that knows Nigerian products very well. Some Nigerian products may, eventually, reach some small retail chains and outlets (e.g. off licences). However, without a substantial improvement in quality, it will be impossible for Nigerian products to reach the mass market in the UK.

The lack of presence of Nigerian products in the main retailing channels limits any effort to develop Nigerian-based geographic indications. Ghanaian cocoa/chocolate and Kenyan tea are increasingly being recognised in the UK because of great marketing effort, but also through the presence of these products in the main retail chains, which grants them prestige.

At the moment, Nigeria has no body (private or public) that can certify for either Global G.A.P. or SMETA. Although SON can advise, it cannot certify compliance with these standards. This makes things complicated for Nigerian exporters, as they need to contact organisations based elsewhere to obtain certification. In addition to the certification fee, the company needs to pay all costs associated with bringing the auditors to the farm/factory. Some UK chains do independent audits, in addition to those by Global G.A.P. auditors, for example. As these chains may not require exclusivity from the supplier, the latter must fund the cost. Both audits and certifications need to be renewed. If the supplier is considered of high risk, audits may be done as frequently as every year. This means a serious cost for farmers and producers, but it is the only way they can make it to the large chains in the UK.

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Quality improvement

Similarly, as in the case of assistance in compliance to meet public standards, it is possible to assist producers and farmers to increase the quality of their production and production processes. This implies improving the information available to farmers and producers, in particular on the specific areas to improve.

In the medium term, Nigeria and the UK could develop a programme could be designed to fund advisory visits by specialists and private standards auditors to farms and companies on what needs to be improved in different areas. This support should be available on a demand basis. Farms and firms will have to apply for the support and the programme will need to evaluate whether they will be in position to benefit. Nevertheless, the Nigerian Government, as it was mentioned, needs to clarify the mandates of the relevant institutions (SON and NAFDAC) as well as establish the adequate coordination mechanisms involving the Ministries of Agriculture and Trade.

In this sense, the support should be available only for firms and companies that are currently exporting to the UK. This will guarantee that the beneficiary is at a level of competitiveness and productivity that is high enough to make the quality jump.

In addition, the support should be extended to organisations (e.g. SON) that could, eventually, provide this kind of advice locally. This will contribute to sustainability by creating a local support knowledge base in Nigeria.

This could lead to a second component: the development of local certification and auditing capabilities in the main private standards. This will contribute to reducing some of the inherent costs associated with the auditing process (e.g. travel of auditors). Moreover, it could lead to the development of additional export opportunities for Nigeria through the provision of auditing services to other countries in the region. As in the case of the certification of private standards, it will be ideal to have more than one organisation providing the auditing service. The UK could provide technical assistance to boost private sector certification/auditing capabilities in these private standards.

6.5 Building business networks

Many Nigerian exporters and producers commented that they found it extremely difficult to build and maintain business links with UK importers. Except for the existing links with the UK–Nigerian community in the UK, there are very few existing business connections between Nigerian producers and the wider UK business community. There are no Nigerian products among the thousands commercialised in the top three UK supermarkets.

It is very hard to build and maintain business links with UK retailers, which tend to maintain longstanding commercial relationships with their suppliers. In addition to competitive prices, retailers look for a reliable and good-quality source of products to commercialise or use. In this sense, it seems that retailers are not looking around to find the first supplier with the lowest price. In fact, they tend to prioritise new products originating from existing suppliers.

Many Nigerians producers that are currently exporting to the US indicated that programmes funded by the US Agency for International Development (USAID) had helped them create contacts with buyers. It is thanks to these contacts that many of these firms are currently exporting. However, in general, these programmes have not helped them either expand exports beyond this initial push or diversify destinations.

Nevertheless, there are opportunities for high-end companies to showcase and present their standard-compliant products to the largest chains. UK retailers tend to attend major international food fairs with the aim of learning about new products and new producers. Fruit Logistica,[39] in Berlin, is a major global event that gathers around 78,000 trade visitors. Fruit Attraction,[40] in Madrid, is another important global fair, for fresh fruits and vegetables, spices, nuts, processed food, etc. Anuga,[41] in Cologne, is organised every two years. In addition, there is a Global G.A.P. summit every two years, which gathers retailers and producers to showcase their produce.

According to a compliance manager from a major UK supermarket chain, all UK supermarkets visit these and other fairs, to make the first contact with a potential supplier. Providing that the supplier is Global G.A.P.- and SMETA-certified, they enter into business discussions with the suppliers. It seems that this channel for identifying suppliers is well established and unlikely to change in the near term.

[39] https://www.fruitlogistica.com/
[40] http://fruitattraction.com/en/home/
[41] http://www.anuga.com/

Therefore, it seems critical that Nigerian producers wishing to contact UK retailers follow this route.

However, participating in these fairs is expensive. Exhibitors must hire space, with the smallest basic stand in the upcoming Fruit Attraction Fair in Madrid at €1,800. Moreover, stands need to be designed and constructed. There are logistics involved associated with travel, accommodation, transport of products, etc.

Some of these fairs nominate a special country partner each year, giving the country an opportunity to showcase multiple products and producers. Normally, they are allocated a large and central area in the exhibition hall to do this.

In the UK, food fairs are substantially smaller. However, they do tend to gather UK retailers and buyers, thus providing a very focused networking opportunity. Moreover, this provides a chance to link with a wide range of buyers, not only those at the top. The main event is the International Food & Drink Event.[42] There are no Nigerian exhibitors in the coming fair.

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The UK and Nigeria can work together to create business links between Nigerian producers and customers in the UK. An immediate action that the UK Government could support is the purchase of fair space and travel for Nigerian companies in the main food fairs in Berlin and Madrid.

Beneficiaries of this support should be companies and farms that have managed to obtain the necessary certification and passed the relevant audits for the respective private standards. Interestingly, this support will allow Nigerian companies to export not just to the UK but rather to the whole world.

Moreover, the two governments could work together to engage with the organisers of these main events with the aim of nominating Nigeria as a partner country. This would give even more visibility to Nigerian producers as well as showcasing Nigeria as a country brand. The UK Department for International Development could aim to coordinate efforts with the relevant cooperation agencies in Germany and Spain to maximise the effects of the cooperation.

In addition, the UK Government could engage with the organisers of the International Food & Drink Event in London. This will provide a direct link with UK importers beyond the big chains that already visit the main international fairs. The support should, as in the case of the international fairs, cover the design and construction of exhibition stands and necessary travel.

The UK and the Nigerian Government can work together in the organisation of a Nigeria Week in the UK, including a series of events to showcase Nigerian products to purchasers in the UK. It is possible to work with the organisers of the International Food & Drink Event in London to facilitate the synergies between both events. The UK can support and facilitate the participation of some competitive exporters (e.g. already meeting public standards) as well as the co-organisation of the series of business networking events.

6.6 Trade in services

Transport and logistics infrastructure in Nigeria are extremely poor. All interviewees could identify an instance where long transport times, high costs and related issues had made them lose businesses. They acknowledged the importance

[42] https://www.ife.co.uk/

that reliability had in business relations and how poor transport and logistic infrastructure affected their ability to build long-term relationships with their buyers.

This has two major effects. On the one hand, producers look for alternative forms of transport for their products. Some exporters make much higher use of air services to transport products that otherwise would be transported by ship. As air is the most expensive form of transport, only a handful of products are profitable enough to take this channel. In this sense, only some niche products can be exported.

On the other hand, high transport costs have an effect on the trade structure of Nigeria. In this sense, products and services that rely less on traditional forms of transport tend to exhibit more opportunities. For example, Nigeria may have a competitive edge in services. Although there are structural reasons for this profile, the high costs of traditional transport also play a significant role.

6.6.1 Air transport

At the moment, there is no Nigerian airline operating flights to the UK. All regular flight connections are provided by UK carriers (British Airways and Virgin Atlantic). The current Bilateral Air Services Agreement (BASA) limits carriers from each country to three frequencies a day. All the frequencies allocated to UK carriers are being used (British Airways operating daily flights to both Abuja and Lagos; Virgin Atlantic operating a daily flight to Lagos).

Discussions with operators confirmed that flights to Nigeria were among the most profitable of their networks. This is because, while supply has remained constant, demand has grown incessantly and, consequently, ticket prices have gone up. Not only do flights between Nigeria and the UK have high levels of occupancy, but also they do so at a higher price than for comparable distances. Ismaila et al. (2014) suggest that **demand could be 117% higher and prices 30% lower if services between both countries were liberalised**.[43] This saving for consumers can be translated into resources available to invest in or to buy other products.

The Nigeria–UK BASA also presents limited scope for flights under fifth freedom. This allows carriers from both countries to operate into third countries as a continuation of the bilateral flights. In this sense, a Nigerian carrier could operate a flight such as Lagos–London–New York. The existing BASA allows only flights to another couple of European cities (e.g. Paris and Rome). Fifth freedom flights may be important for Nigerian carriers, as they will facilitate better use of their fleet by combining flights between two important destinations.

Nevertheless, there are no prospects in the short run of a Nigerian airline resuming flights to the UK and, consequently, expanding existing supply. Existing airlines (e.g. Air Peace, Dana Air, etc.) operate only regional flights with short-range aircraft. Moreover, changes in the ownership structure of Virgin Atlantic may lead to this airline no longer being a BASA beneficiary. Although British Airways may, potentially, increase the offer to compensate for the loss of frequency, this will not increase total supply and will further concentrate it in a single provider.

Therefore, it would be necessary to renegotiate the existing BASA to either increase the number of bilateral frequencies or completely liberalise air transport

[43] https://www.sciencedirect.com/science/article/abs/pii/S0969699714000192 PLEASE CHECK THE COMPLETENESS OF THIS LINK

services between the two countries. It is worth mentioning that Nigeria has already liberalised its air transport services with the US.[44] This agreement allows unlimited frequencies to both countries with unlimited fifth freedom rights. The agreement does not grant cabotage rights to the airlines of the other country.

Although BASAs tend to be negotiated on a strict reciprocal basis, the goal of the agreement is to guarantee and facilitate the transport of people and goods between both countries. As we mentioned, this is even more critical in the case of Nigeria. Therefore, the increase in bilateral frequencies should not use a typical mercantilist approach. More frequencies will mean lower prices and more opportunities for businesses and people in Nigeria regardless of the nationality of the carrier's ownership. In fact, **any additional daily flight could generate at least $6 million a year in terms of airport fees and charges**.[45]

Air cargo

Many Nigerian exporters, because of the poor road, port and logistics infrastructure, have been transporting products via air. This form of transport is clearly more expensive and limited to a few products where the reliability and the short transport times are critical (e.g. fresh vegetables).

Despite this, air cargo managers highlighted that, by weight and on average, only 10–15% of cargo capacity is effectively used. The main reason is that the EU classifies airports according to perceived security risk. Those coded red require more thorough screening of luggage and cargo, under the 'AAC3 validation'.[46]

Meanwhile, the UK's Department for Transport and the Civil Aviation Authority (CAA) have special requirements that apply to flights originating in these airports. In addition to the EU's screening requirements, the CAA does not allow the transfer of cargo originating in these code-red airports in UK airports. All cargo originating in these code-red airports cannot travel further than the UK.

