

Research Report No. 113

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CROSS-BORDER TRADE AND THE PARALLEL  
CURRENCY MARKET—  
TRADE AND FINANCE IN THE CONTEXT OF  
STRUCTURAL ADJUSTMENT

A Case Study from Kano, Nigeria

Nordiska Afrikainstitutet  
Uppsala 1999

This report was commissioned and produced under the auspices of the Nordic Africa Institute's programme on *The Political and Social Context of Structural Adjustment in Sub-Saharan Africa*. It is one of a series of reports published on the theme of structural adjustment and socio-economic change in contemporary Africa.

**Programme Co-ordinator and Series Editor:**

Adebayo O. Olukoshi

*Indexing terms*

Interregional trade

Trade liberalization

Currencies

Exchange rate

French Franc area

Structural adjustment

West Africa

Language checking: Elaine Almén

ISSN 1104-8425

ISBN 91-7106-449-4

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Printed in Sweden by Motala Grafiska 1999

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# 1. Introduction

There is an increasingly glaring contrast between the intensifying political and economic disintegration in sub-Saharan Africa and the trend in the developed world toward the formation of large trading blocs. Within this context, attention has once again been turned to the issue of regional integration in Africa. This 'new regionalism', however, differs fundamentally from the original Pan-Africanist approach which was characterized by autarchic, state-driven approaches to regional integration, an emphasis on the transformation of industrial production through import-substitution, and the proliferation of largely ineffective regional integration schemes. By contrast, the regionalism of the 1990s places a strong emphasis on a market-led strategy of regional integration, conceived as complementary to structural adjustment. This involves a shift in orientation from protectionism to liberalization, and from centralized bureaucratic regionalist institutions to a more decentralized approach grounded in popular support and private sector initiative (Daddieh, 1993:2ff; Bach, 1997:81; Lavergne and Daddieh, 1997:107).

In the context of sub-Saharan Africa, this new approach to regional integration has taken particular inspiration from the widespread operation of informal cross-border trading activities, which have succeeded in effecting extensive market integration where state-led initiatives have failed. Moreover, some commentators have noted that formal integration initiatives have been severely weakened by structural adjustment, owing to the pressures of mounting economic crisis, constraints on state spending, the liberalization of trade policies, and a proliferation of semi-official road-blocks and brigandage as civilians and officials alike resort to informal means of income generation under the pressures of increasing economic austerity (Daddieh, 1993:13; Herrera, 1995:148). By contrast, this same economic environment appears to have resulted in a flourishing of cross-border trade, even against the predictions of the architects of adjustment.

Owing to a range of historical and economic factors, cross-border trade is particularly intense in West Africa, with Nigeria operating as an epicentre of a significant proportion of cross-border trade flows within the region. Within Nigeria, the commercial centres of Lagos and Kano are the two major centres of cross-border trade, a fact that is linked to their proximity to the two most active borders for unofficial economic activity: Nigeria's borders with Benin and Niger. The intensity of unofficial trading activity emanating from Lagos is related principally to the position of the city as the commercial (and until

recently, political) capital of Nigeria, as well as to its proximity to the free ports of Cotonou and Lome. Kano has an older tradition of inter-regional trade. Since pre-colonial times it has been the base for large-scale merchants operating at the apex of extensive trading networks which have played a dominant role in inter-regional trade across much of West and Central Africa, networks which remain active in cross-border trading operations up to the present. This makes Kano a particularly interesting point from which to investigate not only the development and organization of cross-border trade, but its role in the realization of popular economic aspirations.

### 1.1 The Significance of the Wapa Currency Market

Most empirical studies of cross-border trade in West Africa have focused on the movement of goods across a particular border. Cross-border activities emanating from Kano, however, involve several borders, including those to Niger, northern Cameroun, Chad, and increasingly, Benin. This study aims to develop a more comprehensive understanding of the organization of cross-border trade by focusing the investigation on the epicentre of informal financial and commercial activities in all of northern Nigeria and its environs: the main parallel currency market in Kano, commonly known as Wapa.<sup>1</sup>

The history of Wapa has been intimately linked with the development of informal cross-border trade in agricultural and manufactured goods. The long association of Wapa with cross-border activities is reflected in the structure of its operations, which have been strongly influenced by the traditional Hausa organization of long distance trade. In fact, the emergence of Wapa as a currency exchange market has derived from its history as a stopping place for caravans, and later as a centre for lodging and assisting strangers from countries to the north coming to trade in Kano. With the expansion of cross-border trading relations between Nigeria and neighbouring Franc Zone countries in the 1970s, and the intensifying shortage of foreign exchange from the late-1970s and early 1980s, Wapa has become an increasingly active centre of parallel currency exchange for cross-border trading activities between Nigeria and her Sahelian neighbours. Within this context, the CFA Franc has emerged as a critical currency in cross-border trading operations, owing to its ready availability across all of Nigeria's borders and its semi-convertibility in international currency markets.

This study will focus on two central issues: the organization and transformation of unofficial cross-border trading activities emanating from Kano, and the role of Wapa currency market, both as a financial institution and as a

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<sup>1</sup> Wapa designates the area in which the currency market has developed, a neighbourhood in the district of Kano known as Fagge, which is located just outside the walls of the old city.

central institution in the organization of cross-border trade. Particular attention will be focused on the way these activities have been affected by structural adjustment in Nigeria, as well as by the 1994 devaluation of the CFA Franc.

By way of introduction, this study will undertake a review of the policy context of Nigeria's structural adjustment reforms as they relate to cross-border trade and parallel currency markets, followed by a consideration of some theoretical and methodological issues involved in the study. This will set the stage for an analysis of the pre-colonial and colonial history of cross-border trade emanating from the Hausa heartland of what is now Nigeria, which will lead the way to an investigation of the development of cross-border trade in the post-colonial period, with a focus on the role the Wapa currency exchange market. This will be followed by a more empirical focus on the current organization of cross-border trade in view of its historical roots and the current policy context of structural adjustment. The study will then turn to an analysis of the organization of Wapa as a financial institution, and to a consideration of the role of the CFA Franc in Wapa currency trading operations, with a particular focus on the impact of the Franc Zone monetary reforms of 1993/4. A concluding section will consider the ideological and practical implications of cross-border trade and parallel currency markets in the restructuring of the Nigerian and wider West African economies.

Before proceeding, it is necessary to say a few words about terminology. Terms relating to informal economic activity are notorious for their imprecision. For this reason, a few basic definitions will be provided here with a view to stipulating the way in which key terms will be used in the context of this study. The central term, 'cross-border trade', will be used to refer to informal, and often illegal, trading activities which move goods across national borders. In conformity with the convention in the literature, only legal goods will be considered under the rubric of cross-border trade. This excludes 'underground' or 'underworld' trading activities involving illegal goods and services, such as drugs, arms and sex. This distinction does not aim to create the impression that there is no interpenetration between the trading circuits for legal and illegal goods, since actors involved in the former are sometimes also involved in the latter. It aims rather to permit the study of those dimensions of cross-border trade which do not involve the trafficking of illegal goods and services, and to highlight the fact that the bulk of cross-border trading activities do not involve the criminal and socially problematic dimensions entailed by the trade in illegal goods and services.

'Cross-border trade' will be used in conjunction with the term 'parallel trade' which refers to the trading of legal goods through unofficial or illegal channels (Lindauer, 1989:1874). The term 'parallel' will be more widely used in the reference to unofficial or illegal circuits of currency exchange.

## 1.2 Structural Adjustment, Trade Liberalization and Financial Sector Reform

The imposition of Nigeria's Structural Adjustment Programme (SAP) in 1986 ushered in a range of economic reforms, a central aspect of which was the liberalization of trade. Structural adjustment brought about a shift from the controlled and highly protectionist trading structure that prevailed in the 1970s. This shift was achieved, in part, by the abolition of import licencing, the revision of tariffs, and the reduction of the list of banned imports from 72 to 16. Moreover, Nigeria cut duties on finished goods more than on intermediate inputs and raw materials, thereby reducing the effective rate of protection and increasing competition (Forrest, 1993:219; Galtier, 1997:4).

Despite these relatively extensive reforms, the liberalization process in Nigeria has been highly uneven. Tariffs remain high on a number of goods, ranging from 50%–100% in the case of some strategic commodities such as textiles, rice, sugar and cigarettes. Import and export bans not only continue to exist, but some were actually imposed under the auspices of Nigeria's Structural Adjustment Programme, including the import bans on wheat (1987), barley (1988) and used vehicles over 8 years old (1995). A number of these bans have been removed during the course of the 1990s, most notably those on imports of wheat, rice, cigarettes and textiles, though all of these are currently subject to tariffs of 50%–100%. In addition, the removal of price controls and subsidies has been unevenly applied. Officially fixed prices persist for strategic goods such as petrol and fertilizer, the latter also remaining heavily subsidized in official channels despite repeated attempts to reduce the level of subsidy.

In contrast to the uneven implementation of trade liberalization in Nigeria, the reforms of the financial sector constitute one of the most far-reaching aspects of Nigeria's structural adjustment programme. The importance of these reforms has been acknowledged by the IMF and the World Bank, albeit with some reservations. The 1995 Pangaea report on the African banking sector declared that despite its legendary economic mismanagement, corruption and fraud, 'Nigeria is leading the way in bank regulatory improvements and is several years ahead of most other African countries' (cited in *Emerging Markets Week*, 1995:4).

Though not the first financial sector reform, the policy measures of the SAP reforms are the most extensive and the most comprehensive in Nigeria's experience (see Nwankwo, 1991). They shifted policy from financial repression to liberalisation. Laws relating to the banking and financial sector were also amended and updated (Manu, 1993:116). The regime of fixed interest rates has been relaxed and the policy of directed credit has been simplified into two broad sectors for purposes of credit disbursement. The Nigerian financial sector has become more complex with the establishment and growth



of new financial institutions. Hence the Nigerian Deposit Insurance Corporation (NDIC), jointly owned by the government and the Central Bank, was set up in 1988 to insure depositors against bank failures. The Nigeria Export Import Bank (NEXIM) began operations in 1991. Similarly, Community Banks which commenced operations in 1991 grew rapidly to the extent that 970 existed by 1995 and the People's Bank which was established in 1989 had 275 branches by 1995. Yet another institutional development was in the area of mortgage companies. By 1995, their ranks had grown to 279. Moreover, finance companies which predated the reforms but existed in the informal financial market gained recognition in 1991, and by 1995 as many as 310 had obtained licences.

In addition, previously existing financial institutions in the formal market grew rapidly. Commercial and merchant banks which numbered 40 at the end of 1985, the year before the reforms, increased to 119 by 1993. The number of registered stockbrokers which was put at 33 at the beginning of the reforms in 1987 had increased to 140 by 1993. Insurance companies also increased to 132 in 1993 from a figure of 87 in 1987 (CBN *Annual Reports*, for the various years mentioned).

In the area of foreign exchange which this study is concerned with, reforms included the devaluation of the local currency and the establishment in 1986, of a two-tier foreign exchange (forex) market with a government fixed rate in the first-tier and a market determined rate in the second-tier. In 1987 the two windows were merged to eliminate the first-tier (see Attah *et al.*, 1987). Prior to these changes, forex rates were fixed by the regulatory authorities which some argue was responsible for the over-valuation of the local currency—the Naira (see Ojowu, 1987 and Osagie *et al.*, 1989). Following the coup and change in regime in 1993, there appeared a distinct possibility that the government might revert to the old system of fixed foreign exchange rates. Despite policy inconsistency and the return to a two-tier market, an autonomous foreign exchange market (AFEM) has remained the dominant instrument of foreign exchange management in Nigeria.

To enlarge the legal market for foreign exchange transactions, a new institution of bureaux de change (BDCs) was established in 1989. Banks were also allowed to open foreign currency denominated accounts or domiciliary accounts for individual and institutional holdings. Constraints on imports and control of exports of foreign exchange were also relaxed. Indeed, the far reaching nature of the SAP reforms of the financial sector had made it seem like the time had finally come for the fulfilment of Meillassoux's predictions that informal trade/currency exchange networks are doomed to elimination or transformation by modern capitalist development (see Meillassoux, 1971). But not quite so.

The main thrust of the foreign exchange markets and institutions created under the SAP reforms is the elimination of the informal currency markets such as Wapa. Just as the creation of Community and People's banks had been meant to replace the informal thrift and credit societies, the Bureaux de change was meant to eliminate the need for informal currency markets. Policy makers and policy analysts were so confident about this outcome that they claimed its realisation even when the facts proved otherwise. For example, an authoritative Nigerian newspaper in a four part editorial on the 1996 Federal government budget while arguing for the retention of the dual exchange rate system declared that "remarkably, the parallel market which is a major source of distortion is now wiped out for good" (*New Nigerian*, Wednesday 6/3/96).

Just as World Bank studies have observed the growth of credit societies accompanying SAP reforms in many African countries (e.g. Aryeetey *et al.*, 1994 and Gurgand *et al.*, 1994), even the most casual observer of Wapa will note the growth in the volume of transactions and the increase in diversity of currencies traded since the SAP reforms. Wapa operators interviewed are unequivocal about the growth of their market since SAP. So the questions we set out to answer in this segment of the Wapa study include why the policy reforms have failed to eliminate informal currency markets or transform them into BDCs but have, instead, given them impetus for growth and development. Other questions include: What are the characteristics, size and coverage of the Wapa currency market? How competitive is the market in comparison to the formal currency market and to other parallel markets? What are WAPA's linkages with these other markets? How has SAP affected Wapa? What are the rules of entry into and operation of the market? What is the ethno-sociology of the parallel market operators? How are the operators organized both as businesses and as an interest group? What is the relation of Wapa to the state and its officials? These are some of the issues this part of the Wapa study will address.

### 1.3 The Ideological Context of SAP

Confronted with the uneven implementation of structural adjustment programmes in a number of African countries, donor countries and international financial institutions have taken an increasing interest in promoting the 'new regionalism', with a view to deepening and harmonizing the implementation of structural adjustment reforms (Lavergne and Daddieh, 1997; Mahmane *et al.*, 1993). This 'new regionalism' has been accompanied by an ideological re-interpretation of cross-border trade in many pro-adjustment circles. According to the 1981 World Bank Report, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*—a gospel for the promotion of structural adjustment in Africa—adjustment would eliminate informal cross-

border trade. In the 1989 World Bank Report, however, cross-border trade was represented as a bid for liberalization and regional integration from below. Emphasis was placed on the pre-colonial roots of the trade, which was seen as devoid of state controls, on the heavy participation of small-scale actors, and on the cultural and ethnic affinities of populations divided by artificial colonial borders. In the process, large segments of African 'civil society' were presented as potential constituencies for the promotion of liberalization and market integration.

In view of the ideological appropriation of cross-border trade by proponents of adjustment, there is a need for a systematic deconstruction of cross-border trade as an economic category. This will serve as a prelude to an investigation of the actual organization of cross-border trade and its role in the re-structuring of the economies of Nigeria and her Franc Zone neighbours.

In contrast with current attitudes toward cross-border trade, the ideological attitude of the international financial institutions toward parallel currency markets has remained negative. Parallel currency markets are still seen as the product of excessive currency controls, and it is claimed that they will wither away in the face of the full liberalization of currency markets. An investigation of the relationship between parallel currency markets and cross-border trade, and the potential contradiction between the ideological aims of structural adjustment with regard to these two dimensions of the unofficial economy, should yield some interesting results.

## 2. Theoretical and Methodological Issues

The central methodological problem of any research on the informal economy is quantification—all the more so if the informal activities in question are illegal, as is the case with parallel currency exchange and most types of cross-border trade in Nigeria. Owing to the illegality of these activities, no official statistics exist, unlike on the other side of Nigeria's borders where many of these activities are not only legal, but constitute an important source of tax revenue for the state (although tax evasion is leading to an increasing level of unrecorded trade in these countries as well). In the Nigerian context, an additional difficulty is posed by the sheer magnitude and complexity of the activities involved, even if the research is confined to one regional centre of cross-border trading activities. At the level of the actors involved, the difficulty is not so much the absence of records, which in some cases are actually kept, as the desire to keep information vague, and to avoid disclosing precise figures relating to their business.

### 2.1 Coming to Grips with the Currency Exchange Market

We began our investigation with the parallel currency market in Wapa, where we were confronted very early on with the resistance of our informants to precise investigations into their activities. Our first difficulties were encountered in the course of attempts to carry out a census of Wapa operators. We had envisaged some difficulties but had thought we would overcome them easily through trust-building encounters. Our access to the leader of the association of currency traders through a reliable network reference and his past co-operation in our research efforts convinced us that we would just go ahead and do a census of operators, draw up a sample frame, choose a sample and begin interviews and on the basis of the interviews set up monitoring units inside Wapa to track down supply and demand as well as prices in the market. Consequently we were not prepared for the subsequent resistance we faced when the leader, our contact, did not cooperate. So we could not get a population size of operators from the association's register nor official support for interviews. Monitoring, except of prices, was also out of the question.

The closer level of scrutiny to which this work subjected the activities of operators taught us a great deal about the limits of our investigative techniques. In many cases, it was an exercise in learning which questions not to

ask, and in exploring alternative lines of inquiry which might reveal the dynamic of a situation, even if the quantitative information was unobtainable. We decided to use a number of methods simultaneously. Instead of a stratified sample of seven to ten currency dealers, a snowball approach was used. Participant observation was very effective in building information and confidence. As customers and potential customers, extensive conversations were held around issues of the history of Wapa, the personal stories of operatives, linkages with west African traders and currency markets etc. This allowed for regular (at least twice a week at first and later twice a month) courtesy visits just for *hira* (a chat). Numerous such visits were undertaken between September 1995 and April 1996 and again in the last quarter of 1996. With confidence built and personal relationships struck, formal interviews were conducted where needed; twenty-one such interviews were held with four of the interviewees coming from the top echelons of Wapa. Interviews centred on issues such as the types of services offered to customers, the nature of customer networks, sources of supply and demand for CFA Francs and other currencies, the types of goods informally imported and exported by Wapa customers, relations with other currency markets, and the impact of SAP and the CFA devaluation on the informal currency market. The majority of the interviews, however, were unstructured group discussions.

Finding suitable contacts to identify appropriate informants was a critical factor in the usefulness of an interview. It not only provided an essential means of contact with informants, but also tended to determine how much an informant would be willing to reveal. Repeated encounters were useful in some cases, as this tended to build up a rapport, but some informants were too uneasy, or too busy, to allow a second interview. In general, the most useful approach was to operate through a range of key contacts who would identify informants and arrange interviews, and use semi-structured interviews, being as responsive as possible to what an informant did, or did not, want to discuss. Other methods used included building rings for information gathering around Wapa. For example currency traders in daily contact with Wapa but operating in locations outside it (like *tashar Kuka*—a motor park, *Singa* a wholesale market etc.) within Kano were talked to about Wapa. There were two such currency traders. Four other currency traders that have business dealings with Wapa from their locations in Lagos, two from Abuja and one from Kaduna were all forthcoming on Wapa which they sometimes talked about in legendary terms. Consulates which sometimes facilitate the situation for their nationals that come to Kano as traders were considered and utilised. Computer searches of public records kept in inaccessible forms at the company registry proved very useful as did other records in the Central Bank and government ministries.