This has two implications. On the one hand, UK carriers cannot offer cargo services beyond the UK. This limits the business opportunities of these companies, as they cannot make use of their wide network to North America, Asia and Europe. Competing airlines from both EU and non-EU countries are not subject to these regulations, as their flights will not travel via the UK. On the other hand, it limits the offer of critical transport services for Nigerian exporters.

Air cargo managers believe that, at least from Lagos Airport, cargo could triple if the UK's CAA eased airfreight regulation via a 'transfer exemption'. This will not reduce the level of security and screening (which are regulated by the ACC3). Cargo will continue to be thoroughly screened, as the transfer exemption will not involve changes in this procedure. However, it will allow UK carriers to offer Nigerian exporters services that make use of their wide network.

6.6.2 Professional and business services

As previously mentioned, high transport and logistic costs have implications in terms of the Nigerian export structure, reducing opportunities for expansion in certain sectors and, in relative terms, increasing those in others. Because they do not rely heavily on physical transport, a wide range of services may hold a

[44] https://www.state.gov/e/eb/rls/othr/ata/n/ni/
[45] This calculation is based on a Boeing 777-200 fully loaded and applying the charges: https://www.faan.gov.ng/wp-content/uploads/2016/12/TARIFF-STRUCTURE-FOR-ALL-AIRPORTS.pdf
[46] https://www.iata.org/whatwedo/cargo/security/ceiv/Pages/acc3.aspx

comparative advantage for Nigeria. Opportunities are particularly important in professional and business services.

Although the UK is a major exporter of services, it also imports many such services. UK firms outsource some professional and business services (e.g. call centres) to Indian companies, by virtue of their qualified resources and the common language.

Nigeria also shares these features. For example, an increasing number of Nigerians are studying abroad (frequently in the UK), which is generating technical knowledge in many compatible disciplines, particularly in IT but also in other tradable services, such as law, management and engineering. For example, the compatible legal regimes mean Nigerian lawyers understand the UK's legal complexities.

The common basis (e.g. common law) in both the Nigerian and the British legal systems should constitute an opportunity to expand cooperation in the development of an exportable legal services in Nigeria. Many Nigerian lawyers are formed in British universities. This should facilitate the provision of legal services in a wide range of provisions modes.

Under mode 4, the provision of legal services in the UK is regulated by Solicitors Regulation Authority. The Qualified Lawyers Transfer Scheme allows already qualified lawyers to become a qualified solicitor in England and Wales. However, it is necessary to reside in the UK to represent in court. Even under the EU Single Market, lawyers from other EU countries must comply with the bar requirements to represent in court. This limits substantially the work of Nigerian barristers, even when they may pass the required examination by the UK bar. Therefore, provision of legal services under mode 4 may be restricted by immigration regulations.

Under mode 1, it will be possible for Nigerian lawyers based in Nigeria to support qualified solicitors and barristers. Nigerian junior lawyers, for example, support senior lawyers in the US (see below). It will be possible that Nigerian solicitors that have to go through the Qualified Lawyers Transfer Scheme could provide legal advice directly. The main limitation is related into how to create business and client's links between Nigerian lawyers and British clients. In this sense, e-commerce constitutes a major opportunity to facilitate the cross-border provision of legal and other professional services from Nigeria into the UK.

Moreover, the fact that Nigeria is located in almost the same time zone facilitates the provision of services to the UK. Efforts are not limited to call centres but can expand to other services activities where having online interaction with the customer in the UK is critical.

One Nigerian company has been providing professional and business services to companies in the US. Outsource Global supplies a wide range of professional services (e.g. doctors, lawyers, engineers) in the form of a 'campaign'. A campaign may include a wide range of services, such as support, call centres, etc. For example, one campaign involves sourcing junior lawyers based in Nigeria to work for senior lawyers in the US. Another provides specialised IT support to hospitals.

Outsource Global operates three centres in Nigeria and employs seven hundred people. The strength of the company is based on its low prices but also on the fact that it adapts easily to the customer context. For example, it trains staff to mimic the US accent, which facilitates interaction with customers.

In response to the low reliability of telecommunications in Nigeria, Outsource Global is connected to three different internet and phone providers, providing redundant but safe connectivity. It relies on its own energy supply.

Despite the high quality of the services Outsource Global provides and the enormous complementarities that may exist with UK companies, it is currently not exporting to the UK. On the one hand, doing business with the US is simpler (something highlighted by many other exporters in many sectors): business relationships can be developed without a US-based partner. Outsource Global consider that this would be hard to achieve in the UK. On the other hand, much of the success of the company is based on initial support received from the US.[47] This went beyond financial support to include networking with US companies that might demand its services.

A substantial portion of the success of Outsource Global is explained by the entrepreneurship of its CEO.[48] However, it is also clear that many of its existing customers in the US depend on the initial contacts made through the support received from the US Government. Based on the available skills in Nigeria, it may be possible to replicate these efforts for other entrepreneurs. Outsource Global's experience suggests the benefits of such support are very quick. For example, Outsource Global went from 50 to 700 employees in just 3 years.

6.6.3 Insurance services

Modern services (e.g. financial services) have been increasingly steadily in importance in developed and developing countries. They are usually limited to the richest segments of the population, in general located in the main cities. These two features have limited the expansion of the modern services economy in developing countries with respect to developed countries.

The insurance sector has the potential to support growth and economic diversification in Nigeria. However, the use of insurance services at the moment is quite limited, with the insurance market penetration at 0.3% of GDP and the bulk of the premium constituted by corporate and compulsory insurance (Hougaard et al., 2018). A recent study identifies several issues, including (Hougaard et al., 2018):

- Fragmented market with poor performance, including a large number of small insurers that are not profitable;
- A limited asset base, which constrains the sector's capacity to absorbs risks;
- Limited technical and professional skills in the sector;
- Lack of trust in the insurance sector.

However, given the size of the Nigerian market, the opportunities in this sector are large. NAICOM aims to increase insurance penetration seven-fold. To achieve this, the report recommends the following measures (Hougaard et al., 2018):

- Improve market fundamentals to decrease the number of unsustainable insurers in the market;

[47] https://www.state.gov/p/af/rls/rm/2018/289475.htm

[48] https://africanleadership.co.uk/nigerian-entrepreneur-named-among-2018-fortune-us-department-of-state-global-womens-mentoring-partnership/

- Leverage cross-agency collaboration to improve enforcement of compulsory insurance;
- Develop professional skills in the sector;
- Revisit local content requirements for oil and gas insurance, and allow larger presence of foreign firms.

DFID-funded financial inclusion programme EFINA also highlights that the deepening of the insurance market depends on the review of the guidelines that currently limit insurance companies' partnership with a maximum of two commercial banks, and banks' partnerships with a maximum of two insurance companies. Relaxing this rule would enable broader partnerships and wider insurance service delivery.

Microinsurance

Technology is facilitating the diffusion of financial services and products, especially at the micro level. This puts these services closer to many more people across all regions. Technology is making it possible not only to disseminate services to farmers in rural areas but also to ensure that this group is their target audience. The experience with mobile solutions (e.g. M-Pesa in East Africa) is well documented. This system has revolutionised the payment architecture, with its benefits expanding their direct users. For example, such solutions are contributing to increased registration of commercial operations and, consequently, an increase in tax collected. They also make credit available to a wide range of the population, providing them with a low-risk and, consequently, low-cost facility.

These developments have not been limited to the financial sector. Micro-insurance provided through mobile phones has made this critical service available in countries such as Ghana and Kenya[49]. Insurance facilitates the smoothing of consumption patterns by reducing the incidence of unusual events in consumers' income and expenses. Insurance reduces the need to sharply reduce consumption in response to the costs associated with funerals, illness, loss of income because of hospitalisation, weather events, etc. The benefits of smoothing consumption and income go beyond the individual and affect the whole economy.

Mobile phones and technology in general are making much of this insurance available to the widest range of the population. In some cases, this insurance is free, and part of a loyalty-based scheme provided by the mobile network operator (e.g. the customer must maintain a certain minimum credit to benefit).[50] In other cases, customers can make payments for their premium through pre- and post-paid mobile accounts.

The issues with microinsurance are broader than the technology angle. A recent report highlights the following main issues (EFinA, 2018):

- There exist restrictions against traditional insurers offering microinsurance, as well as requirements for their own capitalisation

[49] https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/07/MMU_m-insurance-Paper_Interactive-Final.pdf
[50] Registered subscribers who spend $3 in a calendar month on Tigo Ghana airtime credit receive death insurance cover for themselves and one family member of up to $562.

- The requirement to start a new Microinsurance company is high, with national licenses requiring minimum capital of USD 1.6 million
- The concern that there might not be a business case for stand-alone micro-insurers.

These issues, coupled with the distribution problems linked to technology, created disincentives for companies to move into the microinsurance space in Nigeria.

Insurance provides relief to individuals and families to help them overcome more easily critical events. It also brings economy-wide benefits. In addition to smoothing income and consumption, it can provide additional revenue for the government. Insurance premia are frequently taxed. However, the potential to unlock these benefits is limited because of the inadequate regulatory framework in Nigeria. UK insurers[51] that are already providing similar services elsewhere will be in position to offer insurance in Nigeria, provided some efforts are made in two areas. On the one hand, it will be necessary to develop adequate regulations to enable the provision of such services through these mechanisms. As has often been mentioned, the default position of the government is generally not to allow whatever is not expressly allowed. Therefore, it will be necessary to clarify from the regulatory point of view that the activity is allowed and regulate the way it must operate.

On the other hand, it will be necessary to identify and designate a single regulatory authority to deal with this type of service. Currently, the Central Bank, the NCC and the NAICOM intervene as regulators of the different components involved. This complicates the operations of insurers as these authorities may have conflicting views and may take incompatible decisions with respect to the operation of this specific form of insurance provision.

There is no information available to allow us to calculate with precision the potential for this type of insurance. However, it is possible to make a simple calculation based on the number of mobile phone subscribers in Nigeria (182 million). Assuming that just 10% of subscribers pay a monthly premium of $1 (either directly or through a loyalty scheme) and that an insurance premium tax of 12% (e.g. similar to that in the UK) is applied, **government revenues will increase by $26 million by simplifying regulation to enable the microinsurance market to take off**. Given that a limited number of large companies (either insurers or mobile operators) provide the insurance, this is a very easy tax to collect.

6.6.4 E-Commerce

The development of e-commerce between the UK and Nigeria constitutes a major opportunity to overcome many of the trade barriers between both countries. This is evident in the case of goods, but it is also relevant for services. In this sense, E-commerce must be seen as an enabler of trade.

In the area of goods, there are internet-based platforms to commercialise products in both countries. In the UK, E-Bay and Amazon Market Place constitutes the main internet-based business to consumer platforms. Developed in Nigeria, Jumia constitutes the main platform to commercialise products through internet in Nigeria. However, there is limited trade between the UK and Nigeria commercialised through e-commerce. The role of e-commerce was seldom mentioned by the stakeholders interviewed and on the questionnaires in what respect to the bilateral trade.

[51] https://www.ft.com/content/4b1536b8-5daa-11e3-b3e8-00144feabdc0

The bilateral trade through e-commerce is generally limited to products imported through traditional channels that are commercialised through internet platforms in the respective countries. Products are sent from warehouses and other storage facilities located in the respective countries. There are little genuine direct imports from consumers. Consequently, internet platforms remain local. For example, despite the presence of a sizable British Nigerian community in the UK, Jumia has not opened a UK version of its website to allow British based customers to buy directly from Nigerian companies.

The transport costs and times constitute the main impediment for this. It is too costly to deal with customs formalities in small volumes. Cumbersome customs clearance procedures make e-commerce less convenient when there are long waiting times.

There are more immediate opportunities in developing e-commerce to facilitate the provision of professional services under mode 1. Whilst professional qualifications provide assurances to clients of the quality of the service received, the possibility that clients and services providers can be connected are more limited. This constitutes the main barrier to the expansion of the cross-border provision of professional services. Moreover, lack of clear physical addressing in Nigeria constrains the expansion of e-commerce.

Given the less dependency on transport, there are more opportunities for actual e-commerce between both countries in services. E-commerce can facilitate the provision of a wide range of services directly to consumers or small firms by professionals located in Nigeria or the UK. For example, competitive accountancy services provided to British firms in the UK by qualified accountants in Nigeria can be facilitated by the existence of internet-based platforms that facilitate the connection between customers and providers.

The protection of personal and commercial data constitutes a key enabler for the provision of these services under internet-based platforms. Clients in the UK, for example, want to be sure that their data are stored, used and eventually adequately destroyed. This may require the adoption by Nigeria of compatible data handling and protection regulations as the UK currently has under the EU. It is unlikely that the UK will reduce its data protection standards after leaving the EU. More importantly, data handling requirements by clients may be even higher.

6.6.5 Areas of work and cooperation

A New Bilateral Air Services Agreement

The existing Nigeria–UK BASA is very restrictive, allowing only 21 weekly frequencies to each party. While UK carriers make use of all the available frequencies, there are currently no Nigerian operators operating between the countries. Based on anecdotal evidence, there is unsatisfied demand in both countries for the service. This generates lower competition and higher prices. In fact, Ismaila et al. (2014) suggests that demand could be 117% higher and prices lower by 30% if services between both countries were liberalised.[52]

In addition to the limited frequencies, based on the current Nigeria-UK BASA, operators must be mostly owned by nationals of the respective countries. This presents a constraint for Virgin Atlantic, whose current ownership structure is particularly complex, including Air France and Delta Airlines.

[52] https://pure.hud.ac.uk/en/publications/the-impact-of-air-service-agreement-liberalisation-the-case-of-ni

Finally, there are limits on the number of destinations under fifth freedom.[53] This prevents Nigerian airlines, for example, from operating to third-party destinations as a continuation of a flight bound to the UK (e.g. Lagos–London–New York).

Working towards the renewal and expansion of the current BASA is something that both countries should consider. There is a precedent in the existing US–Nigeria open skies agreement,[54] which offers unlimited frequencies (although not cabotage) for airlines from both countries as well as a more flexible approach to ownership. It also allows airlines of one party to provide own ground-handling services in the other party. Some elements of this US–Nigeria agreement could be taken into consideration in negotiations for a future UK–Nigeria BASA. This will require some time and legal input from both parties and, consequently, should be considered a long-term action.

Early harvest of benefits

There is nothing to prevent both parties anticipating some of the provisions of a future BASA if both parties agree to negotiate a less restrictive agreement. A few actions could be taken to anticipate some of the benefits:

1. **Unused frequencies:** Frequencies unused by one party can be used by the airlines of the other party. This will allow UK carriers to expand the offer in the Nigerian market if no carrier of the latter party makes use of the frequencies. This will provide an immediate increase in supply and constitute an intermediary solution until the new BASA is in place. Frequencies will be reverted to Nigeria as soon as a Nigerian airline expresses its willingness and is ready to resume operations to the UK.
2. **Designation of airlines:** Parties can take into consideration the registration of the aircraft, the nationality of crew and/or the address for taxation purposes as criteria to designate airlines that make use of the current BASA. This would require some joint declaration that will supersede the existing designation based on ownership until the new BASA is in place. This would not only address the Virgin Atlantic issue but also facilitate the investment in Nigeria by airlines of third countries wanting to fly to the UK.
3. **Fifth freedom rights:** Both countries can grant bilateral unlimited fifth freedom rights to increase the efficiency and profitability of operations. This would facilitate, for example, Nigerian airlines to operate commercial and regular flights to third countries with which it has negotiated BASAs (e.g. Lagos–London–New York). This will make it possible to commercialise passenger and cargo services between Nigeria and the UK, Nigeria and the US and between Nigeria and the UK.[55]

Note that, as air services are not part of the General Agreement on Trade in Services, there are no issues in relation to the MFN principle. Whatever both countries grant bilaterally does not need to be extended to other countries. These improvements need not constitute a substitute for the negotiation of a more flexible BASA between both countries over the long run.

More cargo opportunities via the UK

[53] https://www.icao.int/pages/freedomsair.aspx
[54] https://www.state.gov/documents/organization/114241.pdf
[55] Fifth freedom rights are what allow Ethiopian Airlines to fly to Los Angeles via Dublin.

Existing UK security regulations prevent the transfer in UK airports of cargo originating in Nigerian airports into flights bound for third-country destinations. Based on this regulation, cargo on a British Airways flight can be sent only to the UK and not make use of the vast British Airways worldwide network. In addition to limiting the business opportunities for UK carriers, this limits the transport options for Nigerian non-oil products. This is critical in a context where many producers rely on air transport, given the high logistic costs that other forms of transport present in Nigeria.

A relaxation of airfreight regulation via a transfer exemption, granted by the UK Department for Transport, could potentially expand the offer for Nigerian exporters. This should ideally be granted to cargo originating in both Abuja and Lagos Airports. However, even if an exemption is granted to one of the airports, cargo can be redirected to that one.

The UK should thus work towards granting such a transfer exemption to the two main airports in Nigeria. If there are areas for improvement, the UK could support the Nigerian Federal Aviation Authority to do what is necessary to enable the granting of the required transfer exemption. Moreover, the UK could flexibilise the timing requirements for making an application for the exemption, currently possible only every two years.

Showcasing business services from Nigeria

The creation of business links between providers from Nigeria and customers in the UK is even more important in the case of services. The example of Outsource Global points to how the creation of such links contributes to the development of companies and whole activities.

The UK should aim to replicate USAID's efforts, to create networks between companies in the UK and Nigerian-based business service providers. This could be operationalised through the organisation of a showcase event in the UK where business services providers and entrepreneurs from Nigeria present to UK firms their services and capabilities. Part of this support would involve the identification of key firms in the UK, through the contracting of a business relations consultant.

The organisation of a Nigerian Week in the UK constitutes an opportunity to showcase and promote many business links between business services providers in Nigeria and users in the UK. The UK could support and facilitate the participation of some promising services providers in Nigeria.

Boosting insurance and micro-insurance

In addition to working together, the UK and Nigerian Governments need to address various issues. The multiplicity of regulating agencies, highlighted above, means that the Government of Nigeria needs to modify or clarify the mandates of the respective organisations. In the case of the micro-insurance sector, it seems the NAICOM should be the only authority regulating the provision of insurance by means of technology-based delivery methods. The NAICOM should focus on ensuring insurance companies are sustainable and customers are adequately protected.

Although there may be implications associated with the use of certain technologies, this should be addressed through general regulations on the matter and not receive special attention from the NCC. The same needs to be said about financial transactions that do not involve a form of banking or financial activity that needs to be regulated by the Central Bank. The NCC and the Central Bank must focus exclusively on ensuring that the provision of communications services and financial services, respectively, adjusts to the relevant regulations.

Therefore, the Nigerian Government must work to clarify the regulatory space, identifying the NAICOM as the sole enforcer of insurance-related regulations. The NAICOM should also look into whether the existing regulation applied on insurance needs to be updated to consider these new forms of delivery as well as expand the opportunity for partnerships between the banking and the insurance institutions. In addition, regulation for microinsurance should look to make it simpler for insurance companies to expand to microinsurance with the creation of a dedicated department rather than a separate vehicle that would amount to double fixed and running costs, hence inefficiencies.

The UK, on the other hand, can support the Nigerian Government to facilitate policy discussion and design. This support can go further than financial considerations by tapping into the expertise the UK has in regulating and developing the world's most important insurance sector. This could take multiple forms, including the secondment of UK officials in the NAICOM, the placement of Nigerian officials in the Prudential Regulatory Authority and the Financial Conduct Authority and the provision of technical assistance. Moreover, the UK can support the transfer of expertise that regulators in Ghana or Kenya developed with the development of their respective micro-insurance sectors.

Professional and business services

Whilst it is possible to establish agreements that facilitate the mutual recognition of degrees and other qualifications, professionals of both countries will still need to comply with the requirements that the respective professional organisation have for its members. This constitutes a limitation to the provision of certain services under mode 4.

Provision under mode 1 is less restrictive and both countries should work together to facilitate that professionals can provide their services. This implies the acquisition of certain qualifications and/or recognition of degrees. In the legal services, the UK can work with the Solicitors Regulation Authority to facilitate that more Nigerian lawyers can benefit from the Qualified Lawyers Transfer Scheme[56]. Similar initiatives can be considered for other professions.

Partnerships between British (Solicitors Regulation Authority and the Law Society of Scotland) and Nigerian (Nigerian Bar Association) associations should be encouraged to facilitate even further the recognition of degrees and qualifications of professionals in both countries.

E-Commerce

Whilst it is possible to encourage the development of an e-commerce platform to trade goods between both countries, there are underlaying structural issues that will restrict this form of trade. There are more opportunities in developing platforms for the provision of services between both countries.

Both Governments should work together and approach main e-commerce websites to explore the possibility of developing a platform that facilitate the connections between customers and providers in both countries. This platform is, by no means, a substitute for the acquisition of the respective professional qualifications in both countries.

[56] The Law Society of Scotland constitutes the equivalent organisation in Scotland.

Special attention should be placed to how personal and commercial data are handled. This is key as it constitutes the basis for the success of this initiatives. The UK could support the provision of technical assistance to facilitate the adoption of minimum data protection standards in Nigeria.

6.7 Export finance

The availability of funding to export has also being revealed a major issue affecting bilateral trade. Once exporters have found customers and are in position of meeting any regulatory requirement and/or overcome any trade barrier, export operations failed because lack of credit to fund working capital or to offer credit facilities to customers.

The magnitude of the importance of the lack of export finance is hard to appreciate because it is frequently a non-binding constraint as other barriers prevent the export operation. Therefore, it is hard to measure the magnitude of the barrier and the consequential impact of addressing the barrier.