A discreet census of the number of parallel currency shops to determine size of the market was conducted by walking the length of the major streets and counting each identifiable *shago* or shop operated by the dealers. By multiplying the *shaguna* (plural of *shago*) by the estimated number of operators per *shago*, we had a population size that was modified by other estimates and through interviews. Discussions with Wapa informants concerning the overall structure of the currency trading group in Wapa, the approximate number of traders in each stratum, and the approximate number of operators in each of the shops gave us our earliest entry point.

Doing research in an area of economic activity that has been criminalised from pre-independence days by the colonial and some post-colonial governments was, indeed, a Herculean task but, with time a lot of facts fell into place and as little a headway as finding out the name of the currency traders' association in Wapa became an exciting experience.

In the trade-related dimension of this study, attempts were made to quantify four aspects of cross-border trade: the proportion of CFA Francs changed in Wapa relative to total currency operations, the value of CFA Francs changed in Wapa, the relative proportions spent on various informal imports and exports, and the volume of such imports and exports. We proceeded with a two pronged strategy of obtaining market-wide estimates through discussions with currency dealers, and monitoring selected dealers' actual CFA Franc transactions. The first strategy was relatively successful, in that some plausible estimates were obtained, but the second met with difficulties. While a number of dealers agreed to be monitored, the data collected soon revealed their unwillingness to disclose such sensitive details in any systematic fashion. Normally, the first interview yielded fairly plausible information, but when the same information was sought a second time, the figures became less plausible. Any form of monitoring, however loose, clearly did not sit well with the dealers, and this strategy of data collection had to be abandoned.

A further complication as regards the quantification of trade flows into northern Nigeria is that it became clear in the course of the research that CFA Francs purchased in Wapa are used to bring in goods across a variety of Nigeria's borders, not principally across the Niger border. Since the early 1990s, a large proportion of those who carry out Naira/CFA exchanges in Wapa have been travelling down to Cotonou in Benin Republic to import goods rather than going north to Maradi in Niger. From the perspective of Wapa operations, however, it is difficult to distinguish whether goods obtained with currency changed in Wapa are traded across the Niger or the Benin borders, since both countries use West African (UMOA) Francs. This observation made it clear that the value of West African Francs traded in Wapa is no indicator of the level of trade flows across the Niger border; at the

same time, the level of trade moving across the Niger border indicates only a fraction of the total levels of cross-border trade financed through currency transactions in Wapa. Much of the unofficial trade with northern Cameroun also passes through Wapa, but is easier to distinguish from trade flows across the Niger or Benin borders because of the difference between Central African (BEAC) and West African (UMOA) Francs. While Chad shares the same currency as Cameroun, its contribution to cross-border flows with Nigeria is extremely minor.

Our investigations also revealed that a large percentage of the CFA Franc transactions passing through Wapa involve currency recycling rather than the purchase of goods. The CFA Franc is used to finance transfers of Naira to other currency markets in Nigeria or across the borders, as well as to procure hard currency through a variety of formal and informal means.

In addition, it was discovered that a significant proportion of cross-border flows involving currency transactions in Wapa are not obtained via the mediation of CFA Francs at all. Some cross-border trade flows are carried out through direct conversion to dollars, pounds or other European currencies. This makes it impossible to assess the value of cross-border trade flows by monitoring the volume of CFA Franc transactions in Wapa.

In the course of these discoveries, it became clear that even if we had been successful in monitoring the level of CFA Franc transactions among our Wapa informants, the information would have told us little about the value of cross-border commodity flows financed through Wapa. It would also not have been a good indicator of the border across which these commodities are flowing. All in all, these attempts at quantification of Nigerian cross-border activities confirmed earlier evidence that hard figures on cross-border trade are better obtained from the Francophone side of the border, where many of these activities are legal, and where, despite increasingly high levels of evasion, official records can at least serve as an indicator of levels of trade flows. In the case of CFA Franc transactions, useful sources include BCEAO and BEAC Reports, along with specialist research papers on CFA Franc movements. In the case of volumes and relative importance of informal imports and exports, information was obtained largely from research reports from the IRAM/INRA/LARES consortium which make use of official records in Franc Zone countries, adjusted in accordance with estimates of the level of underestimation represented by official figures.

The methodological difficulties involved in quantifying indicators of cross-border trade made it clear that any figures we tried to collect would be meaningless without a clearer understanding of the complex dynamic of parallel currency and trading relations. In fact, once interviews with Wapa traders moved away from quantitative concerns, and began to focus on the history and dynamics of currency and goods movements, they became much

more informative. Part of the problem of grasping the dynamics involved in these activities is that they vary considerably from season to season, even from week to week, depending on the confluence of international, national and local conditions. The rainy season, Ramadan, the vagaries of Nigerian monetary policy, the closing of borders, or developments in the international sphere—all exert an influence on currency rates and the trading behaviour of goods, a fact which produces a range of permutations in the existing dynamic of activities. Furthermore, information from Wapa informants tends to reflect short-term conditions rather than long-term trends, such that information obtained in previous interviews is often contradicted in subsequent sessions, and it may take several discussions to discover how the pieces fit together. This is further complicated by the fact that informants may at certain points find it necessary to disguise certain aspects of their operations, leaving the researcher to sort out which contradictions stem from short-term variations in the market, and which from strategic misinformation.

Even in the absence of short-term variations, the organization of parallel currency and commodity markets in Nigeria is dizzyingly complex. Parallel currency and goods trading involves a complex range of actors and profit-generating activities. Major actors include currency dealers from Lagos, Maiduguri and Onitsha; Wapa currency dealers; goods traders from neighbouring West and Central African countries; commodity brokers specialized in dealing with foreign traders; Nigerian cross-border traders; and major Nigerian and Lebanese businessmen. Among the activities involved in the currency trade are the localized recycling of currencies for profit between Wapa and other Nigerian informal currency markets; international currency recycling for profit through the Franc Zone banking system; the importation of goods through the mediation of CFA Francs; direct importation bypassing CFA Francs; and a range of others. The strategies vary with the prevailing economic and policy conditions, as well as with the capital and connections of the operators involved. While this range of trading strategies contributes to the legendary flexibility of cross-border trading operations, it also complicates the task of grasping the overall dynamics of currency and cross-border trading activities. In all, the attempt to understand the historical and structural features of these activities has provided a more useful context within which to situate and evaluate the more constrained quantitative dimensions of the research.

## 2.2 Research on Trading Firms

Obtaining interviews with cross-border trading firms was more difficult than making contact with Wapa currency dealers. In the case of cross-border traders, there is no central point of contact. It had initially been thought that



Wapa itself might provide such a central point, but this turned out to be a mistake, for two principal reasons. First of all, many of the major commodity traders do not go to Wapa themselves; they often send subordinates to carry out their exchange transactions. Secondly, currency dealers were, understandably, reluctant to approach their clients for interviews because of the risk of alienating them.

It was, therefore, necessary to look for alternative points of contact. While the major wholesale markets in which Nigerian and non-Nigerian traders interact were known, these were not suitable points of contact since, without an introduction from someone known to them, traders in these markets would not agree to speak to us in any depth about their activities. In the end, contacts were found through the Kano Chamber of Commerce, and through the Nigerian Consulate in Kano. Through the intermediary of facilitators from these organizations, interviews were organized with 10 traders and businessmen involved in various aspects of cross-border trade. These included four cross-border importers (textiles, cigarettes, used cars and trucks, used clothing), four dealers in cross-border export goods (plastic ware, provisions, auto parts), one businessman who imports directly from overseas markets into Togo and Benin Republic, and one commission agent for Niger traders purchasing goods in Kano.

In most cases, informants were surprisingly open about their activities, though certain no-go areas were quickly identified. Questions about turnover were often unpopular, and in one case terminated the interview. Some informants, however, were willing to discuss their turnover, but declined to give any information on the wider organization of their line of trade. It was found easiest to conduct interviews in the form of business histories, centring on the growth of the informant's trading career, and only tangentially inquiring into the wider organization of the informant's line of trade. Interviews focused on the background of informants, the conditions of entry into the trade in question, the structure and growth of their firm, their relations with the currency market, other investments, participation in interest groups, and the impact of SAP and the CFA Franc devaluation on their business activities.

In order to provide a wider perspective, additional interviews were conducted with customs agents, local industries affected by cross-border trade (especially cigarettes and textiles), the Chairman of the Kano Chamber of Commerce, and the Commercial Attaché of the Nigerian Consulate. It would have been useful to extend the investigation to import firms and relevant officials in Cotonou and Maradi, but this was not possible owing to constraints of time and official restrictions. This represents a line of investigation that would be invaluable to an understanding of the wider context of cross-border trading activities as well as a knowledge of its apex actors, not to

mention the possibilities it would open up for more precise quantitative investigation.

### 2.3 Theoretical Issues in Research on Cross-Border Trade in Africa

There are five major theoretical perspectives that inform studies of cross-border trade in sub-Saharan Africa. The first, which is the most widely represented in policy circles, derives from the perspective of neo-liberal economics, while the second involves a more empirical and historical perspective represented in the work of a range of (largely Francophone) economic historians, geographers and anthropologists. The final three perspectives derive from the domain of political science, and can be loosely characterized as neo-liberal, socio-historical and post-modernist.

From the perspective of neo-liberal economists, cross-border trade is essentially a product of price distortions deriving from excessive state regulation of the economy (World Bank, 1981; Jones and Roemer, 1989). Liberalization of the economy, largely through the application of structural adjustment programmes, is advocated as a way of eliminating the incentives which give rise to cross-border trade, and attracting trade flows back into the formal channels of the national economy.

The fact that, in many parts of Africa, parallel activity has accelerated under the liberalizing impact of structural adjustment programmes has drawn neo-liberal attention to the uneven implementation of structural adjustment reforms between states (Bates, 1981). This has given rise to an integrationist variant on the standard neo-liberal approach (Mahamane *et al.*, 1993; World Bank 1989). Within this context, cross-border trade is seen as a form of regional integration from below, demonstrating both the economic viability and acceptability of market integration. The major policy prescription centres on the formulation of regional structural adjustment programmes involving the reduction of trade barriers, and the increasing coordination of macro-economic policies aimed at making this regional trade more transparent.

The second major theoretical approach involves a shift of focus from macro-economic conditions to a more empirical concern with the history, organization and commodity composition of cross-border trading activities. It is best represented by the work of the IRAM/INRA/LARES consortium, a group of Francophone researchers who have over the past decade conducted a considerable number of field studies on topics related to cross-border trade in West Africa. Despite a largely neo-liberal economic framework, this perspective has highlighted the critical role of a number of structural features of cross-border trade which would not necessarily be eliminated by liberalization policies, whether regionally harmonized or not. These include the persistence and flexibility of traditional long-distance trading networks, the key

role of the semi-convertible CFA Franc in the informal procurement of hard currencies within the region, the existence of transborder patterns of ethnic identity and family ties, and the greater efficiency of transborder marketing zones for agricultural as well as manufactured goods (Amselle and Gregoire, 1988; Coste *et al.*, 1991; Igue, 1977 and 1985; Asiwaju, 1976; Egg and Igue, 1993; Engola Oyep and Harre, 1992). Empirical evidence from these studies indicates that the importance of these factors may be increased rather than reduced by liberalization, which tends to widen opportunities for the operation of parallel trading networks, and increase the pressures of currency differentials and regionalist forms of political and commercial organization. This perspective has been largely responsible for the integrationist shift within neo-liberal circles, and tends to favour a similar emphasis on regional policy harmonization, with a particular focus on Franc Zone monetary policy (Egg and Igue, 1993).

The three remaining trends in the literature emanate from the realm of political science. The first two focus on the role of parallel economic activity, including cross-border trade, in class formation and the development of civil society. The neo-liberal side of the debate argues that parallel activity provides a locus for the development of a 'more authentic bourgeoisie', which is independent of the state (Chazan, 1988; Diamond, 1988; MacGaffey, 1987). Parallel activity is seen as virtually devoid of the barriers to entry characteristic of the official economy, and as such provides a more democratic and gender positive basis for economic development (MacGaffey, 1988; Sow, 1991). The parallel economy is also seen as a fertile terrain for the development of civil society, and for the flowering of popular democratic aspirations (Chazan, 1988). The opposing position argues that parallel activity is essentially a strategy for private accumulation on the part of corrupt state officials and their cronies. Successful accumulation through parallel trading channels by members of the wider society almost invariably depends on some official connection, while the masses, especially women, remain confined to activities offering little or no possibility for accumulation (Kasfir, 1984; Nabuguzi, 1994; Schoepf and Engundu, 1991; Meagher, 1995). It is also argued that the civil organizations that arise within the context of the informal economy are frequently authoritarian and particularistic rather than democratic (Bangura *et al.*, 1992; Meagher and Yunusa, 1996).

The fifth and most recent trend in the literature involves a post-modernist concern with the growing conflict between the existing spatial organization of Africa based on the nation state, and the increasing primacy of identity as a basis of social, political and economic organization (Bach, 1995; Ben Arrous, 1996). This literature focuses on the increasing contestation of African borders in the context of structural adjustment, globalization and the end of the Cold War. In contrast to the empirical-historical position discussed earlier, this

contestation of borders is not seen to aim toward a re-consolidation of ethnic units, but to challenge the capacity of borders to contain forms of economic organization based on transnational networks. Cross-border trading activities are seen to benefit from the weakening of the state in the context of structural adjustment, and in the process to further undermine the capacity of the state and further cripple formal initiatives for regional integration (Bach, 1997:78). In the process, cross-border trade appears to constitute an economic alternative to foundering state structures, by providing alternative structures for accumulation and social regulation. Terms such as 'deterritorialization' and 'terroir' emphasize the tendency toward the fragmentation of the nation state, without any clear indication of what is likely to replace it. The policy thrust of the analysis is somewhere between integrationist and anarchist.

This wide range of perspectives raises a number of key issues which have defined the focus of the current study. The first set of issues concerns the impact on cross-border trade of economic liberalization and related policy measures. This includes both structural adjustment and the recent Franc Zone monetary reforms. How have liberalization and currency devaluation affected the structure and composition of cross-border trading circuits? Have these measures tended to limit cross-border trade, or have they intensified incentives for cross-border activities and widened their scope of operation? At the level of monetary concerns, specific attention will be devoted to a consideration of the role of the CFA Franc in cross-border trade between Nigeria and Niger. Is the semi-convertibility of the CFA Franc alongside the non-convertible and heavily devalued Naira, the motive force behind cross-border trade between Nigeria and her Francophone neighbours? What is the role of parallel currency markets, and currency dealers, in the operation and development of cross-border trade? Have the Franc Zone monetary reforms succeeded in modifying the monetary incentives provided by the CFA Franc?

A second set of issues centres on the transformation of social structures and forms of social organization in the context of cross-border trade. This will be considered at three levels: at the level of the firm, at the level of international business structures, and at the level of society as a whole. At the level of the firm, there is need for a clearer understanding of various aspects of the organization of cross-border trading enterprises, and the ways in which these have been affected by economic change. How has the changing business environment affected traditional forms of economic organization based on a pyramidal structure of patron-client relations? What is the degree of continuity of current cross-border trading firms with their precursors in pre-colonial times? How does the structure of these firms contribute to the legendary flexibility and responsiveness of cross-border operators?

At the level of informal international business structures, a broader set of questions concerns the organization of cross-border trading networks. Have

these networks simply persisted unchanged since pre-colonial times, or have they also undergone transformation in the context of changing policy environments? To what extent does ethnicity still determine the membership and structure of these networks? In the context of globalization and narrowing economic opportunities, has ethnicity become more or less important in the operations of trading networks?

Finally, at the level of Nigerian society as a whole, attention must be focused on the role of cross-border trade in class formation. Is cross-border trade giving rise to the formation of a new bourgeoisie, independent of the state, or do connections with state officials and resources remain central to accumulation in these circuits? To what extent does the network structure of trade and labour relations involved in cross-border trade limit economic differentiation?

The central issue which subsumes all of those already raised, is the question of regional integration. Does cross-border trade represent a movement of integration 'from below'? Does it provide more appropriate structures and incentives for economic participation and development than those operating within the economic framework of the state? What are the implications of parallel trade for the structures of production? Through a consideration of this range of issues, this study will attempt to elicit a clearer understanding of the structure and economic implications of cross-border commodity and currency trading activities.

### 3. The Historical Roots of Cross-Border Trade between Nigeria and Niger

It is currently fashionable to emphasize the pre-colonial origins of cross-border trade. Studies of the origins of cross-border trading circuits have contributed greatly to our understanding of factors underlying the development of cross-border trading activities, and have helped to clarify the question of why, from the early 1970s, these activities developed so rapidly in some areas of the continent, such as West Africa, and not in others. The focus on origins has also served a range of ideological purposes related to the promotion of market liberalization. Principal among these are the desire to establish the long pedigree of African entrepreneurs, and the popular legitimacy of cross-border trading activities (Egg and Igue, 1993; Igue, 1985; World Bank, 1989). As a result, analyses of the historical origins of cross-border trade frequently suffer from a kind of primordial romanticism which tends, on the one hand, to gloss over important changes and discontinuities that have emerged in the structure of interregional trade under the impact of colonialism and post-colonial economic change, and on the other hand, fails to adequately establish the link between pre-colonial trading structures and the survival of cross-border firms in the considerably more complex business environment of the late 20th century.

This summary of the early history of interregional trade between what is now Nigeria and Niger aims to address some of these shortcomings. At one level, the analysis will highlight the ways in which interregional commodity circuits and trading networks were shaped and transformed under the impact of economic and political change, even during the pre-colonial and early colonial periods. At another level, attention will be drawn to the ways in which the early history of the trade has resulted in the development of specific infrastructure or commercial skills which would contribute to the competitiveness of cross-border trading activities in the commercial context of modern-day Nigeria.

#### 3.1 Pre-Colonial Long-Distance Trade

In the centuries before colonialism, the Hausa states of what is now Nigeria were linked to the rest of the continent, as well as to the outside world, by a range of interregional trading circuits. Trade was based largely on ecological and artisanal specialization, although routes were also influenced by levels of

tolls and taxation, and a significant proportion of European manufactured goods had been introduced into these circuits in the centuries before the beginning of the colonial period (Guyer, 1995; Lovejoy, 1980; Baier, 1980).

To the north, the trans-Saharan trade routes linked urban centres in the desert and savanna areas of West Africa to Tripoli. In the context of the eclipse of empires further west, the trans-Saharan routes terminating at Katsina, Kano and Kukawa (now Maiduguri) became important from the 17th century, and the Kano terminus gained particular prominence following the Fulani jihad in the early 19th century (Hopkins, 1973:85). Exports from the Hausa areas of the central Sudan included slaves, hides and skins, local textiles, leather goods, small quantities of condiments, and, in the 19th century, ostrich feathers. Imports from Tripoli consisted of a range of North African and European-made goods, principally textiles, small quantities of arms, and miscellaneous manufactured goods (Baier, 1980:42,68; Hopkins, 1973:81–82; Lovejoy, 1980:57).

A more localized northern circuit involved exchanges between the desert and the savanna. The savanna exported grain, textiles, manufactured articles of wood, leather and metal, and re-exports of kola and tobacco. Imports from the desert were comprised largely of livestock, hides, salt and dates (Baier, 1980:26; Lovejoy, 1980:54). A southern circuit traded livestock down as far as Nupe and northern Yoruba country in what is now the middle-belt of Nigeria.

Two major east-west circuits complete the picture. The first involved trade to the kola-producing areas of what is now southern Ghana. Slaves, textiles, potash, hides and skins, leather goods, and dried condiments made up the principal exports, while imports consisted of kola, textiles, ironware, and re-exports of European coastal imports, especially tobacco, cowries and European cloth (Baier, 1980:28; Lovejoy, 1980). The second major east-west route extended north-east along the route to Mecca, where pilgrims combined commerce with religion, setting up a number of trading communities along the Hajj route (Engola Oyep and Harre, 1992:10).

During the 19th century, a number of significant changes occurred in these circuits. Slaves dropped out of the export portfolio, while the import portfolios became increasingly penetrated by European goods, but the principle of ecological specialization and comparative advantage still remained central determinants of the direction and composition of commodity flows. At the same time, the eastward shift of the trans-Saharan trade contributed to a dramatic expansion in the economy of the central Sudan. This was accompanied by a growing dominance of Hausa trading networks along the western route to the kola-producing regions and along the eastern Hajj route. In the long-distance kola trade, Hausa became the lingua franca of all towns and cities along the route (Lovejoy, 1980:36–39). Hausa was, and still is, also widely spoken in trading towns along the Hajj route as far as Central African

Republic, Sudan, and even into Egypt, and remains the lingua franca of the West African communities in Mecca. Finally, developments in the kola trade which involved a shift from overland transport to shipment by sea prompted the extension of Hausa trading routes south as far as Lagos. According to Baier (1980:52), the first Hausa traders known to have reached the coast are said to have arrived in the early 19th century, but by the 1880s, large numbers of Hausa traders plied the route to Lagos.

The advent of colonialism at the beginning of the 20th century provoked a decisive re-orientation in both the routes and the composition of interregional trade. The two major long-distance circuits of the previous era, the trans-Saharan trade and the westward trade to the kola fields, declined during the early years of the 20th century due largely to high levels of taxation levied on caravan trade by both the British and the French colonial regimes, combined with declining transport costs of trade oriented south toward the coast (Baier, 1980:95–97; Lovejoy, 1980:117). At the same time, the commercial geography of the area was redefined by the creation of the Nigeria-Niger border, with widely divergent fiscal and monetary regimes on either side. With the creation of the colonial border, the major determinant of interregional trade shifted from ecological specialization, dominated by West African primary and manufactured goods, to the exploitation of fiscal and monetary disparities, dominated by local primary products and imported manufactures from Europe and Asia (Igue, 1985; Meagher, 1996).

In the course of the first two decades of the 20th century, the export and import portfolios of interregional trade had shifted decisively. Traders in the northern part of Nigeria exported British and Asian textiles, bicycles, assorted imported manufactures, and kola. Imports from Niger centred on livestock, groundnuts, grain, salt, dates and imported cigarettes (Baier, 1980:158). Due to the more liberal fiscal regime of the British colonies, Nigerian imported goods were more competitive than those imported into Niger, except in the case of cigarettes, on which the British regime levied a high tariff. Beside cigarettes, the major staples of trade flows from Niger were primary products, including grain, which represented a reversal of the previous trading pattern in which grain had flowed northward from the savanna toward the Sahel.

The lower cost of imported consumer goods in Nigeria, which were as much as 30–40% cheaper than similar goods available in Niger, resulted in a discount on the value of the CFA Franc against the Nigerian Pound in parallel currency markets (Sriber as cited in Igue 1985:21). By the 1950s and early 1960s, the parallel value of the Nigerian Pound was 15–35% above its official value against the CFA Franc (Egg and Igue, 1993:30). This, combined with rising grain prices in Nigeria in the context of the groundnut boom, tended to make prices for grain and groundnuts more attractive in Nigeria. Groundnuts continued to flow southward until after World War II, when groundnut flows



shifted back and forth depending on changes in pricing policy and currency values on either side of the border (Collins, 1974; Gregoire, 1992:51).

### 3.2 The Role of Currency in Interregional Trade

The contention by historians of cross-border trade that informal currency exchange is the product of the imposition of European currencies on indigenous trading structures ignores important historical realities concerning the role of currencies in pre-colonial interregional trade (Asiwaju, 1976:196; Igue and Soule, 1992:189). A number of studies have noted that a variety of currencies were in circulation in pre-colonial Africa, and that many of these performed the functions of modern money centuries before the introduction of colonial currencies (Baier, 1980:106; Guyer, 1995:2; Hopkins, 1973:70). Gold and cowries defined interacting currency zones within West Africa, with exchange rates that were sometimes fixed, and sometimes floated. Well before the advent of colonialism, Maria Theresa dollars and French five-Franc silver pieces were in circulation in the central Sudan, and traders were adept at conversion as well as speculation between European currencies and cowries. In interregional trade, barter was not the dominant means of exchange; commodity trade was based on currency values, although the value of a purchase was often returned in goods, and any deficiencies made up in currency payments or credit (Hopkins, 1973:69; Lovejoy, 1980:126).

Although currency values rather than barter formed the basis of interregional trade, the traditional organization of long distance trade, both across West Africa and across the Sahara, encouraged an orientation toward trade in circuits. The importance of circuits stemmed in part from the necessity of minimizing currency transactions in the context of bulky currencies which might not be negotiable across currency zones, and also from the necessity of trading in caravans, which were a large, slow and costly form of goods transportation (Lovejoy, 1980:126ff). In the context of the caravan trade, traders were forced to maximize the profits to be derived from an expedition by trading as profitable a basket of goods as possible in each direction. The overland kola trade involved a 3–6 month procession of up to 1,000–2,000 pack animals, while a round-trip in the trans-Saharan trade could take up to three years. In this context, there was no possibility of trying to minimize turnover time, and going out or coming back empty was economically irrational. Interregional traders, therefore, tended to take goods in both directions, further limiting the overt use of currencies.

The introduction of colonial currencies did not come as an innovation to commercial activity, but it did pose some new challenges which tended to reinforce the practice of organizing interregional and cross-border trade in circuits. The tight monetary policy followed by both the British and the

French colonial regimes resulted in a chronic shortage of currency during the early decades of the colonial period (Baier, 1980:107ff; Guyer, 1995:11). In Niger, the shortage of French colonial currency lasted until the 1940s, with the result that central Niger was heavily integrated into the Sterling zone during much of the colonial period. In addition, the disadvantageous exchange rate of the CFA Franc against the Nigerian Pound on the parallel currency market, coupled with complexities in the exchange of Franc notes against coin, encouraged large as well as small-scale traders from Niger to take goods rather than money to Kano, which they could sell in order to buy cloth and other imported goods (Baier, 1980:113).

Within this context, it is clear that exchange across currency zones, and exchange between currencies, were familiar aspects of pre-colonial inter-regional trade. During the colonial period, an infrastructure for parallel currency trade was already well developed, but the commercial disadvantages of mediating cross-border commodity transactions through the parallel currency market continued to encourage the organization of cross-border trade in commodity circuits, and to limit the growth of the parallel currency market.

### 3.3 Trading Networks and Economic Change

Most of the historical accounts of the origins of cross-border trade in Nigeria and Niger give the impression that the trade is based on the activities of Hausa trading networks which have maintained pre-colonial forms of organization. While Hausa trading networks have indeed existed since before the 17th century, they have not persisted unchanged, especially in the context of the upheavals of the 19th and early 20th centuries. In order to grasp the extent of the historical transformation that has taken place, two aspects of Hausa commercial organization must be considered: the commercial class structure within the Hausa heartland, and the wider commercial and ideological infrastructure of the Hausa trading diaspora.

The Hausa commercial class structure underwent significant changes in the pre-colonial and early colonial periods. At critical junctures during these periods, large sections of dominant commercial groups were ruined, and new commercial groups emerged. Thus, the commercial groups that rose to prominence in the context of cross-border trade were not the same as those who had dominated the major interregional trading routes of the preceding centuries. The two critical events in the transformation of the structure of the Hausa commercial classes were the Fulani jihad of 1804 and the colonial conquest of 1900.

During the 18th century, Katsina was the principal Hausa commercial centre, serving as the major southern terminus of the caravan route to Tripoli,

as well as a centre for trade with the Sahel and the east-west kola and potash trades. As such, Katsina was an important base for merchants involved in all of the major interregional trading circuits (Lovejoy, 1980:54). From the time of the jihad, however, protracted warfare and instability in the region of Katsina provoked a shift of the commercial centre to Kano. Those merchants who were able followed suit, but many of the more established commercial groups of the time, including the Agadez merchants, the Wangarawa from around present day Mali, and some major North African commercial lineages, suffered serious setbacks, with some going into decline (Lovejoy, 1980:78). At the same time, new commercial groups rose to prominence; in the kola trade, these included the Agalawa and Tokurawa, both Hausanized groups of servile Tuareg origin, and the Kambarin Beriberi, a Hausanized commercial group of Kanuri origin (Lovejoy, 1980:75ff).

The advent of colonialism was even more decisive in the history of the structure of the Hausa commercial class. According to Baier (1980:110), the colonial occupation effected a 'levelling' of the commercial class structure in the central Sudan. The decline of the trans-Saharan trade 'ruined a whole generation of merchants' in Zinder, the major pre-colonial commercial town in Niger, and forced the survivors to shift their activities to Kano (Baier, 1980:111). In Kano as well as Zinder, the decline of established merchants in the trans-Saharan and overland kola trades was accompanied by a rising importance of small-scale rural-based traders (*H. fatake*) (Baier, 1980:110; Lovejoy, 1980:145). New opportunities on the Kano-Lagos route, as well as boom conditions in the groundnut trade, offered numerous possibilities for new entrants to accumulate capital, as well as for the more flexible members of better established commercial groups to re-establish themselves. In Maradi, the capital of cross-border trading relations in Niger, there are said to have been no established merchants in the pre-colonial period. The first groups of Maradi-based merchants, who were important players in cross-border trading activities during the 1970s, rose from the ranks of groundnut buyers during the colonial period (Gregoire, 1992:39,83).

Like the commercial structure of the Hausa heartland, the wider commercial infrastructure of the Hausa diaspora was not determined simply by primordial social relations. The commercial, as well as the ideological role of Hausa commercial networks has historically been shaped by the needs and opportunities of the prevailing economic context. Changes in the nature of interregional markets have provoked changes in the nature of participation in these networks, as well as changes in the identities of participants.

The Francophone literature places a great deal of emphasis on the flexibility and solidarity of ethnically based trading networks. It is argued that the cultural and linguistic affinities of an ethnic group provide a vital organizational context for the development of illegal activities, such as cross-border

trade (Igue and Soule, 1992:97). Ethnic networks, or what Cohen calls 'commercial diasporas', are seen to provide a vital commercial and financial infrastructure for long distance trade in pre-capitalist societies, an infrastructure which has been brought into service for parallel trading operations (Amselle and Gregoire, 1988:20,49; Cohen, 1974; Lovejoy, 1980). It can certainly be established that the Hausa diaspora has provided a far-flung commercial infrastructure, with Hausa-speaking trading communities spread out along trade routes from Ghana to Sudan. This infrastructure has enormously facilitated the rise of cross-border trade between the Hausa-speaking areas of Nigeria and other parts of West and Central Africa. However, few of the studies that have emphasized the critical role of Hausa commercial networks provide an examination of the dynamics of the relationship between ethnic identity and commercial participation which has gone into the development of these networks.

Two points deserve mention here. First, it is worth noting that, historically, Hausa commercial networks have represented the incorporation rather than the exclusion of ethnically distinct trading groups. Even in the 17th and 18th centuries, many of the members of the Hausa diaspora, as well as many of the main Hausa commercial groups, were not Hausa by origin. The Hausa diaspora included Hausa-speaking Nupe, Tuareg and Fulani traders who had become assimilated into Hausa commercial structures (Lovejoy, 1980:32,52). The major Hausa commercial groups of the 19th century kola trade were also not Hausa by origin; they were servile Tuareg and commercial Kanuri groups who had similarly assimilated themselves into Hausa commercial structures. In the context of these observations, Lovejoy (1980:143) challenges the contention that ethnicity provides the basis for the commercial organization of interregional exchange in Africa. He argues that, at least in the context of Hausa commercial structures, ethnic identity is the *product* of participation in a dynamic economy, rather than the basis of commercial participation.

The second point is that, within the framework of Hausa commercial networks, the structure of Hausa commercial identity has undergone important changes based on the nature of economic conditions in interregional trade. 'Sub-identities' based on origins, known in Hausa as *asali*, have historically played an important role in Hausa commercial organization. In the centuries before colonialism, many Hausa-speaking groups of non-Hausa origin maintained separate, endogamous, corporate identities within which credit and capital were mobilized, training was done, and various other aspects of commercial organization were carried out (Lovejoy, 1980). These corporate groups provided the building blocks of Hausa commercial expansion in the 18th and 19th centuries. The importance of corporate groups in the development of interregional trade derived from the many obstacles to the operation of market forces, and the necessity to resort to social relations for the mobi-

lization of capital and the organization of caravans, as well as other aspects of commercial activity (Lovejoy, 1980:138; Hopkins, 1973:64). By the early 20th century, however, these corporate identities had begun to disintegrate. Lovejoy (1980:145) found that many of the new entrants into the kola trade during the colonial period simply identified themselves as 'Kanawa'—(Hausa) people from Kano. Within the expanding framework of modern transport and market relations, tight corporate identities based on origins were being replaced by looser forms of identity based on broader notions of ethnicity and political identification.

From the historical information available, it is clear that the strength of Hausa commercial networks lies, not in their imperviousness to change, but in their ability to respond to changing conditions through the innovative use of a broad commercial infrastructure. It is important to identify the ways in which the extension of market relations, particularly within the context of liberalization and globalization, have affected the role and effectiveness of this commercial infrastructure, as well as the identities that accompany participation in it.

## 4. Commodity and Currency Relations in the Development of Cross-Border Trade

The aim of this historical investigation is to trace the relationship between conditions in the official economy, the development of parallel currency operations in Wapa, and the evolution of cross-border trade. Investigation into the history of parallel currency trading and its relationship to the development of cross-border trade have provided an opportunity to re-assess existing analyses of the evolution of cross-border trade in Nigeria in a new and more comprehensive light. The information obtained challenges some of the basic theoretical assumptions concerning the economic forces underlying cross-border trade, particularly as regards the role of the CFA Franc, as well as challenging some of the historical explanations of certain critical periods in the development of the trade.

### 4.1 The Late Colonial and Early Independence Periods

Wapa was established as a centre of currency exchange after the second world war. Informants put the date of its establishment somewhere between 1946 and 1948. The difficulty of establishing a precise date arises in part from the fact that, originally, Wapa was more than just a currency market. In fact, the acronym 'Wapa' stands for West African Pilgrims Association, which has nothing to do with currency exchange, except that the main founder of the association, Mamuda Dantata, became a currency dealer. Mamuda Dantata, the son of a major Kano businessman, Alhassan Dantata, was not the first currency dealer in Wapa, but because he became the main property developer in the area, as well as becoming popular for his promotion of pilgrimage to Mecca in a highly Islamic society, both his name and the area acquired the tag of Wapa.

The development of currency trade in Wapa is closely associated with its history as a stopping point for traders and travellers from North and West Africa, as well as a starting point for pilgrims travelling to Saudi Arabia. Fagge, the neighbourhood of Kano in which Wapa is located, is said to have grown up as a Kanuri and Tuareg settlement at the site of the Kano stopping point for caravans from Bornu and Niger (Lovejoy, 1980:53). Subsequently, a motor park for travellers to and from Sahelian West Africa and North Africa was located in Fagge. Pilgrimage by road to Saudi Arabia through Sudan took off from near the present site of Wapa. Even after the colonial conquest, this

remained an important trade route. Activities and support services linked to the combined religious and commercial objectives of the pilgrimage developed in what is now Wapa. Currency exchange was one such service. Other services included transit accommodation and transport services. Fagge, the neighbourhood in which Wapa is located, was well known during the colonial period for its provision of commercial lodging, and accommodation was one of the early sweeteners Wapa traders provided their visiting customers. Mahmuda Dantata, who later became known as Mahmuda Wapa, provided one such commercial lodging. Before then, he was said to have joined Alhaji Mohammed Rago Kura in trading currency at exchange stalls located in what is now Wapa. Dantata combined this activity with his business of selling kerosene. Currency traders were still few at the time, and currencies were just one of the many other items they traded in.

Mahmuda Dantata was later given a licence to transport pilgrims to Saudi Arabia by road. It was at this time that he, along with Ibrahim Gashash and Haruna Kassim, both major Kano merchants in their own right, established the West African Pilgrims Association (Wapa). The Pilgrims Association office was located on the property of Mahmuda Dantata in what is now the currency trading district of Wapa, and is still the major landmark of the district.

According to the son of one of the original currency dealers in Wapa, currency trading activities were initially conducted at two large stalls with separate counters for different currency dealers. The father of this informant operated from these stalls buying currency for Alhassan Dantata, who was the major buyer and supplier of currencies in Kano at that time. One of the earliest successful indigenous merchants of colonial Northern Nigeria, Alhassan Dantata had extensive trading operations in the West African region. Within this context, currency exchange appears to have emerged, not as a result of excess demand within the official economy, but as a parallel system operating from institutions that indigenous merchants found easier to access.

Informants in Wapa indicated that currency transactions in Wapa during the 1940s and '50s were largely restricted to the exchange of Naira and CFA Francs, and the level of transactions was relatively low compared to the current level of activity in Wapa. Because the Nigerian Pound was still officially convertible with the British Pound until 1967, there was little incentive during the late colonial and early independence periods to engage in unofficial currency exchange between the Nigerian Pound and European currencies. Other hard currencies such as the Dollar were only just beginning to gain significance in the official economy; at the unofficial level they were hardly known at all.

During this early period of the Wapa currency trade, transactions largely involved coins rather than notes. Nigerian coins were parcelled in sacks of £100 (N 200), while CFA Franc coins were tied up in units of F CFA 1,000.<sup>2</sup> The much stricter environment of official controls on unofficial currency transactions necessitated a high level of secrecy in currency operations, since unofficial currency trading was declared illegal by the colonial authorities. Exchanges of currency had to be concealed in dishes or grain sacks, or carried out at night. According to Tahir Abdu Fagge (1995:91), in his *History of Fagge Town*, one of the earliest devices of the currency trade 'was to conceal different types of foreign currency in different small balls of porridge (*Fura*) each of which has an indication of a particular type of currency contained in it'.

As late as the early 1970s, currency trading in Wapa was still restricted essentially to Naira/F CFA transactions. While coins no longer dominated, the level of currency transactions through Wapa was still comparatively low, and the number of operators was estimated at no more than one hundred. While legal restrictions against informal currency exchange persisted, currency changing transactions were conducted in the open, since they were sufficiently minor to provoke little official concern.