Nevertheless, information collected the interviews with exporters and other stakeholders suggests that facilitating the application and the provision of export funding will generate important wins for both British and Nigerian exporters.

In contrast to other issues that affect British and Nigerian exporters with different severity, the lack of adequate funding instruments to export is a problem that affect both countries. Although there are different reasons behind this lack of funding, the effect tends to be similar.

6.7.1 Funding availability on Nigeria

Many exporters have mentioned serious problems in obtaining funding to export in Nigeria. They find the available instruments insufficient, expensive and inadequate. Consequently, exporters tend to rely in their own available funds to finance their export operations to the UK.

Nigerian Export-Import Bank (NEXIM)[57] constitutes the main body providing trade finance for Nigerian exporters. NEXIM provides a wide range of products including direct lending facilities, guarantees, rediscounting facilities, credit insurance, facilities to import inputs and machinery and funding for working capital.

Whilst the offer of instruments seems adequate, with dedicated products to non-oil exporters, many exporters have complained about high financial and administrative costs as well as long processing times.

On one side, exporters have complained about processing fees per application. There is a non-refundable N50,000 per application. Many exporters lose this fee as their application is either rejected or, given that the application times are long, the commercial opportunity is missed.

On the other side, exporters mentioned very demanding requirements in terms of paperwork (e.g. audited accounts). Whilst these are standard procedures to apply for loans in Nigeria and elsewhere, many of the exporters do not have adequate accounting facilities. This limits substantially the demand to just the large companies or the best performers.

[57] https://www.neximbank.com.ng/about-nexim/

Commercial banks also offer funding; however, their use is rare. Exporters highlighted the extremely high interest rates (26% versus 7% of a NEXIM loan) that makes export operations uncompetitive. Moreover, banks require high collaterals (more than 120% of the loan) that are unavailable to many exporters.

The reduced funding available to Nigerian exporters shrinks the pool of exporting firms to the UK and elsewhere. The lack of funding constitutes another factor that explains not only the reduced volume of exports to the UK but the poor trade performance in general. Basically, being an exporter is very expensive and complicated in Nigeria. Only large firms are in position of obtaining funding and small firms rely on their own funds or other non-banking loans (e.g. diaspora lending).

6.7.2 Funding availability in the UK

Availability of export finance constitutes a major success factor when exporting. Many successful firms in the domestic market fail to export because they cannot find adequate funding. Certain risks associated to the export activity either reduces the availability of credit or increase its costs.

Moral hazard and opportunistic behaviour on the buying part constitute the main risk associated with exporting. Enforcing payment of deliveries, for example, is particularly difficult in the destination country. This risk is reduced as trust and long-term relationships are built, but it is high at the beginning. Moreover, credit available for the purchasing party is much more limited in certain countries and often restricted when import operations are involved.

The financial sector in the UK is a global leader. Exporters, normally, find adequate funding through the private banking, equity or own resources. Large companies are in position of funding their operation with many of these instruments.

However, for SMEs, the funding channels are substantially less. They cannot fund operations with their own resources and they cannot issue equity very easily. Therefore, they rely entirely on the banking system. Given that export is seen as a risky activity and that contract enforcement in Nigeria is weak, exporters from SMEs find extremely difficult to fund their operations.

To overcome these issues, the UK provides finance to exporters through UK Export Finance (UKEF). This facility includes a series of funding instruments to increase the availability of credit to exporters. This support is primarily aimed to reduce the risk of exposure of commercial lenders. UKEF provides no direct funding to exporters.

Much of the support is provided through credit guarantees[58]. In this way, UKEF extents a guarantee that the export can use to support its application for funding in a commercial lender. This export insurance covers 95% of the risk and it is activated once the buyer has not paid within six months.

In addition, UKEF provides guarantees to fund working capital aimed to produce to export. In the same way as the export insurance, this instruments only facilitates the application for funding in commercial lenders.

Moreover, UKEF also provides credit enhancement guarantees for commercial banks in importing countries to support borrowers to import products. The product

[58] https://www.gov.uk/government/collections/uk-export-finance-products-and-services

to be imported must have at least a 20% of British content to qualify for the facility. This requirement is the lowest among OECD countries. This facility is available in Naira, which reduces risk for the commercial bank and the borrower.

Based on Nigerian credit and the diversification of the lending portfolio, total exposure of UKEF in Nigeria (e.g. Market risk appetite) is limited to £1 to £2 billion. Nigeria, after China and India, is the country with the highest exposure. Nevertheless, penetration in Nigeria is very low. There are only operations for £25 million, 3% of the total exposure. This suggest that most of the funding available for either British exporters or Nigerian importers is largely unused.

This can be the result of multiple issues. As we mentioned, credit funding may not be a binding constraint as other barriers affect first to exporters and Nigerian importers. Therefore, there is low demand on the exporting side. Unfortunately, we do not have information about the value and the number of applicants. We only have information about effective loans and operations.

A second factor also experienced by banks in Nigeria and affecting particularly Nigerian importers is the low quality of the applications for loans. Lack of adequate basic “paperwork” such as audited business accounts and other basic information to process even standard loan applications, constitute a serious issue. However, this does seem to apply exclusively to Nigerian importers seeking funding from commercial banks in Nigeria.

The final factor may be attributed to lack of adequate instruments in the offer of funding. Whilst UKEF seems to have covered more than adequately the provision of guarantees of different nature, there seems to be a more reduced and inadequate supply of direct lending to exporters and importers. For example, direct lending is only available for operations of more than £5 million. There are not many SMEs in the UK or Nigeria that can perform operations greater.

In addition, until last year, UKEF did not offer guarantees in Naira. This reduced notably the interest from borrowers considering the high depreciation risks associated with taking loans in other currency. The availability of instruments in Naira may increase the demand for loans. However, it is expected that interest rates associated with these Naira-denominated instruments will be higher as they will include the depreciation expectation. Consequently, it is unlikely a major increase in the demand of loans associated with it.

6.7.3 Areas of work and cooperation

There are clear concrete actions to improve the performance of NEXIM in supplying funding for Nigerian exporters. An immediate action to take should be the elimination of the application fee currently applied, especially when applications may take very long. Although it is unlikely that this fee may constitute a deterrence to export, it adds to the already high costs to trade that exporters face.

A second area to work is in relation to the application times. Official processing times[59] suggest that short-term facilities take between 30-40 days to process. This needs to be added to the time that it takes to transport goods and clear customs in Nigeria. These very long times make that export opportunities are missed because the lack of certainty about the availably of funding. Consequently, NEXIM should work towards reducing the processing times of applications, eliminating duplications in the presentation of documents (e.g. same documents must be

[59] https://www.neximbank.com.ng/fees-charges/

presented to the NEXIM and the commercial bank) for the same operation and expediting the process.

A long-term action should be aimed to facilitate the application process for Nigerian firms. On the one side, in line with the previous paragraph, it is necessary to streamline the application process. This could imply forfeiting the requiring of audited accounts for small companies[60] or replace it by another type of documentation (e.g. bank statements). On the other side, Nigeria may need to work to improve the accounting and reporting practices by its medium size firms that, in virtue of their operations, must have audited accounts. This will require working together with institutions such as the Association of National Accountants of Nigeria and the Institute of Chartered Accountants of Nigeria.

The recurrent increases in the risk appetite by UKEF for Nigeria are doing nothing to improve the availability of finance to export from the UK. Most of the available lending remains unused. Instead, more efforts should be placed in increasing the use of the existing instruments by British exporters and Nigerian importers.

Whilst UKEF has many instruments available to provide guarantees to commercial banks, so far, they seem to be insufficient in providing adequate funding for British exporters and Nigerian importers. Even when guarantees are provided to commercial banks, they have not been enough to generate an increase in the number of credits granted. Increasing the availability of direct lending instruments may constitute an adequate action. For example, reducing the threshold for first export operations may help British exporters to create business and commercial longstanding relationships in Nigeria. This will benefit SMEs aiming to expand and diversify their operations by exporting. Large companies, on the other hand, they are in better position to fund export operations.

Moreover, it is vital to increase UKEF's physical presence and dedication in Nigeria. The lack of exclusive dedication to Nigeria may also explain the low use of export funding from the UK. Dedicated staff and resources can provide a better assessment of funding applications in virtue of a better knowledge of risks and opportunities in Nigeria. It will also mean a strong signal of the commitment to increase trade between Nigerian and the UK.

6.8 Investment specific aspects

As we have seen, except for in the oil and gas sector, UK investment in Nigeria is very limited. The difficult business climate, corruption and other high costs challenge investment. Nevertheless, among many of the interviewees, there was a clear perception of the opportunities that Nigeria presents. In this sense, UK investments have a very long-term view and tend to be quite insensitive to the day-to-day instabilities that Nigeria has.

However, while large investors can build in provisions for these unavoidable higher costs and risks, investment by UK SMEs are very rare. Only those SMEs whose staff have a very good knowledge of Nigeria (e.g. the diaspora) manage to navigate and succeed in Nigeria. In fact, there is a very diverse panorama in terms of investment by UK–Nigerian investors in the country.[61] Later in this report we

[60] In the UK, private limited companies with a turnover of less than £10.2 million and less than 50 employees are exempted from audit.

[61] A UK–Nigerian investor is building a racetrack in Nigeria with the aim of providing a safe place for car owners in Nigeria to race their vehicles.

will expand the investment and trade opportunities that the British-Nigerian community presents.

6.8.1 Investment protection

The 1990 Nigeria–UK Agreement for the Promotion and Protection of Investments Bilateral protects investments between Nigeria and the UK. This agreement provides *de jure* protection for investment as well as defining a series of related provisions.

In addition to defining and limiting the investments covered, the agreement describes the circumstances under which national treatment and the MFN clause apply. National treatment is granted post-establishment and means that UK investments cannot be treated differently to national investments. This includes any restitution, indemnification or compensation because of a national emergency, revolt, armed conflict, insurrection, etc. The MFN clause, on the other hand, means partners can extend more beneficial treatment to investments from third countries only in cases of economic integration agreements.

The agreement includes both state–state dispute settlement (SSDS) and investor–state dispute settlement (ISDS). In both cases, both countries consent to submit to the World Bank's International Centre for the Settlement of Investment Disputes any legal dispute arising between the states or nationals or companies of each country. The agreement also limits the situations under which expropriation is allowed to those for a public purpose on a non-discriminatory basis and against prompt, adequate and effective compensation. Finally, the agreement indicates that transfers of currency shall be made effected without delay in the convertible currency in which the capital was originally invested or in any other convertible currency agreed. As such, the agreement is typical of those negotiated between many countries during the 1990s, providing a good level of *de jure* protection for both States and individual investors.

There is much controversy about the effects BITs have on FDI. On the one hand, Neumayer and Spess (2005) claim that BITs increase FDI to developing countries. However, they are not a good substitute for good domestic institutional quality. On the other hand, Tobin and Rose-Ackerman (2011) and Salacuse and Sullivan (2005) find BITs are, in most of cases, ineffective in bringing more investment.