The low level of activity in Wapa prior to the 1970s contrasts with existing evidence of fairly extensive cross-border trading activities between Nigeria and Niger during the late colonial and early independence periods. As mentioned above, imported cigarettes, grain, livestock, and a range of desert products flowed from Niger into Nigeria, where they were sold to procure a range of cheap British and Asian manufactured goods, including textiles, bicycles and firearms. After World War II, groundnuts waltzed back and forth across the border in the thousands of tonnes, depending on shifts in official pricing policies. Throughout this period, the balance of cross-border trade favoured Nigeria, owing to the liberal fiscal and import policies of the British relative to the French colonial regime (Igue, 1985; Egg and Igue, 1993).

The apparently widespread practice among cross-border traders of trading goods in circuits, and thereby circumventing the currency exchange markets, would tend to account for the low level of currency exchange transactions at the time. As mentioned above, the practice of trading goods in circuits, and thereby avoiding currency exchange markets, derived from a combination of shortages of CFA Francs, and a desire to avoid the disadvantageous rate of exchange for CFA Francs on the parallel currency market.

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<sup>2</sup> These units have remained central to unofficial money changing activities, particularly in the case of the CFA Franc. Unofficial exchange rates for CFA Francs are quoted in Naira per *jaka*, or 'bag', which designates F CFA 1,000.



#### 4.2 The Rise of Modern Cross-Border Activity (1967–1977)

Conditions in the parallel economy began to change toward the end of the first decade after Nigerian independence. By the mid-1970s, the balance of cross-border trade, which had favoured Nigeria throughout the colonial period, began to shift in favour of Niger and other Franc Zone countries neighbouring Nigeria (Amselle and Gregoire, 1988:27; Egg, 1993:28; Igue, 1977:39ff). The shift in the balance of cross-border trade was accompanied by a reversal of the relationship between the official and parallel values of Nigerian currency against the CFA Franc. While the Nigerian Pound had traded at a premium against the CFA Franc on parallel money markets throughout most of the colonial period, from the late 1960s the CFA Franc began to trade at a premium against the Nigerian Pound (Table 4.1).

These changes occurred in the wake of three major policy events in Nigeria. In 1967, there was a significant rise in Nigerian tariff levels, in line with the dual objective of solving balance of payments problems and increasing the level of industrial protection. In the same year, the Nigerian civil war broke out, and the Nigerian Pound was delinked from the Pound Sterling and subjected to a range of currency controls (Igue, 1977; Bangura, 1983:32). The nearly simultaneous occurrence of these three developments has made it extremely difficult to discern the specific role of any one of them in the profound re-orientation of cross-border trading conditions and parallel currency values, and has led to some important misinterpretations concerning the role of the Nigerian civil war and of the CFA Franc in the expansion and subsequent development of cross-border trade between Nigeria and Niger.

Igue (1977) and Gregoire (1992), and following them, virtually all of the IRAM/INRA/LARES literature, attribute the expansion and reorientation of cross-border trade to the disruption of supply lines between Lagos and the north of Nigeria during the Civil War, and the quest for convertible currency in the wake of the delinking of the Nigerian Pound from the Pound Sterling. The delinking of the Nigerian Pound and imposition of currency controls was certainly a significant event in the development of cross-border trade, but available evidence indicates that the impact was not as serious as some of the Francophone literature suggests. While the parallel exchange rate of the Nigerian Pound was severely depressed in the immediate aftermath of the delinking, falling from 650 F CFA to 400 F CFA (Igue, 1977:41), it appears to have recovered by the beginning of the 1970s to a level only slightly under its official parity with the CFA Franc (Table 4.1). As regards the role of the Nigerian civil war, there is no evidence that the Civil War disrupted official

Table 4.1 Parallel Exchange Rate of Nigerian Currency Against the CFA Franc, 1958-1977 (Rates in F CFA per Naira)

Year	Official rate	Parallel Rate	Difference %
1966	691	650	-6
1970	778	700	-10
1972*	389	325	-15
1974	382	275	-28
1976	381	280	-26
1977	437	243	-44

\*The Naira was created in 1972, with a value of 2 Naira to 1 Nigerian Pound.

Source: Igue, 1977; Egg, 1993.

supply lines to northern Nigeria, given that the Civil War was fought almost entirely in south-eastern Nigeria, well away from the major arteries linking Lagos with the north of the country. While the adoption of foreign exchange controls was related in part to the necessity of funding the Civil War, currency control measures had become necessary even before the Civil War in order to address persistent balance of payment problems which had been developing since the mid-1950s (Oyejide, 1975:45; Teriba and Kayode, 1977:328).

Surprisingly, relatively little weight has been attached to the role of Nigerian tariff policy in the re-orientation of parallel trading activities. Nigerian tariffs, which had been rising since independence, took a significant leap in 1967. Overall, the nominal rate of protection rose from 37% in 1962 to 59% in 1967, while the effective rate of protection rose from 44% in 1962 to 98% in 1967 (Oyejide 1975:60). Consumer goods were particularly affected, owing to the objective of protecting local consumer goods industries. Nominal rates of 100% were imposed on alcoholic drinks, tobacco products and cosmetics, while rates for made-up textiles were raised to 50% (Table 4.2). In addition, between 1967 and 1970, import licences were imposed on certain goods. This was followed up in 1970 by the imposition of a ban on used clothing and the upward revision of rates on popular imported textiles from 40% to 100% (Federal Republic of Nigeria, 1970).

These protectionist measures, in conjunction with the rise in Nigerian purchasing power in the context of the Oil Boom, encouraged the rapid growth of re-exports of imported consumer goods into Nigeria during the 1970s. Nigerian businessmen and officials began to import goods through the ports in Cotonou and Lome. Operators in southern Nigeria then brought the goods across the Benin border into Nigeria, while those operating in the north of the country sent them as transit shipments to Maradi in Niger, from where they were then brought in to the Nigerian market. In Niger, the recorded volume of this re-export trade reached over 10 billion F CFA in 1977, the bulk

of it going to Nigeria. Cigarettes comprised 40% of the trade by value (Gregoire, 1992).

Table 4.2 Nominal and Effective Protection of Selected Consumer and Intermediate Goods in Nigeria, 1957, 1962, 1967

Commodities	1957		1962		1967	
	NRP	ERP	NRP	ERP	NRP	ERP
<i>Consumer Goods</i>						
Alcoholic drinks	75.0	137.2	100.0	163.8	120.0	150.2
Soft drinks	0.0	-5.1	50.0	28.1	75.0	85.2
Tobacco products	50.0	77.3	66.7	91.5	100.0	128.2
Footwear	25.0	70.6	33.3	32.0	40.0	55.0
Clothing	25.0	68.4	33.3	32.4	50.0	136.6
Cosmetics/perfumes	75.0	114.0	100.0	194.4	100.0	220.3
<i>Intermediate Goods</i>						
Leather products	10.0	9.2	33.3	31.6	75.0	89.6
Plastic ware	0.0	-25.7	33.3	33.7	66.7	90.0
Textiles	20.0	22.3	35.0	35.8	40.0	51.6

Source: Oyejide, 1975.

The re-export trade was so lucrative in terms of tax revenues for the small Franc Zone economies involved, that it soon became a central aspect of national accumulation strategies. Togo officially adopted a re-export policy in 1973, involving a dramatic reduction in tariffs and official imports in excess of the national consumption capacity of the state. Benin adopted a similar strategy in the course of the same year, and in Niger, three formal sector organizations were formed in the early 1970s to handle transit trade, one of which (NITRA) was a joint venture between the Niger government and the private sector (Igue, 1977:49; Igue and Soule, 1992:53; Gregoire, 1994:115).<sup>3</sup>

At the Niger border, cross-border flows of agro-pastoral commodities also expanded during the 1970s. Rising levels of livestock and cowpeas flowed from Niger into Nigeria in return for grain, which had changed direction yet again following the 1972 drought and the increasing slide of the parallel rate of the Naira against the CFA Franc. In addition to grain, cross-border flows from Nigeria into Niger also included processed food products, construction materials, vehicles and parts, subsidized petrol products and, by the end of the 1970s, subsidized fertilizer (Gregoire, 1992:114-5; Egg and Igue, 1993:39). Despite the introduction of a range of new products into Nigeria's cross-

<sup>3</sup> This situation highlights the observation by Igue (1985:58) that cross-border trading activities are frequently legal on one side of the border, and illegal on the other. Owing to the legality of these activities, as well as their importance in the generation of tax revenue, relatively accurate statistics on cross-border flows to and from Nigeria have existed from the early 1970s until the mid-1980s, when widespread tax evasion began to undermine the reliability of official records in all of Nigeria's Francophone neighbours.

border exports to Niger, Nigeria's cross-border trade with Niger during this period was characterised by a growing balance of trade deficit.

The reversal in the parallel trade balance during the 1970s meant that, although parallel commercial activity was increasing between Nigeria and Niger, CFA Francs remained very scarce in Nigerian parallel currency markets. In Wapa, traders indicated that CFA Francs were difficult to obtain in that period because traders from Niger came much less frequently in the 1970s than in the late 1980s and early 1990s, while Nigerian traders generated a high demand for CFA Francs in order to bring in goods from Niger. Wapa informants maintained that trading goods into Niger was the main source of CFA Francs during that period. As a means of obtaining sufficient amounts of CFA Francs, Nigerian traders continued the practice of trading in circuits—that is, selling goods into Niger in order to procure sufficient CFA Francs for engaging in the unofficial import trade.

However, the available evidence suggests that during this period, the CFA Franc was less crucial to cross-border trading operations than has been supposed. The CFA Franc was important, not as a means of access to hard currency for purchasing imports on the world market, but as a means of circumventing import controls by bringing imports in through Nigeria's Franc Zone neighbours. It was the purchasing power of CFA Francs within the Franc Zone, rather than their convertibility to international currencies, that was critical to cross-border activities during the 1970s. Despite the official non-convertibility of Nigerian currency (which became the Naira after 1972) from 1968, the financial buoyancy of the Oil Boom tended to maintain a *de facto* convertibility of the Naira throughout the 1970s. In major trading centres in Niger, and even at the Liverpool Street market in London, goods could be bought in Naira, and even as late as the early 1980s, Naira rates were quoted in bureaux de change in Britain. Thus, on the world market, the Naira could be used to obtain unofficial supplies of foreign currency, or even to purchase foreign imports directly from foreign suppliers, without any need for the intermediation of CFA Francs.

It was also during the early 1970s that Pounds and dollars began to appear in the currency exchange activities of Wapa. Wapa informants indicated that dollars and Pounds began to appear in the market from around 1974, which coincides with the beginning of the Nigerian Oil Boom, but remained at a fairly low level until the end of the 1970s. During the early 1970s, the demand for dollars was associated with foreigners, particularly Lebanese, engaged in peripheral activities such as currency repatriation. The supply, which was focused around Kano's Central Hotel and gambling establishments, was also associated with foreigners and was relatively peripheral to cross-border trading activities.

#### 4.3 The Economic Crisis (1978–1985)

The unofficial import boom began to show signs of stress by the late 1970s. By 1976, the first signs of crisis began to appear in the official economy in the form of foreign exchange shortages, and a weakening of the international convertibility of the Naira. By 1977, drastic measures were taken to improve foreign reserves. Remittances of technical fees, consultancies, income and education fees, as well as personal travelling allowances in foreign exchange, were scaled down. This was reflected in the parallel economy by a decline in the parallel value of the Naira against international currencies as well as against the CFA Franc (Table 4.3), and by an intensified demand for international currencies in the parallel market.

In an effort to contain the emerging balance of payments crisis, a war was declared on what was termed foreign exchange malpractices and illegal currency markets. Wapa operators and other currency dealers had to mix legitimate business activities with currency trading in order to conceal the latter. In Wapa, trading in tyres became a popular front for the currency trade, as did trading in shoes, chinaware and agricultural commodities, all goods associated with a high level of customers from Niger.

At the level of the cross-border commodity trade, the principal developments during this period were the massive entry of re-exported rice and wheat flour into Nigeria's range of cross-border imports, particularly after 1982. In the north of Nigeria, Cameroun was the major player in this activity. Between 1982-1985, an average of 226,000 tonnes of rice and 164,000 tonnes of wheat and wheat flour per year flowed through the northern Cameroun border into Nigeria, along with livestock and locally produced grain. While re-exports to Nigeria were not part of Cameroun's national accumulation strategy, tax revenues from this activity were not frowned upon either (Egg and Igue, 1993:41; Engola Oyep and Harre, 1992:22,36-38). Flows of imported rice and wheat from Niger were somewhat less, amounting to something over 80,000 tonnes in 1985 (Gregoire, 1993:106). In Niger, cigarettes remained the largest item in the re-export trade to Nigeria, averaging 24% of Niger's total registered cross-border exports to Nigeria in the period of 1980-1988. Overall, in Niger's cross-border circuits, exports of local products continued to predominate over re-exports. In the 1980-88 period, registered exports of local products amounted to 62.4% of cross-border export flows, including livestock (45.4%), crops (12.8%) and local textiles (3.6%), while registered re-export flows comprised only 34.2% (Egg, 1993:25).

Table 4.3 Parallel Exchange Rate of Nigerian Currency against the CFA Franc, 1976–1985 (Rates in F CFA per Naira)

Year	Official Rate	Parallel Rate	% Difference
1976	381	280	-26
1977	437	243	-44
1978	419	197	-53
1979	461	201	-56
1980	529	201	-62
1981	534	294	-45
1982	507	287	-43
1983	555	185	-67
1984	584	124	-79
1985	460	100	-78

Source: Egg, 1993.

Cross-border exports from Nigeria were little changed from the previous period. Petroleum products and grain dominated cross-border flows into Niger, while flows into northern Cameroun were dominated by a range of local and re-exported manufactured goods. In the period 1980–1988, petrol accounted for an average of 39.7% of total registered cross-border flows into Niger, grain for 15.0%, cotton for 8.8%, construction materials for 8.2%, local manufactured goods for 13.2%, and fertilizer and other inputs for 1.1%, with the remainder made up of a range of miscellaneous products.

With the decline in the international purchasing power of the Naira, re-export flows became increasingly dependent on access to hard currency. Wapa currency dealers identified the late 1970s as the period in which dollars and Pounds became a significant feature of currency trading activities in Wapa. At this time, international currencies were procured directly for Naira, rather than through the intermediation of the CFA Franc. Wapa informants indicated that currency trading began to expand into a major operation around 1982/83, toward the end of the presidency of Alhaji Shehu Shagari who had been elected to office in 1979. By this time, the official non-convertibility of the Naira was becoming a practical reality outside Nigeria, and a serious foreign exchange shortage had developed within the country. The parallel value of the Naira was declining rapidly in the face of a high demand for foreign exchange, and contracting official supplies.

The increasing presence of foreign exchange in parallel currency circuits, combined with its growing scarcity in the official economy, drew increased official attention to Wapa activities. Under the Buhari regime, there was a serious crackdown on informal commodity and currency trading operations. The currency shops in Wapa were closed down and Wapa currency dealers withdrew to legitimate commercial ‘fronts’ many of which were located

outside the Wapa area, where they continued to transact currency exchange activities.

The evidence presented above points to a shift in the role of the CFA Franc in cross-border trading activities. During the 1970s, the CFA Franc operated as a vehicle for the procurement of unofficial imports through neighbouring Franc Zone countries, but was not used for the procurement of foreign exchange to purchase such goods on international markets, owing to the *de facto* convertibility of the Naira abroad. By the early 1980s, the Naira's loss of international convertibility provoked a shift to the use of CFA Francs for access to foreign exchange with which to purchase unofficial imports from the world market. L'Heriteau *et al.* (1991) noted that the proportion of Niger's CFA Franc notes repurchased by the BCEAO in Britain rose from 5% in 1970 to 32% in 1985. At this point, however, CFA Francs were used primarily as a means of funding unofficial commodity trade, and undoubtedly also for capital flight, but not to supply foreign exchange to informal currency markets.

#### 4.4 The Structural Adjustment Period (1986–1993)

The imposition of Nigeria's Structural Adjustment Programme in 1986 constituted another watershed in the development of Nigeria's cross-border commercial and financial activities. The Nigerian adjustment programme was characterized by repeated and significant official devaluation of the Naira, and a liberalization of currency and import regulations. At the same time, Nigeria maintained heavy subsidies on fertilizer and petrol prices, and imposed import and export bans on a range of staple foodgrains. From the outset, it was a recipe for an acceleration of cross-border trading activity.

Owing to the rapid devaluation of the Naira, the balance of cross-border trade began to shift once again in favour of Nigeria. The dramatic cheapening of Nigerian goods relative to those available in neighbouring Franc Zone countries, in conjunction with growing economic pressures on Franc Zone consumers who were themselves in the throes of adjustment, provoked a surge of Franc Zone demand for Nigerian agricultural, manufactured and subsidized goods, as well as cheap Asian re-exports. At the same time, the declining value of the Naira undermined consumer purchasing power in Nigeria, as well as the competitiveness of products from Niger, causing a reduction in cross-border flows of livestock, cowpeas and local manufactures from Niger (Egg and Igue, 1993:79; Mas, 1993:92; Naudet, 1993:136,149).

Table 4.4 Parallel Exchange Rate of Naira against the CFA Franc, 1976–1985 (Rates in F CFA per Naira)

Year	Official rate	Parallel rate	% Difference
1984	584	124	-79
1985	460	100	-78
1986	425	100	-76
1987	91	60	-34
1988	68	44	-35
1989	40	32	-20
1990	35	28	-20
1991	32	24	-25
1992	14	12	-14
1993	--	8	--
1994	--	10	--
1995	--	6	--

Source: Egg, 1993; Meagher *et al.*, 1996; fieldwork.

In 1993, Gregoire and Labazee (1994:34) estimate that annual export flows from Niger into Nigeria amounted to 24.4 billion F CFA, 83% of which was composed of re-exports from the world market, and 66% of which composed of cigarettes alone. Imports from Nigeria were put at 43.4 billion F CFA. Thus, in 1993, exports from Niger covered only 56% of imports from Nigeria, leaving Niger with a cross-border trade deficit of 19 billion F CFA. Estimates based on currency flows and balance of payments suggest even higher figures (see Naudet, 1993:141).

In addition to devaluation, trade and currency liberalization measures were also important factors in encouraging the expansion of parallel goods and currency trading. Liberalization on both sides of the border encouraged the extension of cross-border trading circuits from the border areas to the whole of the national territory, and beyond. Since the late 1980s, exports of Nigerian petrol, grain and fertilizer have penetrated to the far north and west of Niger, and a considerable quantity is re-exported to Mali, Burkina Faso and Ghana (Mas, 1993:95; Naudet, 1993:136). Re-exports from the world market have benefited more from this situation than exports of local products into Nigeria, owing to the lack of competitiveness of CFA denominated prices against goods from the Naira zone. According to official records in 1990, exports from Niger amounted to 5 billion F CFA, while re-exports reached 44 billion. Under SAP, cross-border exports from Niger have been characterized by a rising share of re-exports over locally produced goods (Egg, 1993:29).

Another effect of SAP has been an accelerating shift of cross-border flows into unofficial circuits, even on the Francophone side of the border, where these flows have, for the most part, been legal, taxed and officially recorded. Estimates of the extent to which official records in Niger underestimate cross-



border flows are of the order of 50–60%. Not only has this development caused a massive decline in state revenues in Niger, as well as in Benin and Cameroun, it has also undermined the only reliable source of statistics on cross-border flows between Nigeria and her neighbours. This development also contradicts the neo-liberal contention that adjustment measures would bring trade back into official circuits (Egg, 1993:193; Hamadou, 1996; Gregoire and Labazee, 1995:14; Mas, 1993:91,97; Naudet, 1993:137).

Two other significant developments which have occurred under SAP have been a shift from circuits to one-way trade in the cross-border commodity trade, and, from 1992, the increasing shift of the centre of re-export trade with northern Nigeria from the Niger border to the Benin border. The rise of one-way trade is attributable to the liberalization of currency transactions and the decline in purchasing power in Niger as well as Nigeria. It is now more profitable to maximize turnover time by trading in one direction and changing the money on informal currency markets, than to wait for return goods to sell on slow markets (Gregoire and Labazee, 1994:11; Meagher and Ogunwale, 1994).

The shift of re-export circuits to the Benin border derives from a number of unfavourable changes in Niger's re-export and transit policy in the early 1990s, combined with declining purchasing power in Nigeria. Critical policy changes included an increase in the special tax on goods transiting to Nigeria, the imposition of a ban on the transit of goods such as rice and wheat flour, and a requirement to release into the Niger market, 10% of merchandise declared to be in transit. Between 1991 and 1993, re-export flows from Niger declined by 42% (Gregoire and Labazee, 1995:16).

While certain aspects of the cross-border commodity trade have been restricted by structural adjustment, the parallel currency trade expanded dramatically under SAP. Two developments related to the implementation of structural adjustment policies were responsible for this. First, the emergence of a parallel trade surplus in favour of Nigeria meant a significant increase in the availability of CFA Francs in Nigerian parallel currency markets. At the same time, the liberalization of currency markets under SAP permitted much greater freedom in parallel currency operations. In particular, liberalization permitted the more open holding and movement of international currencies, essential to the development of currency trading activities that are conducted outside the Nigerian banking system.

The result was the development of a system of large-scale recycling of CFA Francs for hard currencies, largely via London and Saudi Arabia (Meagher *et al.*, 1996). These activities were carried out by means of physical transfers of CFA Francs to the countries in question, where they were exchanged for hard currency, which was then brought back to Nigeria to supply the currency markets. Operatives acting for currency traders or major busi-

nessmen would leave Kano for London on the night flight with millions of CFA Francs, exchange them for hard currency through the banking system, and return the following afternoon with the foreign exchange. It is said that one earned N15,000 for carrying out such an operation.

In contrast to its role in the 1970s and early 1980s, the central role of the CFA Franc under SAP was the procurement of hard currency for resale on Nigerian parallel currency markets, rather than the procurement of commodities for unofficial importation. These currency movements were motivated by the difference in the parallel exchange rates of CFA Francs relative to hard currencies. Despite the existence of a large trade surplus with the Franc Zone, and declining levels of imports from Niger, there was a chronic shortage of CFA Francs in Wapa, motivated by the rising demand for hard currency in the face of a rapidly devaluing Naira. It became common for Wapa currency dealers to make trips to the Niger border to exchange Naira for CFA Francs, which could then be used to procure hard currency.

Wapa informants indicate that the use of CFA Francs for currency recycling, as opposed to commodity trading, began in 1986. At this point, the practice was restricted to only a few of the larger currency dealers, but became more widespread by the early 1990s. BCEAO records show that in 1991, 25 billion F CFA originating from Niger were leaving the Franc Zone (Gregoire and Labazee, 1995:35). The liberalized context of SAP provided a perfect environment for the development of such recycling activities.

The structural adjustment period, which represented the heyday of Wapa currency trading operations, was decisively interrupted by the Franc Zone monetary reforms of 1993/94. Within Nigeria, the reimposition of currency controls, crackdowns on parallel currency markets, the tightening of controls on the banking sector, and the stiffening of border controls under the first year of the Abacha regime added to the gloomy mood in the parallel economy. Both the structural adjustment period and the period following the Franc Zone monetary reforms represent decisive phases in the development of the parallel currency and commodity trades, not only in Nigeria, but throughout West Africa. The impact of these events on the inner workings of the parallel currency trade will be dealt with in greater detail in the next section, followed by a closer analysis of the cross-border commodity trade, which will be undertaken in the succeeding section.

## 5. Wapa And Financial Intermediation

### 5.1 Wapa: Structure and Organisation

#### Size

Physically, Wapa is spread across four adjacent blocks on the edge of Fagge's border with Sabon Gari (two old migrant settlements in Kano). A fifth block, again adjacent to two of the blocks and bordering *Layin Yan Goro* (Yan Goro road), is emerging. Wapa operators can be divided into three broad categories—the big, the medium and the low level operators. The proportion of Wapa operators in these categories, especially the topmost category, varies in the different estimates offered by our authoritative informants. However, between 1–3% at the top, 15–20% at the middle, and the rest at the lower level would seem to be the consensus of our various sources. Currency operators move in and out of especially the last two categories and this probably accounts for the differences in the estimations of our informants.

The total number of operators is also not known; sources interviewed in Wapa estimate the figure at anything from 1,000 to 1,500 operators. However, based on our own estimates, the lower figure seems more realistic. Estimates offered by interviewees based on information derived from the register of members of the association of Wapa currency traders is likely to include dealers in at least three other locations in Kano. Indeed, traders at the airport, the long distance motor parks, and at the Central Hotel told us they too belong to the Wapa currency traders association.

Our own estimates convince us that the number of traders is closer to between 800 and 1000 operators. A spot count survey of the shops or offices (*shago* or *shaguna* plural) at Wapa shows that there were about 89 of them in the five blocks that make up the area. One block had 31 *shaguna*, another had 22, a third had 17, the fourth had 12, and the fifth 7. Even assuming that each *shago* contains seven operators which is the arithmetical mean of the number of operators we counted in a casual survey of eleven *shaguna*, the total number of operatives in the *shaguna* will be about 600. If we add the 300 or so operators who hang out at the entrance to Wapa nicknamed 'Gaza' (these operators, nicknamed *Yan Palasdinu* or the Palestinians, give Wapa its unique

character)<sup>4</sup>, we get a figure of about 900. It is only if we include the 100 to 200 operators in other locations within Kano that we will be talking of a thousand operatives or slightly over that number. Double counting as operators move in and out of the *shago* and between 'Gaza' and the *shago* might be offset by the likely undercounting of the *shaguna* that might have occurred due to the remoteness of some of them. Thus it was that we arrived at our conclusion of a figure of 900 to 1,000 operators.

#### Business Organisation

The *shago* is an important unit of organisation of the currency traders' business in Wapa. Some of the rich currency traders have acquired properties in Wapa and have demolished them in order to build several *shaguna* which they rent out to other currency traders. Most traders acquire their *shago* in this way, that is on a rental basis with two to four traders sometimes combining resources to hire a *shago* or two. The more successful traders acquire an exclusive *shago* or even two to four just for their operations. As many as ten traders could operate from one *shago* either in turns or, as is the practice among some of them, simultaneously. Some of the ten might not have contributed to the rent but will offer services to the owners or pay a commission.

A *shago* often has one or more of the following additional investments: a telephone, a safe, a calculator (or a couple of them), a vehicle to move money to customers, tables and chairs or carpets and mats. The more sophisticated operators might, in addition, have a cell phone, a currency counting machine and fake currency detectors. The big operators typically have their own *shaguna* that they pay for their exclusive use. They also have many agents who secure businesses for them, with the agents being free to add their own margin to the prices. Furthermore, they have special customers that they can go to and who can give them directives on the phone. This category of traders usually has many of the investments mentioned above.

Although independent and operating in their own right, many of those traders in the top league also acquired patrons in high and strategic places in the economy and government during the boom years of Wapa (1985–1993). This introduced some differentiation among them and increased our three simple categories to four with the first category now divided into 'the very big' and 'the big' operators. One informant suggested that by 1995/96, a down turn period in Wapa, the top league had shrunk in size first from eleven

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<sup>4</sup> The name is used within Wapa and is accepted by the operators so called. The symbolic relation with Palestinians is, in the absence of an office (homeland) the fact that they are the gate of Wapa and on the front line and the first to confront the enemy (police, undercover security etc.). The name also reflects the aspiration of this level of operators for liberation through owning a *shago* jointly or otherwise.

to seven and then to four. Those who invested their profits during the boom years into other businesses such as real estate, import-export activities, small scale production etc. remained afloat while those who did not collapsed with the fall in business at Wapa.

The middle operators usually combine to take a *shago*. They could invest in calculators, tables and chairs or mats and maybe a telephone line. There were at one time during the research over 76 lines in Wapa which were compiled in a directory for circulation. This makes it the most concentrated area for telephone services in Kano. Middle operators change fairly small amounts like 100 to 500 dollars (US) and combine to change larger amounts of up to \$1,000 or more. For bigger amounts, they might have to go to big operators and either hope to add their own spread by selling to them at prices above what they have offered the customer or hope to earn a commission for bringing in business.

The low level operators or the *Yan Palesdinu* have no capital except possibly a calculator. They hang outside the most popular entrance to the Wapa market called 'Gaza' and literally pounce on arriving customers or potential customers, announcing the array of currencies they exchange and offering to sell to the customer at 'good' prices. When an agreement is reached about rates with customers, they go to their patron—a middle or big operator—collect the money and bring it back to the customer who in turn surrenders the agreed equivalent in Naira if he or she is buying foreign currency or whatever currency the customer is selling which they then return to their patron operator for a commission. Where the low level operator has no patron, he will, after agreement on the exchange rate, ask the customer to follow him to a *shago* and ask the operator in the *shago* to give the customer the amount agreed. The operator in the *shago* will oblige the low level operator and after the customer is gone, gives him his commission. The low level operators, therefore, earn either a commission for their role.

Although Wapa is now predominantly a currency market, its organisation as a business centre is still tied to other forms of business. In the beginning, it was a small place where pilgrims and caravan traders came for services and contacts. Mahmuda Dantata, who is most strongly associated with Wapa's development, once had a night club, a cinema (which still stands), cheap lodging and a printing press in the area. A survey of the Wapa area today reveals a number of other businesses dotting the environment which is otherwise dominated by the presence of currency traders and their *shaguna*. As expectedly, there are a number of bureaux de change or BDCs located in Wapa. These include:

1. Katforex Bureau de Change
2. Ibro Bureau de Change
3. All States Bureau de Change

4. Barewa Bureau de Change
5. Shadai International Enterprises Nigeria. Ltd BDC (also called El Shadai Bureau de Change)
6. Damco Bureau de Change
7. Forward Marketing Communications Bureau de Change

Other businesses which have a conspicuous presence in Wapa include:

- Wapa Community Bank
- Iro Mohammed General Enterprises
- Ustaz Travels Ltd
- Jibrin Adamson Enterprises Ltd
- Combined Trade Ltd
- Agricultural Commodities International
- Wada Kura Investments
- Olawole Community Press
- A number of Michelin tyre dealers
- A law firm
- A cinema

All the big time Wapa operators have some other business they are engaged in, especially the related businesses of trade (import and export) and finance. While some import beans, textiles, perfume and cars, others export gum arabica, ginger and spices . Some others sell tyres, chinaware, hides and skin or are engaged in different types of cottage production Yet others are shareholding directors in community banks. As a result of their history, the bigger currency operators sometimes organise under a registered firm of the general purpose type. A provision is made in the objectives of the general purpose firm 'to provide financial services' under which possibly, but erroneously, it was hoped that currency exchange could be covered.

There is no evidence of registration or licensing at the Corporate Affairs Commission or CAC (the registry for businesses) for all but one of the BDCs at Wapa. However, many of the BDCs have parent organisations in the form of general purpose companies with a provision 'to provide financial services' as part of their business objectives. Wapa operators are also collectively organised as a BDC. However, as with most of the other BDCs mentioned, there is no evidence of this at the CAC. This might be because of the bureaucratic bottle-neck that is likely to arise from the fact that BDC registration involves three major bodies—the Central Bank, the Ministry of Finance and the CAC. Indeed, the Central Bank in three different annual reports mentioned only three of the BDCs at Wapa, even if doubts can be cast on this because of the spelling differences in their names and the abbreviation of the name of one. The point though is that all the BDCs, including those at Wapa,

ought to have records of registration at the CAC where it will be accessible to the public.

Al-Amanat: Interest Association and Business Organisation

Al-Amanat is the official name of the Wapa currency traders association. It was launched in 1993 at a public ceremony involving the second level of the hierarchy of government and traditional rulers in Kano State. The ceremony was attended by the Deputy Governor and Secretary to the State Government from the government side and by the *Galadima* and *Wamban* Kano, the two most senior title holders in the Emirate Council of traditional rulers. Others who attended the ceremony included the Chairman of the Nassarawa Local Government Council which governs the community or neighbourhood in which Wapa is located. This official recognition of Wapa operators is part of what has given the business and its operators the confidence to operate openly.

Al-Amanat has a dual identity. It is both the name of the association of currency traders catering for their group interests and also their business name. In some of its rare, officially printed documents (receipts, calendars or letter-headed stationery), it is identified sometimes as 'Al-Amanat Nigeria Ltd' or 'Al-Amanat Bureau de Change'. Officials and operators in Wapa all say and believe it is registered and licensed as a BDC. Again while this might be the case, there is no evidence of registration at the CAC. Computer searches of all business names and of BDCs in CAC records did not yield Al-Amanat. Neither do the annual reports of the Central Bank which normally contains all the BDCs licensed. The problem might be that of bureaucratic inefficiencies as was mentioned earlier. The consequence, however, is that it reinforces the lack of information about Wapa as the mandatory public information on all registered businesses is not available in its case. This must add to the protection of Wapa whether or not it was so intended.

The meaning of the name Al-Amanat is also significant given Wapa's historical experience of repression and persecution at the hands of state officials. Literally meaning 'the trust', Amanat in Hausa Islamic society carries a connotation that is far stronger than just the literal notion of trust. It bears the moral power of a binding contract to protect, defend and act in accordance with the understanding of the parties to the Amanat. Despite its registration as a business or because of its additional and major role as an interest association, it has remained highly secretive with a public face for the society and a body which only a few have seen. In this way, it is a highly effective organisation in the defence of its members.

Yet, Wapa is not a mafia-type organisation. An operator in the Lagos parallel currency market suggested to me that it is the shared values derived

from the similar ethno-sociological cultures of its operators that allows for a closely knit organisation at Wapa. All the operators we met in one year of regular interaction are from the northern West African Islamic cultures. There is a diversity of ethnicities especially in origin, but there are common cultural norms between them. A similar system of socialisation is also likely as many of the migrant operators are not first generation residents. Kura, the headquarters of a Kano district that is about thirty minutes drive from Kano, apparently has the single highest proportion of operators, especially in the top hierarchy where the population is small.

Although Igbo traders are among the important customers in Wapa, there are no resident Igbo currency traders. This is despite their involvement in the trade in the Lagos parallel currency market and their dominance in the one at Onitsha. They, however, visit Wapa to do business but are not resident traders. The other big ethnic group in Nigeria, the Yorubas are not much into parallel currency trade and are not in Wapa as currency traders.

There are also no women currency traders at Wapa. It is a male market. Operators informed us that there are few women customers and the few are mostly Yoruba women traders. Local women cross-border traders are hardly seen at Wapa as they transact their trading and exchange activities through male agents. Women of other nationalities (e.g. from Niger) are known to visit Kano on trade and business trips but, according to our informant, they are not often seen at Wapa. They send their male helpers or agents to exchange money for them.

#### Structure and Function

The structure of Al-Amanat is not very clear and the fact that it straddles the divide between a business and an interest group has not helped matters. In the only calendar (1993) published by the association which is not in circulation, the following offices were mentioned against names and photographs.

- Chief Executive Director
- Executive Director
- General Secretary
- Director/Treasurer
- Directors (sixteen of them)
- Securities (six in number)

However, to the public and in Wapa itself, the Executive Director is referred to as Chairman. The latter title and that of Secretary are usually more associated with interest associations and clubs. The designation of Executive Director is, on the other hand, more associated with businesses and corporate



groups. The ambiguities are, therefore, understandable given Al-Amanat's dual identity as a business and interest organisation.

The current Chairman or Executive Director has become the public face of the organisation. He gives interviews, attends public functions and comments on budgets and on economic policy. He has, in point of fact, been nicknamed Wapa which is presented as his surname in the press and public media. It is not clear if this is the decision of his organisation or if it is because of his personality. But nobody else in the leadership is so projected in public.

Interviews at Wapa also reveal that the directors are very important. Their number is put at thirty (30) by an operator but from the Al-Amanat calendar mentioned earlier, they seem to be only sixteen (16) or at most twenty (20) if we include other executive members. However if the six 'securities' are added, the total number will be getting closer to the thirty (30) our interviewee gave. The directors would seem to all be drawn from among the big and, perhaps, middle operators. They have the responsibility of ensuring the registration of up to ten (10) members each. This gives them a lot of patronage leverage. They are, in this way, also responsible for screening for entry into the Wapa fold.

The category of officials called 'securities' is one of the innovations that have made Wapa successful. They are also called 'Wapa police' as their job is to discipline operators, especially the *Yan Palesdinu*, and to make sure that customers visiting Wapa are not duped, harangued or cheated. They are to also look out for suspicious visitors who trail customers with the intention of mugging them. Furthermore, they enforce the rules of operation which are about 20 in number. These rules carry with them fines and, in cases of severe breaches, suspension from operation. The 'Wapa police' are responsible for administering the punishments that are meted out. They are also to keep out those who have been expelled from Wapa 'for cheating and bringing the market into disrepute'. There were nineteen such individuals according to a list obtained from one of the directors in March 1996.

Operators in Abuja, Kaduna and Lagos all mentioned how Wapa operators have cleaned their market of miscreants and established control. They praise the security, discipline and control of crime which they say the Al-Amanat has ensured at Wapa. Some also mentioned that some serious cases of fraud are taken to the Nigerian Police Force by the Wapa operators themselves. This was confirmed at Wapa. It is even in Al-Amanat's "Rules of Operation" that those who bring fake notes to the market and those who buy stolen goods knowingly shall be handed over to the Nigeria police.

#### Activities

The functions of the officials of Al-Amanat indicate some of the activities of the organisation. It is clearly engaged in a lot of trust-building activities by ensuring that a few bad eggs do not destroy customer confidence in Wapa. Stopping the rush on customers, which was once characteristic of Wapa, is all part of this trust-building activity.

Al-Amanat is also engaged in regulating competition among the operators. Many of the rules of operation that the 'Wapa police' enforce concern the relations between operators. Thus, undercutting each other, or taking money from another operator under the pretext of transacting business for him and instead using that money as capital for quick returns, are all forbidden.

A very important activity is the social protection (insurance) offered to operators to shield them from adverse circumstances. So, financial support either from the common kitty that is built out of the weekly dues paid by the traders or from special contributions could be offered depending on the magnitude of an operator's needs. Another form of this social protection is the mediation of relations between the operators and the public authority. Sources at Wapa said when the Nigerian Police, in spite of the 'understanding' that is regularly reached with them, arrest operators, the association is always there to 'bail' them out. Fostering good relations with the Nigerian Police and other public officials is, therefore, a major activity of the organisation.