The success or not of a BIT in terms of increasing FDI seems to be related to what other provisions there are to incentivise investment and how easy it is for an investor to use the mechanisms should a dispute arise. This latter may be straightforward but there may be conditions that prevent investors from making use of these provisions. A company might not make the use of the ISDS provisions if it considers that this decision will affect current and future business in the country. However, in this case, the dampening effect on investment is more related to a business climate measure (e.g. retaliation for being taken to dispute settlement) and not because of a failure of the BIT.

However, old BITs like the Nigeria–UK BIT do not include provisions that facilitate investment. Investment facilitation and promotion are increasingly included as part of such agreements. By binding bilaterally measures of investment facilitation, countries can adopt some institutional and regulatory reform to facilitate the arrival of investment. In this sense, it may be possible to introduce in the new BIT some cooperation elements to improve investment facilitation and promotion between both countries.

New BITs also include provisions on sustainable development, environment, labour standards, transparency and other relevant aspects. This is done with two aims. First, these provisions are introduced with the aim of using investment to deliver on other economic and social outcomes. Second, they are introduced to prevent the undermining of related regulations with the aim of providing a competitive edge to national investors.

More important, new BITs consider the right of governments to regulate economic activities with the aim of delivering on policy outcomes. This is critical as it reduces the scope of the use of ISDS and SSDS in cases where investors are affected by non-discriminatory measures. The Phillip Morris–Uruguay case about whether smoking advertisement regulations affected investment rights under the Uruguay–Switzerland BIT is a very well-known example.[62] Although in this case, international courts recognised the Uruguayan right to regulate, it shows the risks associated and the inefficiencies associated with unrestricted ISDS and SSDS.

Both Nigeria and the UK have recently been negotiating BITs that include these modern provisions. The 2010 UK–Colombia BIT includes many of these elements. The EU also has been negotiating, on behalf of the UK, FTAs and BITs that include these types of provisions. The Economic Partnership Agreements include many of these provisions.

On the other hand, Nigeria also has been negotiating agreements with many of these provisions. The 2016 Morocco–Nigeria BIT is an example of a very modern agreement, including critical provisions on transparency, corruption and the prevention of lowering standards.

Nigeria has also been extremely active in multilateral negotiations towards an agreement on investment facilitation.[63] Together with Brazil and other developing countries, it is leading the movement towards reaching an agreement in this regard.

The fact that both countries are moving towards adopting more comprehensive BITs points to an opportunity to renegotiate a new BIT. This agreement should include the provisions on investment facilitation, transparency, corruption, environment, labour standards and corporate social responsibility that are included in, for example, the Morocco–Nigeria BIT.

The fact that the current BIT includes SSDS and ISDS may facilitate discussions. In any case, these provisions should be eliminated. Even when it is unclear whether they increase investment, they may be acting as necessary conditions for future investment. The action of these provisions must be limited by recognising the right both countries have to regulate their policy space. The space investors must challenge decisions taken by both governments to address public purposes objectives needs to be limited.

[62] https://www.iisd.org/itn/2018/10/18/philip-morris-v-uruguay/

[63] https://www.ictsd.org/sites/default/files/research/crafting_a_framework_on_investment_facilitation-ictsd-policy_brief.pdf

Table 26 Investment provisions in selected BITs

	UK–Nigeria 1990	Brazil–Chile 2015	UK–Colombia 2010	EU–Ukraine 2014	Nigeria–Morocco 2016
Preamble					
Reference to right to regulate	No	Yes	No	No	Yes
Reference to sustainable development	No	Yes	No	Yes	Yes
Reference to social investment aspects	No	Yes	No	Yes	Yes
Reference to environmental aspects	No	No	No	Yes	Yes
Scope of the treaty					
Excludes taxation	No	Yes	Yes	No	No
Excludes subsidies, grants	No	Yes	No	Yes	No
Excludes government procurement	No	No	No	Yes	No
National treatment	Post-establishment	Post-establishment	Post-establishment	Pre- and post-establishment	Post-establishment
MFN clause	Post-establishment (limitations for economic integration agreements, taxation treaties)	Post-establishment (limitations for economic integration agreements)	Post-establishment (limitations for economic integration agreements, taxation treaties)	Pre- and post-establishment (exceptions for taxation agreements)	Post-establishment (limitations for economic integration agreements, taxation treaties)
Transfer of funds provisions	Yes	Yes	Yes	Yes	Yes
Other clauses					
Transparency	No	Yes	Yes	Yes	Yes
Health and environment	No	Yes	Yes	Yes	Yes
Labour standards	No	Yes	No	Yes	Yes
Right to regulate	No	Yes	Yes	Yes	Yes
Corporate social responsibility	No	Yes	No	Yes	Yes
Corruption	No	Yes	No	Yes	Yes
Not lowering standards	No	Yes	No	Yes	Yes
Subrogation clause	No	No	Yes	No	Yes
Investment promotion	No	Yes	No	Yes	Yes
SSDS	Yes	Yes	Yes	Yes	Yes
ISDS	Yes	No	Yes	No	Yes
Mechanism for consultation between state parties	No	No	No	Yes	No

Source: UNCTAD's International Investment Agreement database

6.8.2 Creating investment opportunities

The complicated business climate, security risks, costly services, corruption and other issues make investment for UK SMEs in Nigeria very complicated. They do not have the financial backing that the big companies have to make provision for many eventualities in their business plans. Moreover, regulations and lack of development of certain markets difficult the investments made by institutional investors, such as investment funds.

It is worth noting that high investment costs apply also to domestic investors. Even when they have the advantage of being capable of navigating many of these complications, investment is still a very challenging field for small Nigerian investors.

In addition to reducing investment costs, it is of paramount importance to develop opportunities for many different types of investors. Strengthening capital markets in Nigeria will help develop more investable securities for local and foreign institutional investors (e.g. investment funds). Some investment fund managers and UK investors pointed to the lack of listed securities and other financial instruments in Nigeria. This closes a very important window for funding for local companies.

There are two areas in particular that could be developed to enhance capital markets in Nigeria. On the one side, dual listing in the London Stock Exchange and in the Nigeria Stock Exchange could boost investment capital for some large public Nigerian companies. On the other side, the develop of more Naira-denominated instruments could increase the appetite for Nigerian investors seeking investments without foreign exchange risk.

However, even when markets could be developed and opportunities created, there are still many underlying complications. Investors highlighted the difficulties associated with the operation of foreign exchange and the need to use local intermediaries. These higher trading costs mean that only certain investments, with very high returns, are potentially investable. The lack of listed securities and complications in the foreign exchange operations reinforce each other to dampen portfolio investment.

All this means that, although UK investors look to Nigeria for high-return opportunities with the aim of raising the profitability of their portfolios, Nigeria is not in a position to supply them. This is a major missed opportunity for Nigeria to find funding for projects in its non-oil sectors.

There are other investors that, by virtue of their size or knowledge, cannot make direct large investments and/or invest through capital markets. These are typical small investors that would like to take advantage of the growth prospects of Nigeria and the expansion of its middle class.

In many countries, these investors find an interesting opportunity through franchises. These allow small investors to use a renowned brand, developed business models and other key features in their investment. Although returns tend to be low, these investments contribute to the development of backward linkages (e.g. the development of local suppliers). In some case, they can also contribute to the development of forward linkages (e.g. standardised services for companies).

Compared with other countries (e.g. South Africa), international franchises are extremely underdeveloped in Nigeria. This is notable considering the size of the consumer base and the potential growth of its middle class.[64] This has not been an impediment to the development of some local franchises. However, while this may be a good vehicle to channel domestic investment, it may not be appropriate for small foreign investors. These investors do not know these brands, which prevents them from investing.

On the other hand, many UK–Nigerians would like to bring into Nigeria some of the services and products available in the UK. This has two key features. First, UK–Nigerians find it easier to invest in Nigeria than do other UK investors. Second, UK products and services are widely recognised in Nigeria for their quality.

It is interesting that this conjunction of factors has not led to the arrival of UK brands in Nigeria. The lack of an adequate franchise law in Nigeria is a major impediment here.[65] Although a law has been drafted, it remains in the Nigerian Congress for a second reading.[66]

It is important not to underestimate the role of Nigeria as a foreign investor. Nigerian firms and conglomerates like Dangote are increasingly becoming major regional and continental investors. Even in the area of e-commerce, companies like Jumia have opened sites and facilities in other African countries.

These investments, rather than divert resources from being employed in Nigeria, constitute a healthy attempt to diversify and reduce risks. These efforts help to reduce the macroeconomic risk associated with the fluctuation of commodity prices and the economic cycle.

In this sense, investing in the UK will help to reduce the risk that many Nigerian investors face. Investment in the UK is extremely safe and helps to offset the inherent volatility of Nigerian and other African investments. Moreover, the uncorrelation between the Nigerian/African and British economic cycle provide an excellent opportunity for hedging.

The reduction of risks seems to be main reason for the investment in stocks of Nigerian products in the UK. Many British-Nigerians accumulate Nigerian products in the UK with the aim to reducing the complications and risk associated with bringing products from the UK. Consequently, UK and world demand can be supplied from these facilities.

The same principle could be considered for other investments made in the UK to supply companies in Nigeria with good services and products or to address some of the constraints that Nigerian companies face. For example, promoting the operation of websites in the UK that facilitate the operation selling of Nigerian products initially for the British-Nigerian community but with the aim of expanding to the rest of the UK market.

6.8.3 Areas of work and cooperation

A new bilateral investment treaty

As mentioned before, there is momentum in both the UK and Nigeria to update the existing BIT. The EU is in the process of negotiating many modern provisions in

[64] https://www.export.gov/article?id=Nigeria-Franchising
[65] https://www.pdfnigeria.org/wp-content/uploads/2017/02/Franchising-Nigeria-Final-Version.pdf
[66] https://www.dailytrust.com.ng/franchising-nigeria-fails-to-tap-into-n721trn-revenue.html

investment treaties as part of its modernisation of FTAs. The task of including these provisions in BITs will after Brexit be the exclusive responsibility of the UK.

Nigeria, on the other hand, has been very active in pushing at the multilateral level for the negotiation of an investment facilitation agreement. The UK has been very supportive of this move. Both countries can make this support stronger by negotiating a new BIT that includes provisions on investment facilitation that could serve as a model for the multilateral and bilateral negotiations.

The new BIT should maintain existing levels of investor and investment protection through SSDS and ISDS. However, it should also guarantee respect of the right to regulate that any state has in fulfilling its obligations to its citizens. This should prevent investors using these provisions to challenge democratic and legal decisions taken by the host country.

It should also include provisions that guarantee the protection of the environment and health as well as fostering sustainable development and other social outcomes. The new BIT should not lower labour, environment and health standards.

The new BIT should recognise the asymmetry in resources and capabilities of the UK and Nigeria and allow for some flexibility in the MFN clause, limiting its action to post-investment. This should facilitate the negotiation of investment treaties as part of the African Continental Free Trade Agreement without the need to extend benefits granted to African Union members to the UK. This flexibility should not exist when the BIT is negotiated with other developed or emerging economies.