Indeed, the Chairman or Executive Director of Al-Amanat is known to have built and donated two police stations near his houses in both Kano and his village to the Nigerian Police. In 1996, two policemen were killed in Kano when armed robbers attacked his house. He, however, survived. So cultivating public authority is a major activity of Al-Amanat's and one which protects its members and officials.

Al-Amanat has, therefore, been very successful organisationally. It has made it easier for the police to co-operate with Wapa operators by the fact that they have tried to build legality by seeking registration for their interest organisation as one whole business of all the market operators. In addition, it has tried to stamp out some of the criminal activities like fraud, stealing, counterfeiting, duping, etc. associated with the parallel currency trade. Al-Amanat has also succeeded, as one operator put it, by 'taking care' of the police.

## 5.2 Wapa As a Currency Market

All parallel markets share similar characteristics and, at the same time, have characteristics peculiar to them and their histories. In this section, we shall undertake an examination of the characteristics of Wapa focusing on demand and supply in the market as well as pricing. We shall also look at the size of the market in terms of the volume of trade and in relation to its competitors in both the formal and informal sector.

Wapa is predominantly a currency market today. This distinguishes it from the Wapa of the past and from other parallel currency markets such as the one in Lagos. The Balogun/Bristol parallel currency market in Lagos is dwarfed by the overwhelming presence of a consumer goods market. At Wapa, on the other hand, the visitor is first confronted by a large population of men in traditional costumes and it is easy to mistake them for people attending a ceremony. A step into a *shago* will, however, reveal the real business which Wapa is all about. Stacks of currency are often noticeable and the *shago* of the CFA big-timers is stuffed with sacks of currency off-loaded from pick-up vans.

The currency trade at Wapa involves both retail type activities, like those of bureaux de change, as well as big trade financing transactions. Arbitrage and roundtripping also have their own moments in Wapa as currency traders from other Nigerian cities bring their currency stocks to Wapa for exchange. A big-time operator at Wapa informed me that almost on a daily basis, there are currency traders from Sokoto, Maiduguri, Lagos, Onitsha, Port Harcourt, Calabar and Adamawa visiting Wapa to exchange their currencies. Sometimes, these are arbitrageurs hoping to do good business from differences between currencies and between currency markets. They could also be speculating or else trying to satisfy a customer demand that cannot be met in their markets (or as profitably met as in Wapa).

The currency traders at Wapa, especially the big ones, are not always waiting for business to come but are also out chasing it within Kano, in other cities in Nigeria and abroad. Arbitraging and roundtripping are some of their motives also. The trade routes are particularly popular. So Francophone west Africa, Paris, London and Jeddah in Saudi Arabia are all routes for round-tripping and currency switching.

The exact volume of currency trade at Wapa is hard to estimate and our attempt to monitor it was quickly abandoned because of the sensitivity shown by traders. Snippets from sources inside Wapa give an indication of the market's capacity and some of the big transactions possible even if they do not give us the volume. One source, while discussing the capacity of big traders in Wapa, mentioned that one particular trader is the only one capable of

buying CFA 100 million a day since the devaluation of the CFA Franc. This amount which is about sixteen million Naira (N16m) or two hundred thousand US dollars (\$200,000) may represent the upper limit of the market for CFA Francs in a day since the CFA devaluation of 12 January 1994.

Another reliable source and very much an insider in Wapa gave us his estimation with the warning that it was 'a rough guess' and that 'it is almost impossible to give a figure on the volume of business even when the market is booming'. At the height of business in Wapa in 1993, a turnover of over one billion Naira (N1,000 million) per week must have been recorded. This, he argued, was the height of the period of arbitrage and roundtripping. Many operators at this time bought CFA Francs and converted them to US Dollars and Pounds Sterling in Europe which they brought back to Nigeria or even took to Saudi Arabia for conversion to riyals which were then brought back to Wapa. It was at this time that the Naira exchanged for as low as 102 Naira to the US Dollar. Our source also said that it was common at that time for one individual to purchase one million US dollars in one transaction. In response to our question about the highest amount that, to his knowledge, has been recorded in a transaction in Wapa, he replied that it was 'the purchase of eighty million US Dollars (\$80m) in two weeks by two banks on behalf of some clients' in 1993.

Another Wapa insider informed us that in 1994 when he got business to exchange one hundred and fifty thousand dollars (\$150,000), he could not get it done at Wapa on the same day and had to send someone to Lagos to exchange part of the amount in Lagos. This he said was indicative of the downturn of business in Wapa as the amount represented about twelve million Naira (N12m) at that time.

These figures can serve as indicators of some of the magnitudes involved in business at Wapa. They shed light on what can be absorbed and what cannot both at the boom and at the downturn periods of Wapa.

#### Demand and Supply at Wapa

The previous section indicated what the demand and supply at Wapa is like, although it does not give and cannot yield any cumulative figures. From the official foreign exchange market (under its various acronyms of FEM, SFEM and AFEM), we can get a picture of the overall trends in the national economy. It is clear from table 5.1 that demand far outstrips the supply of foreign exchange. For almost all the years stated, supply did not meet up with demand.

Table 5.1 Demand and Supply of Forex at the Official Foreign Exchange Market, 1988 -1996 (millions of US Dollar)

Year	Demand	Supply	% of demand met	Unmet demand
1988	3,259.9	2,711.1	83%	548.8
1989	17,337.2	2,163.2	12%	15,174.0
1990	20,196.6	2,501.6	12%	17,695.0
1991	9,452.3	2,927.3	31%	6,525.0
1992	6,434.6	4,045.7	63%	2,308.9
1993	40,641.9	2,892.7	7%	37,749.2
1994	35,691.3	1,961.1	5%	33,730.2
1995	1,748.0	1,747.1	100%	0.9

Source: Computed from CBN Annual Reports for the years indicated.

#### Sources of Supply to Wapa

From table 5.1, it can be seen that the official Forex market (FEM) sometimes supplies only 5% of the demand. In five of the eight years for which figures were available, the official FEM supplied less than 35% of the demand in any one year (even less than 13% in four of the five years). The rest of the demand or part of it has to be met by parallel markets like Wapa. But from where does Wapa get the foreign exchange to supply the market? Ascertaining the sources of supply to Wapa will further shed light on its characteristics as a currency market.

In our enquiry about the sources of supply of currency to Wapa, there are three which are regularly mentioned, namely:

- Traders and travellers;
- Exporters;
- Banks and other formal financial institutions.

It would seem that there is a lot of validity in the authoritative claims of our Wapa informants. Traders and travellers were the initial source of supply to Wapa in its early days. The two sources were linked by Wapa operators probably because of the nature of the close linkage between trade and caravan travel in the early days. Travellers on pilgrimage were also traders or did some trading across the way. Moreover, in the local language, the term travellers is broad and acquires specificity only when combined with the purpose of travel. With the increase in cross-border trade with Nigeria and the increase in the movement of people along the West African sub-region over the years, it stands to reason that this source of supply has not disappeared.

Table 5.2 Settlement (millions of Naira) through the West African Clearing House (WACH) 1990 to 1995

Year	1990	1991	1992	1993	1994	1995
Receipts	14.67	1.80	5.27	7.57	0.004	26.95
Payments	90.75	119.70	228.68	486.99	1867.31	4780.93

Source: CBN Annual Reports

Nigeria is a major source of goods to other West African countries, especially following the introduction of SAP when the massive devaluation of the Naira made Nigerian goods relatively cheaper for CFA Franc zone consumers. However, transactions at the West African Clearing House (WACH) which are 91% commercial, have consistently shown a deficit for Nigeria as the country's official export receipts from West Africa fell far below the imports (see table 5.2). This suggests that most of the exports to West Africa from Nigeria, are paid for through unofficial channels and Wapa is almost certainly one of the sources of supply.

The major currency that reflects this trade-related source of supply in Wapa is the CFA Franc. The other important currency at Wapa, the US Dollar, is more of an all purpose currency given its international reach and acceptability. Though the CFA Franc of west Africa is officially equal in value to the CFA of the central African region, at Wapa their prices differ, apparently reflecting the differences in trade between Nigeria and the two regions. Further evidence of the trade relatedness of the CFA Franc and its supply at Wapa is the sensitivity of the Naira to the border relations between Nigeria and its immediate West African neighbours or between those neighbours and their nearest neighbours. During the course of this research, the most noticeable such occasion was the closure by Nigeria of its side of the Nigeria-Benin border in 1996, just before the Benin elections. It was argued by some that the closure was directed at influencing the outcome of the Benin elections.

The second source of supply to Wapa—exporters—also includes West African traders exporting through the unofficial cross-border networks. Grains, and other agricultural exports are an example. Products exported not only include agricultural goods but also plastics, textile prints, and leather. Industries and small trading firms are also included in such exports which might be official or semi-official.

In the case of un-official exports, parallel currency markets like Wapa are natural destinations for their forex earnings. In the official or rather semi-official cases, under-invoicing of the export bills has generally been known all over the world to be the method by which firms retain their forex for exchange at the more favourable parallel markets like Wapa (see Gulati 1988 for

the extent of this in Argentina, Mexico and Brazil). It would seem to be the case for Nigeria also, although the magnitude is far from clear. The Nigeria Export-Import Bank (NEXIM) argued in its 1992 annual report

... data from 50 banks summarised ... suggest that private sector export orders received in Nigeria in 1992 totalled about \$504 million—nearly twice the reported realised non-oil receipts during the same period which stood at \$264 million. It is possible that some export orders may have been executed but went through as largely unrecorded trade through understatement of volumes, prices and values as well as non-declaration of exports. (Nexim, *Annual Report 1992:31*)

This lack of transparency on the part of the exporters might have been for the purposes of optimising their gains as Nexim suggested, in which case the earnings in foreign exchange would come back to the parallel markets such as Wapa. However it could also be for capital flight purposes, especially, but not solely, if the company involved is dominated, by foreign owners.

The third source of supply mentioned by our Wapa interviewees—banks and other financial institutions—seems to confirm what has long been speculated in the local press, that the Central Bank of Nigeria's official sales through the FEM are subject to roundtripping and arbitrage. Notwithstanding this confirmation, a big operator at Wapa assured the researchers that supply from formal financial institutions happens only occasionally and is limited to two currencies—United States dollars and pounds sterling (research notes recorded on 3/4/96). In which case arbitrageurs might be operating through BDCs because the recycling of official purchases by authorised dealers has been confirmed by the CBN. Indeed, in December 1992, the CBN suspended trading at the FEM to allow it to investigate irregular transactions such as speculative purchases far above the one percent allowed authorised dealers (*Newswatch*, 11/1/93 p. 41). The CBN had earlier disqualified 40 banks from trading in the market and, in subsequent years, added more offending banks to the list.

Many banks and bank managers were alleged to have made a fortune from arbitrage and roundtripping in the SAP reform period up to 1994. They had come to depend on the liberalised foreign exchange regime to such an extent that interbank lending was mainly directed at the buying of foreign exchange at the FEM. When the CBN suspended FEM sessions, interbank rates fell from 112% to 42% within a fortnight (*Newswatch*, 11/1/92 p. 41). As the Nigeria Deposit Insurance Corporation (NDIC) noted in its 1992 annual report, the fact was that

... most of the unhealthy banks including many of the healthy ones had come to rely on dealings in foreign exchange as the surest means of earning cheap income and as a means of sourcing funds. (NDIC *Annual Report*, 1992:10)

The closure of the foreign exchange loopholes in 1994/95 was one of the main causes of the distress that claimed 17 banks in 1996. The high parallel market premium before 1994 as well as the increased rate of banking malpractices following the rapid expansion of banking services after SAP, all encouraged the supply of foreign exchange bought at FEM to parallel markets like Wapa. However, BDCs are likely to have been the more favourable destination for these funds. This can be inferred from their own distress following the closing of the loopholes by 1995. Only about 20% of over 200 BDCs registered were making returns by the end of 1995 (*Business Times*, 18/12/95, p. 2). Many collapsed just like the Community Banks, leaving informal credit societies to thrive.

Other sources of supply not mentioned by the operators at Wapa because they are not considered to be too significant and/or too visible include remittances from the many Nigerians that have migrated since the economic crisis of the early 1980s and the adjustment programme that followed in 1986. In places like Pakistan, the effect of this source has been shown to be significant (see Banuri, 1989). There is also the supply from the slight increase in tourism that is likely to have occurred as Nigeria became a low cost destination with the devaluation of the Naira. Drug dollars can also not be ruled out as a source of supply. Nigeria has become a transshipment point for drugs and more Nigerians have become involved in the drug trade since the 1980s. As the cases of Columbia, Guyana and Jamaica show, this could become an important source of currency supply (see Thomas, 1989). In the course of this research one of the top Wapa operators was arrested allegedly for doing business with suspected drug merchants. However, drug dollars are suspected to be laundered mostly through imports of high-price consumer goods rather than through direct currency exchange.

#### Sources of Demand at Wapa

Most of our informants mentioned two main sources of demand for foreign exchange at Wapa and some added a third. These are:

- Traders and importers
- Pilgrims to the religious holy lands

Some added 'Lebanese and Indian businessmen' as a separate category from which there is demand for hard currencies. But the consensus is that traders and importers are the main sources of demand for foreign exchange at Wapa. Upon further enquiry, they were said to mainly import textiles, machinery and spare parts, cigarettes, home provisions, food items, leather, watches, second-hand items including cars and luxury articles. Imports are from diverse places and include West Africa, Europe, Middle-East, Asia and North



America. Consistent with the findings of studies of other parallel markets in developing countries (see Pitt, 1984), demand at Wapa is generated both by legal imports as well as imports of restricted trade items. Therefore, smuggling activities do generate some of the demand at Wapa.

Although some importation into Nigeria from other West African countries does go through official channels, and this is evident from the payments made by Nigeria through the West African Clearing House (WACH) (CBN annual report, 1994 p. 147), a lot of unofficial trade also takes the form of informal cross border activities. A major non-cross border trade route is the so-called 'Kano-to-Jeddah' route. There is currently a regular weekly cargo plane from Jeddah in Saudi Arabia to Kano that brings in items for the *Kantin Kwari* market and the pilgrims' camp market. 'Kano-to-Jeddah' businessmen have formed consortia and combine to import goods together. They have Nigerians stationed in Saudi Arabia who send the goods, ensuring that they come on particular cargo flights. They call Kano to give the information and the consortia involved organise to receive and clear the goods through customs.

Pilgrimage to Saudi Arabia has both promoted this trade over the decades as well as sustained it through regular information on prices, the ready availability of popular goods, the supply of new products, the acquisition of Saudi cultural consumption patterns etc. Consequently, pilgrims demand extra foreign exchange above the officially sold amount that is authorised as basic travel allowance (BTA). This allows them to join in the 'suit-case trading' common on Nigeria's international travel routes. During the *Hajj* and *Umra* (lesser *Hajj*), therefore, demand for Saudi riyals and dollars is very high at Wapa and prices rise.

The mention, by some of the Wapa informants, of Levantine and Asian capital as sources of demand distinct from traders or importers might be indicative of the demand generated at Wapa by capital flight and profit repatriation. In addition, these foreign nationals are widely alleged to ask for foreign exchange to import restricted goods and/or raw material and machinery for their medium to small scale firms.

Capital flight and profit repatriation motives are invisible because, unlike trade, they are not often stated. But these motives have long been officially recognised as regards foreign companies in developing countries (see Gulati, 1988). Over-invoicing of imports and under-invoicing of exports are the common means of such capital outflows, especially for the big foreign firms. Nigeria's chronic political instability must make it one of the best candidates for such capital flight. Indeed, the early 1990s boom at Wapa that reached its peak in 1993, must have been partly generated by demand associated with capital flight. The official trade at FEM also indicates that demand at that period reached a peak. The first peak was in 1990 when demand for foreign

exchange at FEM reached over \$20billion. It subsequently came down but picked up again reaching over \$40 billion in 1993 and over \$35 billion in 1994 after which it fell again. These demands were largely unmet at FEM (see table 5.1) which left parallel markets like Wapa with the task of meeting them. It will be remembered that these three years—1990, 1993 and 1994—were the most turbulent years politically for the country because of the Nigerian civil war. Capital flight associated with the political turbulence experienced following the annulment of the 12 June 1993 presidential elections very likely explains the boom that occurred at Wapa in the number of ‘individual demands of up to one million Dollars per transaction’ recorded in that year.

Other sources of demand on parallel currency markets in developing countries likely to generate demand at Wapa also include portfolio diversification. This has been shown to be especially prevalent in middle income economies and it entails the practice of keeping cash assets in different currencies. Nobody at Wapa suggested this kind of demand, again probably because it is not as visible as say importation needs. Indeed, the spate and nature of crime suggests that this type of demand has to be disguised not only from the state but even from business partners at Wapa. Demand based on the need to diversify portfolios, however, exists.

Table 5.3 Naira/US Dollar Exchange Rates and Inflation Rate (1975=100, \*1985=100)

Year	Naira equivalent of 1 USD	Inflation rate (CCPI—All )
1986 Jan.	0.9996	-
1986 Dec.	2.5954	5.4
1987	3.7236	10.2
1988	4.5025	38.3
1989	7.4089	40.9
1990	8.0374	7.4*
1991	9.9331	13.0*
1992	17.3760	44.6*
1993	22.1610	57.2*
1994	21.9960	57.0*
1995	80.0000+	na
1996	na	na

The high double digit inflation in Nigeria aggravated by SAP, along with the rapid and steep devaluation of the local currency as brought out in table 5.3, combined to make portfolio diversification attractive. Foreign currency holding becomes necessary in this kind of situation if the value of savings is to be retained. The CBN has recognised the adverse impact of this high inflation rate and the sharp devaluation of the Naira as being partly responsible for the high demand in the official FEM market. Although the CBN suggests that the demand is to finance imports of inputs, it nevertheless recognised portfolio

diversification and capital flight as one of the sources of demand for forex in the official FEM:

Since the increase in money supply is large, investment opportunities in real and financial sectors are limited, a significant proportion of the increase in money is allocated to purchases of goods and services for consumption, investments in real estates, and inflation hedges such as flight to foreign assets including hoarding of foreign exchange and capital flight. (CBN, *Annual Report* 1994:110)

The CBN also recognised the shift in demand to the parallel markets thus :

... a significant pressure in the official FEM was diverted to the parallel market in which the exchange rate consequently depreciated sharply (CBN, 1994:12).

The financial authorities, therefore, recognise that macro economic instability generates demand for forex for purposes of portfolio diversification. It is also recognised that such demand spills over to the parallel markets even if it is not obvious and we could not pick it up from our Wapa informants. Having described the patterns of demand and supply at Wapa and their sources, it is now pertinent to look at pricing.

#### Currency Pricing at Wapa

All the interviewees at Wapa asserted that the prices of currencies are determined by supply and demand. Any development (e.g. border closure, political difficulties, pilgrimage hitches etc.) that raises or lowers the prices of currencies does so through supply or demand.