Opening channels for all kinds of investors
The UK can support Nigeria in designing the regulatory framework to deepen the Nigerian capital market. As in the case of insurance, the UK has unmatched expertise in regulating and developing capital markets. Moreover, the UK can work with authorities in the London Stock Exchange (LSE) to transfer expertise in running the capital market.

This can be implemented through technical assistance and support to the placement of Nigerian officials from the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission. Support could be given to a partnership between the NSE and the LSE with the aim of boosting cooperation and the listing of companies on both exchanges. These efforts should be oriented to increase the number of securities available for investors in Nigeria.

Moreover, Nigeria could expedite the legislative passage of the franchise law ; and the UK can provide technical assistance to the implementation of such franchise law and related instruments. The instruments, related to fostering the participation of small UK investors, can be supplemented with efforts associated with providing financial guarantees for investors wishing to invest in Nigeria.

UK-Africa Investment Summit

The UK's Prime Minister announced in her visit to Africa in 2018, the organisation of an UK-Africa Investment Summit to boost bilateral investment. This summit will be held on 20 January 2020 in London. The Nigerian Government and the UK Mission in Nigeria could work together to maximise the opportunities to boost investment transactions in the run up to the summit. The UK-Africa Investment Summit provides a key political and concrete opportunities to enhance bilateral business.

On the political side, Nigeria could work to secure a cross-party declaration that states the commitment to work towards deeper business climate reforms. The UK-Africa Investment Summit could be used to present the declaration, which should have the support of the main political parties.

The Nigerian Government and the UK Mission can work together to organise a major side event to the summit with the aim of creating business links between Nigerian and British investors. This event, rather than being a social occasion, should be conceived with the aim of generating a series of initial connections that officials from both the Nigerian and the BHC should follow and support. In particular, they should enquire about what specific barriers or constraints may affect the business deal with the aim of providing tailored solutions.

Boosting Nigerian investment in the UK

As it was highlighted before, investing in the UK should not be seeing as a diverting investment strategy but as a complementary to promoting investment in Nigeria. Investment in the UK can provide with hedging opportunities to Nigerian investors. This contributes to reducing risk and the volatility of the Nigerian economic cycle. Consequently, both governments should be involved in finding the best investment strategies that facilitate this mechanism.

Both governments can work together to facilitate the creation of internet marketplaces in the UK to commercialise Nigerian products. This will involve the creation of stocks in the UK of Nigerian products and the potential development of warehousing facilitates.

However, it is likely that the British-Nigerian community will play a key role in facilitating these types of investments. In the next section we discuss in more detail how the British-Nigerian diaspora can contribute to increase bilateral investment

Business Environment Reform

Any of the actions highlighted above will be inefficient in boosting bilateral investment as long as there are not concrete actions in relation to improving the business environment in Nigeria.

A business climate reform should involve a series of actions and commitments that provide certain legal and institutional stability and a wide tax and regulatory reform. More importantly, there is a need to establish firm actions to combat corruption at all levels.

Whilst laws and regulation can change, any modification must be adequately consulted with all the affected parties with the aim of create awareness of a change as well as giving space to suggest modifications.

At the same time, it is necessary to undertake a deep reform of the tax system aiming to avoid double and/or cascade taxation. Moreover, firms must be given the opportunity to an effectively and fair challenge any decision made by the tax offices at all jurisdictions.

Whilst addressing these issues requires a significant commitment involving all political parties and all levels of government, it is the Nigerian Government that must take the necessary political decision to start the reform process. The Nigerian Government must convene the political forces in Nigeria to agree on a series of principles that will be unchallenged by the opposition and any of the levels of Government.

The UK must support any genuine and conductive process with political support and funding support in terms of technical assistance for any of these reforms. Moreover, the UK should also aim to engage other donor countries that may be interested in providing further support for such a reform.

The UK can also support the modification of specific areas. For example, as mentioned, the UK could support the regulatory and the institutional reform of the insurance regulation in Nigeria.

6.9 The British-Nigerian community

The large[67] and entrepreneurial British-Nigerian community in both the UK and Nigeria constitutes a major component and asset that cement the investment and trade relationship between both countries. The importance of the British-Nigerian community in real and financial transactions between both countries is impossible to miss. In fact, remittances from the UK is the second source, after trade in oil, of foreign revenue from the UK in Nigeria.

It is important to highlight the bilateral dimension of this relationship. This relationship is not limited to the typical import of consumer goods by the Nigerian community residing in the UK and the transfer of remittances to relatives in Nigeria. In fact, there is a much more complex relationship that also involves British-Nigerian investors residing in the UK and investing in Nigeria and British-Nigerian producers in Nigeria with businesses in the UK.

Despite this asset, the British-Nigerian community has failed to be a decisive factor in contributing to the diversification of trade and investment between countries. Despite that some of the most important non-oil exports from Nigeria to the UK are related to the consumption of the British-Nigerian community (e.g. Nigerian beer is among the top 10 exported products to the UK), the differential effect on the bilateral trade of the British-Nigerian community fails to materialise in more flows.

Many of the British-Nigerians in the UK indicated the difficulties in importing from Nigeria into the UK. The reasons are the same expressed by other exporters and importers and discussed extensively above. In this sense, British-Nigerians would have little or no advantage with respect to other importers in dealing with the trade issues that affect Nigeria. Only the quality of the Nigerian products that may discourage other consumers is not an issue for British-Nigerians that exhibit biased-consumer patterns towards Nigerian products.

As barriers to export from the UK are substantially lower and logistics facilitates substantially better, many British-Nigerian maintain stocks of Nigerian products in the UK to either supply the UK market or to export to other countries. This applies primarily to storable and non-perishable products. This constitutes a service export provided by the UK that is frequently unrecorded as such as the recipient is frequently a UK-based company.

Special attention required the services sector. The similarities of the legal system and accountancy practices facilitate the operation of British-Nigerian lawyers and accountants in both the UK and Nigeria. This constitutes an extremely important and key service available for many firms operating in both countries.

Whilst the UK is a key exporter to Nigeria of media, cultural and recreative services, there are extremely important Nigerian cultural exports to the UK in the

[67] There are 205 thousand Nigerian-born residents in the UK (ONS).

form of music, cinema, television and other arts. These services are exported through typical cross-border provision (e.g. Nigerian TV channels are available in the UK) and through movement of natural persons in the form of performers in the UK. Whilst this form of trade is limited to the British-Nigerian community, the capabilities that Nigeria shows to produce content and the provision of filming and recording services constitute an important export opportunity in the form of outsourcing by British firms.

In terms of investments, it is recognised that British-Nigerians have advantages with respect to other British investors when investing in Nigeria. This is because they have superior knowledge of the difficult business environment as well as higher "animal spirits" to invest in Nigeria. Moreover, as they maintain business networks in Nigeria, it is easier for to find business partners in the country. However, by no means this constitute an advantage with respect to the domestic investors in Nigeria that are also affected by the poor business climate and regulatory framework.

Based on these minor advantages, some British-Nigerian SMEs manage to make investments in a wide range of non-oil sectors, including agriculture and services. In other instances, British-Nigerians have facilitated or have been the factor for investments made by other Nigerians in a wide range of sectors.

Nevertheless, as mentioned, remittances provided an important source of income for Nigeria. Table 28 presents the main sources of remittances in Nigeria in 2017. Remittances from the UK accounted for more than US$ 4 billion in 2017 (18.8% of total), the second source after the US. Only exports of oil to the UK is more important than the remittances received. Remittances from the UK represents more than 1% of the Nigerian GDP.

Nigeria is the top destination of UK remittances ahead of India and Pakistan. More importantly, relative to the resident population in the UK, Nigerians remit substantially more than others. This indicates a particularly intensive flow of funds transferred.

Table 28. Remittances received by Nigeria in 2017

	In Millions of USD	**% of total**
United States	6,191	28.2
United Kingdom	4,119	18.8
Cameroon	2,510	11.4
Italy	1,047	4.8
Ghana	874	4.0
Rest of the World	7,227	32.9
Total remittances	21,967	

Source: World Bank's Bilateral Remittances Matrix

Remittances provide an extremely valuable and frequently main source of income for some households in Nigeria, helping them to increase their consumption and/or make investments (mainly in housing). As there is a substantial share of these remittances that are channelled through informal instruments, there is little tax revenue generated by the Nigerian Government and it is not channelled through the financial system, limiting the lending capability. Therefore, although a very important source of revenue for households, the remittances income is either not channelled appropriately to economic investment and/or contribute to the provision of public goods.

However, it is important to highlight that taking care of those left behind is not the only motivation to remit. Transfers to build and repair property owned, make investments, built savings and other non-altruistic motives are also important motivations when Nigerians remit. Fonta el al (2015) found that 39% of remittances are made to deal with these non-altruistic reasons.

The potential advantages of the British-Nigerian community in boosting bilateral trade and investment are limited. Whilst recently arrived Nigerians or are of the first generation of British-Nigerians may show particular interest in consuming Nigerian products and services, this taste tends to fall among those in the second or third generations. Moreover, whilst British-Nigerians with strong attachments are more willing to invest in Nigeria following some nationalistic and altruist goals, second or third-generation British-Nigerians tend to be less enthusiastic about investing in the country of their parents. In this sense, they tend to behave not substantially different than other British investors.

6.9.1 Areas of work and cooperation

There are several areas where both governments can work independently and together. There are mutual benefits to extract from a closer cooperation in taking advantage of the major asset that represent the British-Nigerian community. Although some of this cooperation occurs naturally, a more structured and organised cooperation can help to boost and maximise the benefits.

Exchange Rate Instruments for Remittances

On the Nigerian side, the restrictions and requirements to receive financial transactions from the UK prevents untap the potential of the annual remittances received. British-Nigerians in the UK, that want to help their relatives in Nigeria, do not want to see the value of their remittances being minimised by differential exchange rates or other restrictions. Consequently, they use informal channels to avoid these costs. Given that they do not pass through the financial channels, these funds are not available to be lent.

Nigeria should relax the restrictions for the operation of foreign currency. Although this does not apply exclusively to remittances, the restrictions have the additional effect of reducing the effectiveness of the activities of the British-Nigerian community. Nigeria could introduce a special regime to be applied to remittances channelled through the financial system, allowing recipients to maximise the funds they can extract without paying fees and/or a disadvantageous exchange rate. Although many recipients will retire funds, some may be left in the financial system to be converted into loans.

Investment Instruments for Diaspora’s Remittances

However, the British-Nigerian community can contribute further to boost investment in Nigeria. Whilst they are already engaged in many activities in the country, there is a lack of simple instruments to make small investments or to be part of large investments. Franchising, discussed above, is a key instrument for small individual British-Nigerian investors.

Channel Diaspora’s Savings Productively

There is also the need to explore how the British-Nigerian savings in the UK can be used to boost investment in Nigeria. The development of UK-based investment instruments in Nigerian companies could attract British-Nigerian savers in the UK Being UK-based may increase the attractiveness to non-Nigerian investors.