The claim is likely to be true, although some element of information sharing was discovered. The Wapa currency traders association (Al-Amanat), occasionally collates prices in the various centres at which its customers trade and it distributes such prices among its members. The Chairman of Al-Amanat says that they have contacts in Saudi Arabia, Europe and South-East Asia who call them for mutual exchange of information (research notes, 7/10/95). Through these contacts, they try to find out the best currency their customers should take on their trading missions. They have had occasion to advise their customers trading in Saudi Arabia, for example, not to purchase riyals from Wapa but instead to buy CFA Franc and exchange them for riyals in Saudi Arabia. This is a situation of exploiting the cross rate difference. It is a sophisticated form of arbitrage.

The prices monitored at Wapa do not on their own yield much insight except by comparison. Yet, we could not obtain the official FEM prices at the time of writing because the CBN *Annual Report* for 1996 was yet to be released. However, for the first three months of the research for which there were figures, it is clear that Wapa prices started to come down as the AFEM rates

stabilised at what appeared to be a realistic market rate. In line with the stabilisation of the official market rate, the parallel market premium at Wapa also came down. This decrease in the Wapa premium is consistent with the general trend of reduction in the parallel market premium in Nigeria since SAP (see tables 5.4 and 5.5).

Despite this reduced premium over the years, the parallel market has continued to grow both in the volume of trade and number of operators. This fact runs counter to the most popular argument about the existence of parallel markets in developing countries which is that parallel markets are to be explained by the existence of large market premiums (for a further elaboration of this argument, see Dornbusch *et al*, 1983). This case shows that there exists a niche for financial services that the parallel market satisfies. Thus, it is not only unsatisfied demand that markets like Wapa meet but also unattended and officially unrecognised demands as well. This is especially so with regard to the demand by small and unofficial traders whose economic activities have

Table 5.4 Average Monthly USD Exchange Rate at the Various Currency Markets.

Months	BDC \$	Wapa \$	AFEM \$
Nov. 1995	86.00	88.32	85.00
Dec. 1995	83.30	86.80	85.00
Jan. 1996	89.50	85.80	85.00
Feb. 1996	87.25	85.60	na
Mar. 1996	84.36	84.50	na
Apr. 1996	85.70	83.39	na
May 1996	85.30	83.35	na
Jun. 1996	82.60	84.14	na
Jul. 1996	82.30	84.59	na
Aug. 1996	81.00	83.96	na
Sep. 1996	80.40	82.54	na
Oct. 1996	81.20	82.60	na

Source : Wapa monitoring; various CBN Annual Reports; various Nigerian newspapers.

been given a boost by the adjustment programme of the Nigerian state. These traders who have been involved in moving goods across Nigeria's borders with its neighbours for decades have no official financial service directed at them. Despite the chains of grain and other markets that are located close to the northern borders of Nigeria and which are clearly geared towards cross border trade, no equivalent financial markets exist to address the needs of these traders except the parallel ones that have Wapa at their apex. Recognition of this was shown by the Governor of Sokoto state who noted that there was no official facility for currency exchange at Illela, a major border town with Niger. The state government had built a special border market at Illela "to encourage trans-border trade" (*Business Times*, 4/12/95, p. 3). The Governor, therefore, appealed to the Central Bank to set up a BDC at the special market since as he said the absence of "legitimate outlets for procuring for-

eign exchange ... could, if not checked, make foreign exchange (forex) speculators thrive..." (*Business Times*, 4/12/95, p. 3).

Table 5.5 Wapa and Parallel Market Premium in Nigeria

Year	Wapa and Parallel Market Premium
1985-86	235%
1991	35.39
1992	13.61
1993	na
1994	na
Jan. 1995	3.9
Dec. 1995	2.1
1996	0.9

Source: 1985-86 IMF; 1991/92 NEXIM; 1995 and 1996 Wapa RESEARCH.

'speculators' in the Governor's terminology, of course, refers, inappropriately, to the parallel currency traders that have, for a long time, been providing services to the cross border traders the Governor wanted the CBN to now cater for. A comparison of Wapa and BDCs and of Wapa and the banks in the area of foreign currency exchange will bring out the point more clearly that Wapa and other parallel currency markets are not just about speculation but have a niche and meet the needs of disadvantaged and vulnerable business groups also.

The BDC exchange rates which we monitored look questionable given their wild fluctuations and variation. However, the problem could be the source—national dailies—that we used. Attempts to get the newspaper reporters to explain their methods and sources failed as they gave one excuse or the other for their inability to give us information. Moreover, the spread between the buying and selling rates of BDCs is not supposed to be more than 2% (according to the official guidelines establishing the BDCs) which is not often followed and hence, the propensity to misinform. The differences between the prices at the BDCs and at Wapa seem varied but the annual average of the monthly averages shows a difference of about 0.5 Naira or 50 Kobo, in conformity with results from earlier monitoring efforts by the Nigeria Deposit Insurance Corporation (NDIC, Annual Report 1991:14). Since 1996 when the CBN managed to stabilise the exchange rate by a more market realistic rate at the AFEM, the focus of policy both locally and at the Bretton Woods Institutions has been for the closure of the second official foreign exchange window at which the Dollar is exchanged for twenty-two Naira to support government transactions. This is in contrast to the 80-85 Naira to the Dollar that was the prevailing rate in the AFEM and other currency markets. However, as noted earlier, although some stability was achieved in the value of the Naira and the parallel market premium was greatly reduced around the mid-1990s, the parallel market was not about to disappear because it enjoyed

a niche which the official market was unable to service, as the comparisons with the formal financial institutions will illustrate. The origin of the parallel market in facilitating cross-border trade especially in West Africa has ensured its resilience. The role of the CFA Franc has continued to be an important source of this resilience as its post-devaluation comeback demonstrates in the following section.

### 5.3 The Role of the CFA Franc after the Franc Zone Monetary Reforms, 1994–1996

The Franc Zone monetary reforms of 1993/4 struck at the heart of what has been perceived as the lynchpin of Nigeria's cross-border commodity and currency trading activities: the stability and semi-convertible status of the CFA Franc. The reforms altered three critical aspects of the currency. In August 1993, the CFA Franc was made non-convertible outside the Franc Zone. In September of the same year, the mutual convertibility of the West African and Central African CFA Francs was suspended. Finally, in January 1994, the CFA Franc was devalued by 50%, declining from a fixed rate of 50 F CFA to one French Franc, to a rate of 100 F CFA to the French Franc.

The reaction of the Nigerian parallel currency market to these events was a testament both to the gravity of the reforms for currency trading activities, and to the resilience and flexibility of the parallel currency trade. In the first few days following the suspension of convertibility in August 1993, the West African CFA Franc (known in Wapa as 'Cotonou') lost 30% of its value against the Naira in Kano, but regained its pre-reform value within six weeks (Gregoire, 1995:21).<sup>5</sup> Following the suspension of convertibility between the West and Central African Francs in September 1993, a differential emerged between the two currencies, which had previously been interchangeable both in use and in parallel market value. The Central African Franc, known as 'Cameroun', dropped 7% below the rate for the West African Franc, a differential which has persisted up to the present (Herrera, 1994:49–50; Meagher *et al.*, 1996). The reforms in the convertibility of the CFA Franc also had an impact on the role of the French Franc in the parallel currency trade. The French Franc became more common in Wapa after the reforms, and traded at a premium ranging from 2–5% over the West African Franc (it had previously changed at slightly under the rate of the CFA Franc), and at a 10% premium over the Central African Franc (Herrera, 1994:51).

The reaction to the CFA devaluation of January 1994 showed a similar combination of panic and rapid adaptation. On the day of the devaluation,

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<sup>5</sup> By contrast, in the money markets of Niger, where currency dealers were less involved in international currency recycling, the suspension of convertibility had little effect on the activities of many of the dealers, who carried on business as usual (Gregoire & Labazee 1995:12).

there was a total cessation of trade in CFA Francs, followed by several days of panic. Within a week of the devaluation, however, the parallel rate of the CFA Franc had stabilized at roughly N80 for 1,000 F CFA (West African), which represented a parallel market devaluation of only 37-38%, against the official devaluation of 50% (Gregoire, 1995:22). This indicates a continued parallel market premium on the CFA Franc, both West African and Central African. After a few months of relatively stable exchange rates, the Naira entered into a period of rapid decline as a result of political instability in Nigeria and the tripling of petrol prices in October 1994. By mid-October 1994, the West African CFA Franc had regained its pre-devaluation rate against the Naira, and, by December 1994, had stabilized at a rate roughly 15% above its pre-devaluation level.

This apparent return to normalcy disguises significant changes in the role of the CFA Franc in Wapa, both in its relationship to the cross-border commodity trade and in its relationship to strategies for the procurement of hard currencies. An understanding of these changes, and of the wider commercial, financial, and policy trends that underpin them, will constitute the focus of this part of the analysis.

#### Supply and Demand for CFA Francs

It was confirmed by various currency dealers that the CFA Franc remains the most important trading currency in Wapa, even after its devaluation. It accounts for approximately 60% of currency transactions in Wapa. The West African Franc was estimated to account for roughly two-thirds of CFA Franc transactions, while the Central African Franc accounted for one-third.

The main sources of supply of CFA Francs are commodity traders who export goods from Nigeria to other parts of West and Central Africa. These may be Nigerians who trade goods to various parts of the Franc Zone, traders from West and Central Africa (mostly Nigeriens and Camerounians) who export goods from Nigeria, or traders from other countries, such as Algeria, who bring CFA Francs when they come to do business in Nigeria.

Currency dealers from other Nigerian markets, as well as from markets in neighbouring countries constitute a second important source of CFA supply to Wapa. In the context of the current Franc Zone deficit in cross-border trading relations with Nigeria, smaller Nigerian currency markets tend to build up a surplus of CFA Francs which they are unable or unwilling to recycle on the basis of their own local operations, since CFA rates in Wapa are frequently more attractive. Currency dealers from markets on the Niger border, and even from currency markets inside Niger, recycle West African Francs largely for Naira, although twists in market conditions may also bring these traders to Wapa in search of CFA Francs in exchange for the Naira.

Ibo currency dealers from the regional currency market in Onitsha constitute the major source of Central African CFA Francs in Wapa, exceeding the supplies generated by cross-border exporters to Central Africa. Currency dealers from Maiduguri also constitute a source of Central African Francs when market conditions are favourable. Particularly in the case of the Ibo currency dealers, CFA Francs are not simply recycled for Naira. Depending on the relative profitability of currency rates in Wapa relative to Onitsha (or even Lagos), Ibo dealers change CFA Francs for U.S. dollars, British Pounds, French Francs or Naira.

The major source of demand for CFA Francs is said to arise from traders who import goods from the Franc Zone to Nigeria. This largely involves Nigerian traders going to buy goods in Cotonou, Abidjan, Cameroun and Niger. Wapa informants noted, however, that approximately one-third of the demand for CFA Francs emanates from those who recycle them to obtain other currencies. While the means and the extent of currency recycling have changed significantly since the Franc Zone monetary reforms, the CFA Franc has nonetheless retained a measure of its importance as a transitional, as well as a trading, currency.

#### Current Currency Recycling Strategies

The re-organization of currency recycling activities following the Franc Zone monetary reforms clearly demonstrates the flexibility and responsiveness of parallel currency changing operations in Wapa, and indeed in Nigeria as a whole, since the new systems are not peculiar to any one market. Far from bypassing the formal economy, however, the new recycling strategies operate directly through the formal banking system. As noted by Herrera (1994), and Gregoire and Labazee (1994), before the end of 1993, Nigerian currency dealers had already begun to make use of the banking system in Franc Zone countries in order to change CFA Francs to internationally convertible French Francs. These activities form the core of the new recycling strategies, although a combination of new banking regulations imposed in Franc Zone countries to combat these activities, and the new structure of parallel exchange rates for West African and Central African Francs, have brought about certain modifications.

The two key currencies in the new recycling system in Wapa are the French Franc and the Central African Franc. The West African Franc plays little role in these activities owing to the imposition of stricter banking regulations in Niger. In Niger, Gregoire and Labazee (1994:37-38) noted no direct or indirect opening of accounts by Nigerians in the period of August-December 1993, but they did note an average monthly increase of 12% over the first seven months of 1993 in the level of bank transfers.



However, the imposition of severe screening procedures in Niger in November 1993 appears to have put a stop to most of this activity, since the West African CFA Franc is little sought after in Wapa as a means of access to hard currency. For the bulk of Wapa currency dealers, access to the banking system in Benin Republic poses greater obstacles, although a small number of well-connected dealers may have succeeded in organizing recycling operations there.

On the whole, the Central African Franc has become the lynchpin of the recycling of CFA Francs for hard currencies. Most of the recycling activities are carried out in Cameroun, and a smaller proportion in Chad. The procedure involves Nigerians entering into a joint venture with a Camerounian or Chadian national, registering a company, and opening a bank account. Central African Francs are then deposited in the account and changed to French Francs, an operation which takes less than a week to complete. Some Wapa currency dealers engage in this activity as agents of major Nigerian as well as foreign (especially Lebanese) businessmen, who use it as a means of gaining access to foreign exchange for their own purposes.

This recycling procedure has been turned to a number of uses in the currency trade. In addition to its use as a means of procuring foreign exchange, for cross-border trade and for other purposes, it is also used for currency speculation. As regards direct procurement of foreign exchange, one of the results of this system of currency recycling is that the French Franc has become much more important as a trading currency in certain cross-border commodity circuits as well as in Wapa financial activities generally. It has almost entirely replaced the CFA Franc in both financial and commodity trading circuits via Saudi Arabia. Since the currency reforms, Saudi Arabia no longer takes CFA Francs. The commercial operators who ply the route from Kano to Saudi Arabia, known as *yan Kano-Jiddah*, now go with Riyals or French Francs. Wapa currency dealers who used to recycle CFA Francs through Saudi Arabia for hard currency now take French Francs to change for U.S. dollars or Riyals, depending on which rates are more advantageous at the time. Although rates and patterns of currency changing fluctuate across different times of the year, dollars and Riyals are normally cheaper in Saudi Arabia than in Wapa, and can, therefore, be resold in Wapa at a profit. A phone call to contacts in Saudi Arabia suffices to determine the most profitable currency combination at any given time.

As regards the recycling of Central African Francs for French Francs, a speculative use of this circuit has developed on the basis of the N 10.00 (7%) differential that has arisen on Nigerian currency markets between the West African and Central African Francs. The West African Franc, which is the currency of both Niger and Benin Republic, faces much heavier demand from cross-border traders than does the Central African Franc, since Nigeria

imports very little via Cameroun, especially since the collapse of the trade in re-exported rice and wheat. In fact, it was noted by one Wapa dealer that it is the use of the Central African Franc for the procurement of French Francs which prevented its parallel value from collapsing altogether after it ceased to be convertible with the West African Franc. Through the banking system, however, Central African Francs face no such differential. 1 million Central African Francs, which, during most of 1996 could be bought in Wapa for N 150,000, is exchanged officially for 10,000 FF, which, up to mid-1996, would sell in Wapa for N 170,000. On 10 million F CFA, a common sum for such transactions, one would realize a profit of N 190,000 net in under one week, after all fees and commissions. The French Francs would be sold for Central African Francs, or for Naira, depending on which rate was more advantageous. A Naira purchase would then be changed to Central African Francs, and the whole process repeated again. This has become a popular activity among currency dealers and businessmen from Maiduguri.

It should be noted that the central motive behind these currency recycling transactions is the profit margin arising from the buying price of a currency in one place and its selling price in another. Access to hard currency is certainly an important aspect of the uses to which the CFA Franc is put, but it does not take precedence over profit.

#### The Role of the CFA Franc in Cross-Border Commodity Trade

As mentioned above, the more speculative uses of the CFA Franc are largely sidelines to its use as a currency for procuring unofficial imports. According to Wapa informants, speculation and currency recycling account for one-third to 40% of total CFA demand in Wapa. The bulk of the demand for CFA Francs, especially in the case of West African Francs, is for cross-border trade within the West and Central African region.

An important discovery made in the course of the research, however, is that the CFA Franc is neither the only, nor the most important currency in the operation of cross-border trade between Nigeria and neighbouring Franc Zone countries. In the course of discussions with Wapa currency dealers, it became clear that exchanges between Naira and CFA Francs account for less than half of the Wapa-based currency trading activities related to the procurement of goods for cross-border trading operations. In fact, dealers who specialize predominantly in CFA Francs are regarded as small-timers. The greater and more lucrative part of Wapa's currency transactions relates to the demand for currency to import goods from Asia, Saudi Arabia, Europe and the U.S., which are shipped largely to neighbouring Franc Zone countries, from where they are brought into Nigeria, or sold for CFA Francs to smaller operators who bring them into Nigeria.

According to discussions held with Wapa dealers, commodity traders purchasing goods from Franc Zone countries constitute only about 35–40% of Wapa currency transactions, while trade with Asia, Europe, the U.S. and Saudi Arabia accounts for 50–60%, with a residual of roughly 10% made up of purely speculative currency movements. Within the 50+% concerned with trade on the world market, it is estimated that Asia, Saudi Arabia and Europe/U.S. account for roughly one third each. This represents a shift from the 1980s. Trade through Europe/U.S. has declined owing to the high cost of their goods in the context of devaluation. This provoked a shift to trade through Saudi Arabia, where goods are dominated by Asian imports, especially textiles and electronics. In the early 1990s, the Saudi share was said to be in the order of 30%, and the share of trade dealing directly with Asia was about 10%. However, since about 1992/93, the Saudi market has become saturated, and an increasing number of commodity traders dealing through Wapa now import directly from Asia, particularly Indonesia. In many cases this has involved traders grouping together to bring in one or two containers of goods. While Ibo importers have been trading with Asia for decades, commercial contacts with Asia are very recent among the predominantly Hausa/Fulani businessmen of the north of Nigeria.

As mentioned above, trade with Saudi Arabia was carried out largely in Riyals and CFA Francs, now replaced by French Francs. Trade with Asia is carried out in dollars, and trade with the U.S. and Europe is largely in dollars and Pounds. Goods from Saudi come largely by air to Kano, while goods from Europe/U.S. and Asia come largely by sea. Goods transported by sea are either sent directly to Lagos, if the importer is sufficiently well connected to clear them, or are sent to Cotonou or Lome, from where they will be cleared and transmission to Nigeria organized.

The role of the CFA Franc in the procurement of commodities on the world market is somewhat less than it was before its devaluation, but remains of some importance even under current circumstances. As pointed out earlier, cross-border trade with Franc Zone countries accounts for only 40% of Wapa transactions, while transactions involving CFA Francs account for roughly 60% of Wapa trade. This would suggest that some 20% of Wapa's CFA Franc transactions involve a combination of procurement of hard currency to pay suppliers on the world market and speculative activity.

CFA Francs: Shortage or Surplus?