Developing this type of instruments will require some joint efforts. On the one side, as we mentioned before, it is necessary to increase the number of listed securities in the Nigerian stock-exchange. The UK can support, through technical assistance and by helping in the creation of a partnership between the NSE and the LSE. The Nigerian government, on the other hand, must work harder and send signals for a strong contract and property protection.

On the other side, and before any other action, it is necessary to discuss with investment companies about their interests and feasibility to develop these instruments. Even when British-Nigerian may be interested in these instruments, a proper market analysis is needed to secure that there is a minimum volume to make the effort worthwhile.

Remittances

The possibility of channelling some of the remittances sent to Nigerian into investment instruments designed for British-Nigerians needs to be further studied. Assuming that remittances for altruistic reasons will remain unchanged, there is space to tap into the remittances made for other motives. At a maximum, this may mean nearly U$S 1.6billion of annual investments by British-Nigerians into the Nigeria. This assumes that all the remittances sent for non-altruistic reasons are channelled through these instruments.

Maximising the UK Africa Investment Summit

Finally, the upcoming UK Africa Investment Summit constitutes a major opportunity to create links within the British-Nigerian community in both countries and between UK and Nigerian business in general. However, it is also a major opportunity to create links between the British-Nigerian community operating in both countries and the rest of the UK businesses. The simultaneous presence in both the UK and Nigeria of many British-Nigerian firms can reduce some of the risk and costs associated with operating with Nigerian-based companies. An event to showcase the British-Nigerian companies, targeting UK-based companies (e.g. retailers) can help to create those links. Business travel and movement of natural persons

As it was mentioned in this report, trade costs and times are so high in Nigeria that makes the country virtually landlocked. This affects notably the structure of the export structure. At the same time, the growth of the Nigerian population in urban areas have modified the underlying factor endowments of the Nigerian economy. Gradually, Nigeria is gaining a strong comparative advantage in the provision of services. As mentioned, services are currently the second export to the UK after oil.

Whilst the provision of many services relies on low market access barriers, good communication infrastructure and/or a conductive regulatory framework in the destination economy, other services rely on natural persons be able to travel to UK to deliver their services.

Mode 4 (movement of natural persons) is the provision of services that involve the delivery of a service in a destination country by a natural person. It implies the temporary of suppliers to the destination country. Typically, cultural, entertaining, arts-related services are provided through mode 4 (e.g. music performers). Also, professional and personal services can be provided by individuals temporarily moving to the destination country to provide the service.

These services can be provided through other modes. However, rather than being substitutes, modes of provision tend to be complementary. For example, whilst Nigeria can export music through multiple platforms to the UK, live performance of the same music pieces requires being delivered under mode 4.

Enhanced Immigration Cooperation

Nigeria, as it was mentioned, presents enormous potential to increase trade in services to the UK in the typical services that can be provided on mode 4. However, the expansion of these services is frequently constrained by migration restrictions that difficult the temporary movement of service providers. Although these restrictions are general and applied with less or more emphasis by all countries; those applied by the UK, given the potential in boosting bilateral trade and contribute to the transformation of the Nigerian economy, have the most important effects.

In addition to the restrictions for the temporary movement of natural persons to deliver services, Nigerian businesses complain about the difficulties that their officials face in obtaining business visas to travel to the UK. This not only affect Nigerian business, but it can potentially also affect British business opportunities in Nigeria. Therefore, the restrictions applied by the UK on immigration affect trade in goods too by preventing some business deals from happening on both sides.

It is important to highlight that travel restrictions are also affecting employees from British companies to be deployed in Nigeria as well as business travellers to Nigeria. For example, it cost US$1000 dollars per year in Nigeria to obtain an expatriate residence permit[68]. However, recent reports suggest that this cost has risen to US$2000[69]. Whilst this cost is in general affordable for the large corporations, it may be a heavy burden for smaller firms wanting to bring key staff to from the UK.

The UK is particularly affected by extremely high visa costs applied to business travel. For example, a British citizen will have to pay US$2360 to obtain a multiple entry visa for 5 years. Citizens from the rest of the EU or from China would have to pay U$110 and US$64 for the same category.

Frequently, these differences in costs between countries are attributed to a reciprocal treatment. This means that Nigeria applies similar requirements and fees to the nationals of countries based on the requirements and fees imposed upon Nigerian citizens in those countries. Although this is a standard practice followed by many countries, it is interesting to know that the UK requires US$903 for a 5-year multi-entry visa. This is substantially less that what is required by Nigeria to UK citizens.

Despite the visa fees, it is extremely unlikely that they will have a significant investment deterrence effect even for medium size firms. It is unlikely that this cost will affect investment decisions and it is frequently overlooked when investment projects are analysed. It is simply a minor but annoying cost to deal with. It may be a more serious deterrence or problem for individuals aiming to provide service on a freelance basis.

[68] https://immigration.gov.ng/residence-permits/
[69] https://punchng.com/fg-hikes-cost-of-resident-permit-card-to-2000/

6.9.2 Areas of work and cooperation

In contrast to the MFN treatment in trade in goods or services, there is no such treatment with respect to immigration regulations. Countries can discriminate among citizens of different countries based on a wide range of criteria. In some cases, there are bilateral immigration agreements that harmonise immigration requirements. In other cases, countries impose unilateral immigration requirements to citizens of specific countries based on their own legislations.

This implies that there is space to achieve an agreement between Nigeria and the UK to harmonise but more importantly reduce, visa fees between both countries. It is recognised that reducing visa fees may have important financial implications (e.g. Visa fees generate revenues for the High Commissions); however, it may boost businesses and give a strong signal of cooperation to boost trade and investment between both countries.

Although harmonising and reducing visa fees is a short-term achievable goal, the opportunity to work to achieve a more comprehensible immigration agreement should not be missed. This agreement should aim to harmonise formal requirement for each type of visa. Both countries should work to establish mechanisms that facilitate the application for visas and increase the number of visas granted to genuine travellers.

7 Bilateral trade and investment opportunities

Based on the analysis made so far, this section aims to summarise the trade and investment opportunities available to both countries. Moreover, it aims also to summarise the actions to take as well as provide, whenever possible, some form of quantification of the effects.

7.1 Nigeria exports opportunities in goods

As discussed, despite a strong demand from the UK, the are several products that, although being exported to other OECD countries, Nigeria is not currently the UK. Table 5 and Table 6 present the analysis. These products include cocoa beans, sesamum seeds, rubber, lead and fertilisers. In these products demand from the UK is strong and Nigeria has a comparative advantage.

As discussed when we make the analysis on tariffs, it is unlikely that an improvement in the market access available to Nigerian exporters in the UK will have substantial impact. This because tariffs applied by the UK on Nigeria exports are generally zero due to a combination of MFN and GSP preferences.

Addressing many of the supply-side constraints in Nigeria what is likely that it will generate most of the effects. During the report we presented a series of estimations and calculations about the effects of removal some specific barriers and constraints. However, it was not possible to link the removal of these barriers with specific products with the aim of providing a general assessment of how they impact on the bilateral trade.

We present in Table 29 a calculation of how much may impact in the exports to the UK the removal of most of the barriers considered. We assume that the removal of these barriers reduces exports prices to the UK by 1%. This is a very conservative scenario considering that in some products, the incidence of many of these barriers may represent more. This variation is multiplied by the UK's import demand elasticity for those products70. The result is applied to the UK import of those products. We limited the analysis for those products that Nigeria presents current export capability to countries of similar level of income/development. (I.e. it is currently exporting to other OECD countries).

In some cases, the increase in the import demand from the UK exceeds the current Nigerian export supply to other OECD countries. As this is a short-run type of

[70] World Bank – Overall Trade Restrictiveness Indices and Import Demand Elasticities. https://datacatalog.worldbank.org/dataset/overall-trade-restrictiveness-indices-and-import-demand-elasticities

exercise and to provide a more realistic assessment, we limited the impact to the value of the current Nigerian exports to other countries.

The analysis suggests that Nigeria could expand its exports to the UK by more than US$ 40 million, provided standards are met. This represents 8 times increase in the current exports to the UK of these products. This adjustment may be a combination of a generalised increase in the imports from the UK for this product and a substitution away from other sources. On the Nigerian side, it may be the result of an increase in production as well as the reduction of the exports to other destinations.

There are many factors that may reduce or increase these impacts. On one side, as many of these are horizontal barriers (e.g. affect most products into most destinations), it is likely that other products may start being exported in general and to the UK. Moreover, improvement in quality may make that some products currently not being exported to high-income countries may become attractive in the UK market. These considerations are likely to increase the impact.

On the other side, in the short run, the increase in exports and any substitution of origins may be much more limited. The increase in production may less likely in those products where the potential increase in exports to the UK is close to the current exports to other OECD countries. We address partially this case by limiting the expansion in products such as 711299. However, there are other products where the increase in exports to the UK is high with respect to the current export capacity.

Products	Total UK imports	UK imports from Nigeria	Nigeria exports to other OECD countries	Elasticity	Potential increase in exports
180100 Cocoa beans	160,500	-	498,134	1.3	2,087
120740 Sesamum seeds	21,200	-	285,120	1.8	377
740400 Copper; waste and scrap	99,900	632	122,065	1.1	1,069
760120 Aluminium; unwrought, alloys	166,600	105	80,850	0.6	1,050
030617 Crustaceans; frozen, shrimps and prawns	392,200	-	76,056	0.8	3,138
410530 Tanned or crusts skins	2,800	157	55,125	3.3	92
410622 Tanned or crust hides and skins	796	51	44,378	2.0	16
730890 Iron or steel; structures and parts thereof	662,800	-	40,262	1.3	8,616
400122 Rubber	48,500	1100	39,726	2.4	1,183
440290 Wood; charcoal of wood other than bamboo	45,900	1900	38,690	0.8	386

121190 Plants and parts	60,900	11	35,064	0.1	55
410621 Tanned or crust hides and skins	167,000	-	29,397	2.0	3,340
410510 Tanned or crust hides and skins	40	-	22,774	3.3	1
411310 Leather	2,400	-	16,570	2.5	61
262029 Slag, ash and residues	16	-	16,483	1.4	0
780110 Lead; unwrought, refined	34,500	-	16,227	1.0	345
711299 Waste and scrap of precious metals	705,100	487	13,761	8.7	13,761
310210 Fertilisers, mineral or chemical	279,000	-	10,656	1.6	4,352
780200 Lead; waste and scrap	9,300	-	10,633	1.0	93
121299 Vegetable products n.e.s.	7,100	-	10,362	0.1	6
091011 Ginger	29,200	437	10,179	0.6	187
180320 Cocoa paste	892	-	10,166	1.6	14
TOTAL	**2,896,644**	**4,880**	**1,482,678**		**40,230**

7.2 Nigerian export opportunities in services

Even when all the barriers highlighted are addressed, the quality of the existing transport and production infrastructure constitutes the main binding constraint in the expansion of trade. Despite many efforts to address these issues, they are unlikely to be addressed in the short or medium term.

In this sense, services present a clear opportunity to diversify away from the oil and gas sector. It is important to highlight that this opportunity is available not only due to the constraints in the transport of goods, but also because of comparative advantages of Nigeria.

On one side, Nigeria is expected to have around 265 million people by 2030. This is not only a potential huge increase in demand, but also in terms of working population, Nigeria will have at least 150 million of people between 15-64 years old. More relevant to the services sector, the urban population in that age range could be at least 90 million. This indicates that composition of population is inclining to increase comparative advantage in services even further.

Services are already the second export of Nigeria to the UK. In 2012, Nigeria exported more than US$600million (Figure 9), with commercial services accounting for more than 50%. Unfortunately, we do not have an updated and more disaggregated sectoral distribution of the bilateral trade, being the one in Table 30 the latest. The availability of data on services limited notably what can be done in terms of services analysis.

Moreover, it results complicated to make an assessment of the impact on services in virtue that most of the barriers affecting its trade are difficult to quantify and, in many cases, impossible directly.

Table 30. UK imports of services

	UK total imports 2015		Nigerian exports to UK 2012	
	(in million of USD)	% of total	in millions of USD)	% of total
Computer and information services	21,586	7.3	1	0.2
Construction services	2,540	0.9	82	11.9
Financial Services	20,784	7.0	6	0.9
Government services	5,757	1.9	4	0.6
Insurance services	409	0.1	7	1
Other business services	82,711	27.9	148	21.4
Personal, cultural, and recreational services	7,103	2.4	1	0.1
Royalties and licenses fees	17,832	6.0	1	0.2
Transportation	45,550	15.4	194	28.1
Travel	91,840	31.0	232	33.6
Total	296,112		676	

Source: Own elaboration based on OECD.

However, we have made some estimations of, for example, how the liberalisation of air services may impact on the demand for travel. It is estimated that demand will increase by 117%. Although, in the short run, this may benefit directly British carriers, it will have an additional effect in terms of the Nigerian exports of other travel-related services (e.g. hotel services). Based on the Nigerian exports to the UK in 2012 (latest information available), Nigerian exports of travel-related services may increase by US$ 39 million.

Business services constitute the second most important services imported by the UK and the third most important exported service by Nigeria to the UK. Nigeria presents remarkable opportunities in virtue of an increasing number of university graduates in law, accounting and engineering. Common law-systems, language, time zone and cultural links make these opportunities even bigger. Addressing the barriers highlighted associated to business travel (e.g. visas in the UK) as well as support Nigerian business services providers to showcase their offer in the UK could increase the exports. However, it is possible to say that if these reforms make the UK substitute away only 1% of what the UK imports from India (US$ 1845 million) in favour to Nigeria, the exports of business services could increase by US$18 million. This could mean an increase in exports to the UK of slightly more than 12%. A similar estimation suggests that Nigerian exports of computer and information services could expand by US$ 15 million, more than 10 times the value exported to the UK. Addressing the main infrastructure barriers (e.g. energy and communications) but also resolving the business environment barriers could expand substantially these effects. A more transparent business environment will boost the entrepreneurial forces of many young Nigerians and it could also expand UK outsourcing into Nigeria through a combination of investment and mode 1. In a scenario where – thanks to having addressed the main business environment barriers - Nigeria substitutes just 10% of business and computer services that the UK imports from India, Nigeria’s exports to Britain would increase by US$330 million. **This would make the export of services as high as the exports of the oil and gas sector to the UK**.

7.3 UK exports of goods to Nigeria

A growing economy and population suggest an ongoing expansion of Nigerian middle classes. This suggests a potential higher demand for many good quality British consumer goods in food, beverages and clothing. The expansion of the exports of these products to Nigeria is limited, as we have seen, by a series of barriers.

Tariffs are an important deterrent and factor making British goods particularly expensive. Tariffs in food, beverages and clothing are as high as 35%. Reducing by half these tariffs may increase UK exports on these products by as much as US$ 24 million. Exports of whisky, for example, could expand by 60%.

This trade could be further enhanced if additional measures are taking on the Nigerian side and on the UK side. On the Nigerian side, trade in these types of products is particularly expanded because of the franchisees in the destination countries. Therefore, the approval of the Franchise law in Nigeria not only will expand investment in Nigeria but it may increase exports of UK food, beverages, textiles and other products.

Addressing general trade and transport issues in Nigeria could have also a major export expansion effect in the UK. Based on the Nigeria import demand elasticity, a generalised reduction of the Nigerian trade and transport costs could increase UK exports across all products by US$26 million, an increase of 1.8%. In some products,

At the same time, the expansion of the support from UKEF to British exporters could help to re gain some of the market share lost to other competitors. In addition to continuing providing bank guarantees, there is a need of increasing the direct lending to exporters. As current low use of the UKEF appetite for risk indicates an inadequacy of the instruments and the funding needs.

In addition, these instruments should be increasingly available in Naira. This is something that UKEF has already acknowledged and some facilities are available in this currency. **If the UK exporters make use of just 50% of the appetite for risk allocated to Nigeria as a result of direct lending in Naira, British exports to Nigeria could expand by more than US$ 600 million**.

7.4 UK exports of services to Nigeria

Opportunities in the services sector for the UK to export to Nigeria an important. Not only because of the importance of the UK as supplier of services, but also because of a complementarity between the UK supply and the Nigerian demand. In this section, we exclude provision under mode 3, which will be treated in the following section. As usual, the lack of reliable data difficult notably the calculation of impacts in the services sector.

As discussed, there are some immediate opportunities to expand transport of cargo should the UK addresses the complications associated with the transfer of cargo originated in Nigerian airports at British airports. UK could triple the cargo currently transported, without increasing capacity, should flexibilities be introduced.

A liberalisation of frequencies between the UK and Nigeria could mean for British carriers an increase in exports of 117% of air transport in both passengers and cargo and a 30% fare reduction. This increase will be reduced should other Nigerian carriers start to serve frequencies between both countries. In addition, it is possible to assume that addressing the issue of the bilateral frequencies may also increase the exports of travel from the UK to Nigeria, generally delivered through mode 2.

An agreement between both countries that reduce the costs to apply for temporary work visas will benefit investors as well as many British individuals that need temporarily to provide services in Nigeria. It is possible to assume that most of the bilateral personal, cultural and recreational services are provided under mode 4. A large effect is unlikely in this case as the base is expected to be very low.

A major effect could be expected in the exports of business and professional services under mode 4. However, it is impossible to estimate how an agreement on visa fees may affect it as there is no information about exports of these services under mode 4.

7.5 UK investment in Nigeria

Much of the opportunities in the export of services in the short run to Nigeria from the UK involve the provision under mode 3, which needs investment. UK exports of financial, insurance, business and professional services are associated with the presence of British firms operating in Nigeria. The provision is not limited to this mode, but provision under other modes will require substantial reform in the regulatory and legal frameworks in Nigeria in addition of the improvement of much of the enabling infrastructure (e.g. telecommunications)

Insurance exports account for just 1.1% of the UK exports of services to Nigeria. In contrast, insurance accounts for almost 7% of the total UK exports of services. Although any change in the regulatory framework and agencies will benefit insurance providers regardless of the origin, many British insurers would be among the beneficiaries. Life insurance alone could generate at least US$ 2 billion in premia.

Business services account for more than 36% of the UK export of services to Nigeria. A substantial part is provided through investments made in Nigeria. As discussed, the poor business environment jeopardises the provision of services from exiting investments and the arrival of new investments. According to Table 10, the share of UK investments in Nigeria in this sector is minimal (less than US$ 1 million). In contrast, the UK invested around US$ 1.1 billion in 2016 worldwide in professional, scientific and technical activities.

An improvement in the business environment will imply a benefit for Nigeria in the form of the benefits brought by FDI and a benefit for the UK in the form of an increase in the export of these services to Nigeria. Assuming that Nigeria improves its business climate to a level that makes its attractiveness to investment similar to its share of world GDP (0.54%), it will imply that UK investment in the business sector could be as high as US$ 5.68 billion.

In more general terms, Nigeria could attract at least US$365 million of UK investment in the non-oil and gas sector by adopting business climate reforms in such a way that investment reflects its share in the world economy. These investments should increase even further as Nigeria increases its share in the world economy and as long as further improvements are made in the business environment.

8 Final comments

This report presented the analysis and conclusions of the UK–Nigeria Trade and Investment Diagnostic Study. The analysis is prepared based on literature review, data analysis and evidence collected through face-to-face and phone interviews with stakeholders and officials from companies and Governments in Nigeria and the UK.

The analysis of trade involved looking into data on bilateral exports and imports between the UK and Nigeria, focusing on the non-oil and gas sectors. The analysis revealed the limited range of products exported to the UK and, consequently, on the potential for expansion. It also highlighted the existing trade barriers affecting bilateral exports in both countries.

UK Investments on the non-oil and gas sector are extremely limited. The poor business climate, security situation, corruption and the quantity and quality of public goods (e.g. road infrastructure) in Nigeria limit the set of profitable investment projects in the non-oil and gas sectors. Although Nigeria presents an almost unmatched potential based on its population and economic growth, the high investment and operation costs offset the benefits of many investments. Consequently, British investments are primarily made by large corporations that can build provisions for these higher costs and that can afford a long-term strategy.

As a non-LDC country and because its Government opted not to sign up to the EU ECOWAS EPA, preferential access for Nigeria in the UK (through the EU GSP) is limited to two thirds of total tariff lines. This puts Nigeria in a disadvantageous position with respect to other countries that either benefit for more generous regimes (e.g. EBA for LDCs) or that have FTAs with the EU. However, a simulation of granting duty free access to Nigerian exports to the UK through a partial equilibrium model suggests very modest increase in exports. This is because most of the products exported by Nigeria to the UK are either already duty free or subjected to very low tariffs.

Without underestimating the importance of the effect that the status of the trade and production-related infrastructure has in the productivity and competitiveness of Nigeria, this report aimed to investigate additional areas of work and cooperation between both Governments to increase trade and investment. The policy recommendations, which present different degrees of complexity and time horizons, are based on the analysis of different interactions with officials from companies and governments in both countries.

The report presents specific trade-related recommendations on compliance and certification of EU standards. It looks also into the bounding issue of the low quality of the Nigerian production and compliance with private standards. Moreover, it aims to look into how to create links between Nigerian exporters and key British customers, and viceversa.

Based on the status of the transport and logistics infrastructure, trade in services appears as a key component to develop to transform the Nigerian economy, where the UK, based on its global comparative advantage can be a major partner. In this sense, there are recommendations to boost bilateral air services in passengers and cargo, deepen insurance, develop micro-insurance and the provision of professional services.

On the investment side, there are recommendations towards the assistance to British investors to connect with NIPC and reputable private business development service providers along the investment cycle. Moreover, both countries should work together to negotiate a new and modern BIT that must include investment facilitation and other provisions. Finally, there are recommendations for accelerating and boosting support for business environment reforms and to expedite the passage of key legislation and regulation in the franchise and the insurance market to attract more investment.

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