It was impossible, despite several interviews on the subject with different currency dealers, to get a clear picture of whether the current structure of commercial and speculative demand translates into a surplus or a shortage of CFA Francs in Wapa's financial circuits. Some dealers argued that there was

now a surplus of CFA Francs in Wapa, because the weakness of consumer demand in Nigeria had slowed down demand for imports from the Franc Zone and beyond. Others argued that since the devaluation of the CFA Franc, the export of Nigerian goods to the Franc Zone had slowed, translating into a shortage of CFA supplies in Wapa, while demand for CFA Francs to procure imports had remained strong. Yet another contention was that the official tightening of the Naira supply had slowed down demand for CFA Francs, while the supply had been less affected.<sup>6</sup>

While this information does not permit a clear sense of whether current circumstances have created a tendency toward a shortage or surplus of CFA Francs in Wapa, it does permit a few relevant observations. First, it is clear that both supply and demand for CFA Francs have been slowed down by the Franc Zone reforms and currency devaluations on both sides of Nigeria's borders, as well as by tight monetary conditions in Nigeria during the course of 1996. Secondly, it must be recognized that the availability of CFA Francs in Wapa cannot be evaluated on the basis of some sort of trade balance between Nigeria and the Franc Zone. The multiple uses of CFA Francs, across three major trade borders and on the world market, make it impossible to assess any overall level of surplus or shortage.

Finally, it appears that Wapa currency dealers themselves do not think of the CFA Franc in terms of surplus or shortage. The issue is rather whether the CFA rate against the Naira is low or high, rising or falling, at any given time. Since late 1994, the modal rate has been N 160 per 1,000 F CFA. During most of 1995, the rate was high, rising above N 170 in December 1995, indicating a high demand for F CFA. From March 1996, the trend in rates has been low, indicating a reduced demand for CFA Francs owing to a contraction in cross-border imports from the Franc Zone and tight monetary policy in Nigeria. The concern with the shortage or surplus of CFA Francs derives from the belief expressed in much of the Francophone literature on cross-border trade in West Africa, that the CFA Franc is sought for its special characteristic of semi-convertibility, rather than as a vehicle for making a profit. With hard currencies now readily available on the parallel market, however, the CFA Franc is attractive only insofar as it provides access to hard currencies more cheaply than buying them directly on the market. This is an issue of rates, which regulate the demand and supply of CFA Francs, rather than the other way around.

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<sup>6</sup> Tight monetary policy in Nigeria in 1996 translated into severe restrictions in access to Naira. During several months of 1996, currency dealers had to search for Naira with which to carry out transactions, obliging traders who had come to change large quantities of CFA Francs to wait up to 3 days to complete the transaction where normally it would have been concluded in a single day.

#### 5.4 Banks and Currency Exchange

To gain more understanding of the Wapa phenomenon we undertook a survey of banks posing as small time customers wanting to buy or sell foreign currency. The experiences we had showed us that the foreign exchange markets of banks are clearly meant for established companies and not the companies of small business people and cross border traders and even then, the banks score low marks on customer orientation and service.

We visited ten banks with the purpose of obtaining information about their foreign exchange business. All the ten banks told us they do not buy from or sell to individuals. A number of their respondents told us 'don't you know we are banks' or in some cases they asked us rhetorically 'what do you think we are? Wapa?'. Some told us they do not deal with individuals after they had asked us questions. When we pressed them as to why they do not deal with individuals, two replied that they cannot guarantee the authenticity of currencies from individuals and cannot be sure of the source. When we replied that there are mechanisms for detecting fake notes and that they do not need know the source of currency, they dismissed us casually. Others explained to us that if we want to buy foreign exchange we have to have domiciliary accounts with them and all they do is to register us and send our documents to Lagos which is from where we will be properly informed of when our requests can be met. They also informed us that they deal in US Dollars and Pounds Sterling only. About CFA Franc they simply said 'it is best to go to Wapa'.

Among the things they said we would need for registration are :-

- A certificate of incorporation of our company
- A proforma invoice (or other such)
- Evidence of tax payment for the past three or so years
- Cash deposit of the amount we require to change.

All ten banks advised us to go to Wapa with six of them adding 'or a bureau de change'. When we tried to argue that there is nothing preventing banks from offering over the counter services they advised us that it is too cumbersome and they have to call headquarters for the day's rates. In three cases they said the persons in charge were not available so they could not help us then but advised us to come back another time. In some cases the employees in charge offered to buy our forex as a favour. In low tones, they offered us ridiculous prices and when we protested, they said they were trying to help us but the bank buys only from AFEM. In one case, the employee offered to find a customer for our forex if we would leave it with him. The system seemed deficient on transparency and there appears to be room for bank employees to defraud unsuspecting customers.

The waiting time in all these banks was also too long, much longer than in Wapa. In none of the banks was it less than twenty minutes. Most of them were between twenty-five and thirty-five minutes with two banks keeping us waiting for over forty minutes. One bank ( which is among the top of the first generation banks in Nigeria) kept us waiting for over an hour before they could attend to us. The transaction costs in terms of waiting time, attitude of service provider (often contemptuous of customers), lack of transparency, flexibility or variety were found to be much higher than Wapa.

#### 5.5 Currency Exchange and BDCs

We undertook similar visits to BDCs outside Wapa and three within Wapa. All the three in Wapa look like any big Wapa *shago* with a counter and a sign outside. Their operations were also no different. In one Wapa based BDC though, they tried to offer us below market rates and added that they are a BDC and could provide us with receipts and other services. For these reasons and the fact that they have to make reports to the government, they argued that their prices tend to be higher. When we suggested that they could not help us because we had five thousand dollars to change, they dropped their guard and said they thought we were from the CBN.

In all the eight BDCs outside Wapa, we found that they took a lot of our time questioning us either to ensure we were not from the regulatory authorities or to find out if we had regular sources of forex. Some, at the end of the interrogation, advised us to go to Wapa as their boss who has the key to the safe had gone out or some such excuse. Others simply gave us ridiculous below market rates to drive us away. When we protested that the price was much below what they had on their boards, they simply said 'that was yesterday's rate' and *dala ta karye yau* or the Dollar price has crashed today.

In the two 'most serious' BDCs we encountered, they also wasted time trying to asses us to determine what price to offer us but they were willing to buy or sell to us. They both made phone calls which we strongly suspected were to Wapa, to get rates and then made offers to us. When we accepted their rates, they apologised and informed us that someone on a bike would have to go to get the money and it would not take long. We also suspected that they went to Wapa to get the money. We later met the same persons we encountered in these two BDCs in Wapa interacting with familiarity and ease with the Wapa traders.

Except for one of them, none of the BDCs simply agreed to sell currency to us without a fuss and they did not do so from a stock or safe we could all see. In all those located in hotels, the employees in the BDCs simply acted as go-between for us and the parallel currency traders we could clearly see in corners. They went back and forth unsure of their information and when we

agreed to buy they took the money and went to fetch the equivalent from the parallel currency traders. In comparison to Wapa, we found that the BDCs we visited lacked liquidity, were slow and tedious, always hedging to assess the situation and were non-transparent. We could not see how they can be alternatives to Wapa simply judging by their capacity to offer services, at least not in Kano.

#### 5.6 The State, the Parallel Market and Wapa

The state, both in its colonial and post-independence forms, has never accepted the parallel currency market and the trend has continued to date. The principal aim has remained its elimination though the policy means emphasised has alternated between a combination of legislation, armed force and market mechanisms.

In the era of state-led development (from the colonial times up to the mid-1980s) when control was the major instrument of foreign exchange management, legislation was emphasised. This was the case with the law and its supplementary legislation that came to be known as Exchange Control Notice or Act from the colonial days, through to the 1960s and up to the early 1970s (e.g. LN 171 of 1950; LN 5 of 1960; LN 32 1960; 1962, 1968, 1971 etc.). This law designated 'authorised dealers' in foreign exchange. Only such dealers could buy and sell foreign exchange and they never included parallel currency traders at Wapa or anywhere else. Wapa currency traders were few at this time and as Tahir Abdu Fagge (1995) reported, they had to conduct their businesses in disguise and secrecy as a response to state legal restrictions. At this time, the Wapa currency trade was low in comparison to today and still very much personal in the sense that it was based on trust. An introduction by somebody known to the currency trader was, therefore, required. Wapa's organic links with the trading networks were also still strong then and this allowed it to survive this period and even to grow later.

By the early 1970s, the unprecedented flow of foreign exchange into Nigeria's coffers from the OPEC-induced oil windfall led to a relaxation of the official attitude to the unauthorised sale of hard currencies in parallel markets such as the one at Wapa. The high supply of foreign exchange made demand in the parallel market relatively low. Even the financing of illegal imports (encouraged by high tariffs and import bans) could be sourced through the many leakages in the system.

A short way into the second half of the 1970s, the situation changed. The oil boom turned to bust as reserves were depleted and balance of payment deficits were recorded. The state in Nigeria embarked on an active campaign against what was termed foreign exchange malpractices and illegal currency markets. These so-called malpractices were considered acts of sabotage and a

decree—The Foreign Exchange Anti-Sabotage Decree—stipulating stiff penalties was promulgated in 1977 to deal with them. A special tribunal was set up to try suspected offenders (Nigeria Legislative Report (NLR), CAP 114). This was a difficult moment for Wapa operators. A tough and popular military government in power making even tougher legal restrictions on their trade was not something they took lightly. Their responses at the time included establishing legal cover for their trade. This was the origin of the dealership boom in Wapa, especially for Michelin tyres. The signs are still there at Wapa even where there are no tyres being sold.

With the return to civilian government in 1979 and the second oil boom in Nigeria, there was a let up in the pressure on the parallel market. The pressure was re-applied again in 1984 when the 'anti-sabotage' law was reactivated as the Exchange Control (Anti-Sabotage) Act of April 1984. This followed the second oil bust and the coup (in 1983) that overthrew the civilian government. The new military government that then came to power was very much in favour of exchange control. It was, however, overthrown by another military coup in 1985 and the new regime turned completely in the opposite direction, opting for economic de-regulation and structural adjustment. SAP was introduced in 1986 by this regime and so was a policy of dealing with the parallel currency markets by market mechanisms.

The public authorities have still not accepted parallel currency trading and the service provided by the parallel market is still illegal. What has changed is the shift in policy emphasis that came with deregulation and SAP. Parallel currency markets became simply market distortions that have to be eliminated but hopefully by market mechanisms. However, the change in government in 1993 and the contemplation of re-regulation brought home the point that parallel currency trading was still viewed as illegal. Police raids were resumed once again and a new law—The National Economic Intelligence Decree, No 17 of 1994—affirmed their illegality. Wapa and other parallel markets again came under pressure and police raids resumed at Wapa.

However, this changed quickly as the new government dropped its 're-regulation' policy for one of 'guided deregulation'. The Exchange Control (Anti-Sabotage) Decree of 1984 was repealed by the new Foreign Exchange (Monitoring and Miscellaneous) Decree No. 17 of 1995 and the economic liberalisation programme was resumed. The second tier Autonomous Foreign Exchange Market (AFEM) was recreated and currency exchange was held at the highly depreciated Naira rate that moved from 22 Naira to the Dollar to 85 Naira to the Dollar by the end of 1995. This use of market forces while biting at the public and consumers, has succeeded in stabilising the exchange value of the Naira albeit at a depreciated rate. What it has not done however, is eliminate the parallel market and Wapa. Consequently state use of force in the form of police raids on parallel markets has continued. In October 1996, over



140 people were arrested in the Lagos parallel market and charged before a court for 'trafficking in foreign exchange' (*This Day*, 18/10/96). The police promised to continue their raids until they got rid of the parallel currency trade. The ABCON (Association of Bureaux de Change of Nigeria) hailed this move and the BDCs announced that there had been a significant rise in the volume of their business (*Business Times*, 28/10/96). Wapa was, however, not affected. It had long prepared the ground for the minimisation of this costly disruption of business by the state law enforcement authorities in a strategy it developed in the boom years of Wapa.

The response of the Wapa currency traders to the state after the boom years of 1986–1993 was three pronged:

1. They organized all the currency traders more purposefully (in Al-Amanat) and ensured that questionable characters, cases of fraud and duping were handed over to the police.
2. They sought legality for their business activities by seeking registration for Al-Amanat as a BDC.
3. They maintained good communication and public relations with the police hierarchy to forestall overzealous actions by junior officers.

Wapa operators have, therefore, come a long way from the initial defensive and camouflaged engagement in the only business many of them know and inherited to a more confident and assertive pursuit of the trade. If there is one thing that explains such change, it is the operators' determination to organise and protect their trade. Creating criminals from a beneficial economic activity carried out by many who have no criminal disposition, the state has been left to enforce its laws without much support from the public. Thus, the most visible 'criminal' activity has remained elusive to the state.

## 6. Structural Adjustment, Franc Zone Reforms and the Cross-Border Commodity Trade

Most empirical studies of the cross-border commodity trade focus on movements across a particular border. The use of Wapa as the focal point of the study has permitted a wider perspective on the organization of the trade, which transcends the movement of goods across any particular border. This section will outline the current commodity structure of cross-border trade in the north of Nigeria, and the effects of structural adjustment on trading patterns, with a particular focus on changes occurring since the devaluation of the CFA Franc. An estimate of the value of cross-border trade in the north of Nigeria will be made, along with an analysis of the overall importance of this trade relative to total international trade in Nigeria and neighbouring Franc Zone countries. This will be followed by a consideration of the structure of cross-border trading networks and of the parallel structure of infrastructural services for cross-border trade. Attention will then turn to an analysis of the changing structure of cross-border trading firms, with illustrations furnished in the context of four case studies of Kano-based dealers involved in the cross-border commodity trade. Finally, the analysis will focus on the impact of cross-border commodity flows on the productive sectors of Nigeria and its Franc Zone neighbours.

### 6.1 The Patterns of Cross-Border Commodity Trade: Sources and Outlets for Cross-Border Commodities under Structural Adjustment

In general, cross-border exports from the north of Nigeria still centre on petrol, provisions, local and Asian textiles, grain, local and imported spare parts, plastic goods, building materials and fertilizer, along with more minor goods such as Nigerian-made pharmaceuticals. Imports into northern Nigeria involve re-exported cigarettes, textiles, used clothes, dry goods (powdered milk, pasta, etc.), and second-hand cars, along with locally produced cowpeas, livestock and a range of other minor agricultural commodities. Direct from Saudi Arabia also come Asian textiles, spare parts, gold and a declining quantity of electronics. The following table gives an idea of the pattern of goods flowing between northern Nigeria and various cross-border trading partners.

Source	Commodities
Nigeria (north)	Petrol products, provisions, textiles, grain, spare parts, plastic goods, fertilizer
Niger	Cigarettes, textiles, cowpeas, livestock, dry goods, used cars
Benin	Used clothing, spare parts, cigarettes, used cars
Cameroun	Largely Central African Francs
Saudi Arabia	Asian textiles, spare parts, gold, some electronics

Once these goods reach major centres in the north of Nigeria, they are channelled into distribution networks, which operate largely through shops, open markets and itinerant traders. Within Kano, there are a range of specialized markets which are wholesale distribution centres for cross-border trade. Transit agents and brokering agents for foreign traders are available in most of these markets, as well as in particular areas of the old city. The Kano-based suppliers themselves are conversant with the needs of West and Central African clients, many of whom have become regular customers, and these suppliers maintain regular contact with Wapa. Both locally produced goods and goods from the world market imported through Franc Zone neighbours are distributed through these channels. The major Kano distribution markets are listed below, along with the commodity or commodities in which they specialize. It should be noted that the distribution of imported goods, such as textiles and used clothing, to traders from other parts of West and Central Africa means that some of these goods pass twice through cross-border trading channels: once as re-exports from the Franc Zone to Nigeria, and the second time as re-exports from Nigeria to other African countries, particularly those to the north and east of Nigeria.

Market	Commodities
Singer	Provisions (sugar, salt, rice, detergent, toiletries), mattresses, other household goods
Kantin Kwari	Local and imported textiles
Kofar Wambai	Plastic goods and used clothes
Sabon Gari	Pharmaceuticals, imported cigarettes, etc.
Dawanau	Grain and cowpeas

Singer is a sort of international wholesale division of Sabon Gari market, the main 'downtown' market in Kano. It is within easy striking distance of Wapa. Both Kantin Kwari and Kofar Wambai are virtually adjacent to Wapa. Dawanau market is located some 20km outside of Kano, down the Katsina road, and is the base of Kano's grain merchants, who used to operate from Sabon Gari market until a dispute with the local government in the mid-1980s (Meagher *et al.*, 1996). The proximity of most of these various markets to

Wapa has no doubt contributed to their development as centres of cross-border commodity supply.

For obvious reasons, petrol and fertilizer are not traded from any centralized market location. They are handled through connections with officials and major businessmen. According to Wapa informants, Algerians who come to Nigeria to buy fertilizer remain in Katsina, while suppliers in Kano organize the goods and send them.

It should also be noted that not all of these transactions pass directly through Wapa. Wapa currency dealers deal directly with traders in manufactured goods, both local and imported, but do not appear to have any significant contact with agricultural goods traders. One reason appears to be that such traders have well established trading networks with specialized agricultural markets, most notably Dawanau, and tend to deal with Wapa through the intermediary of dealers in these markets. Another reason given is that the trade in agricultural goods is highly seasonal and is, therefore, not seen as an important line of commercial activity. In many cases, agricultural goods such as grain and cowpeas were not even mentioned by Wapa informants as important goods in cross-border trade. This perception conflicts strongly with evidence from Niger concerning the quantity of grain and cowpeas moving across the border since the devaluation of the CFA Franc (Hamadou, 1996). Similarly, petrol products were never mentioned by Wapa dealers as items traded by their clients despite their indisputable importance in cross-border commodity flows.

#### The Impact of Structural Adjustment and the CFA Devaluation

As discussed above, structural adjustment encouraged a dramatic expansion in flows of Nigerian-made goods and re-exports of cheap Asian and used goods from Europe and North America. This was accompanied by a decline in cross-border imports of local and re-exported goods from the Franc Zone. These patterns were further altered by the devaluation of the CFA Franc in 1994. In the immediate aftermath of the CFA devaluation, a decrease was noted in cross-border exports from Nigeria, accompanied by an increase in imports of certain local and re-export goods from Niger. The combination of currency devaluation in the Franc Zone and rapid inflation in Nigeria during the course of 1994 crippled the competitiveness of a range of Nigerian commodities, particularly grain and local textiles. Aided by a bumper harvest in Niger in 1994, grain exports to Niger in 1995 are reckoned to have fallen by as much as 50–60% from peak estimates in the late 1980s (Meagher *et al.*, 1996). Nigerian textile exports have fallen significantly since the devaluation, contributing to the closure of a number of Nigerian textile factories. At the same time, Niger witnessed an increase in the competitiveness of its own

textile production, and there was some revival of local textile exports to Nigeria which had ceased since the late 1980s as a result of overwhelming competition from Nigerian goods priced in the rapidly devaluing Naira (*The Guardian* (Lagos), 30/7/96:1-2; Gregoire and Labazee, 1994:40-42). There is also evidence of a decline in the export of provisions, and some decline in plastic goods.

However, these developments appear to have been short-lived in the case of some commodities. Most Kano-based commodity dealers indicate that the slow-down in trade following the CFA devaluation lasted only about six months. The rapid revival of cross-border flows is largely due to the rapid slide in the value of the Naira in the year following the CFA devaluation. As mentioned above, the parallel Naira-CFA exchange rate regained its pre-devaluation level by October 1994, just 10 months after the devaluation. By 1995, the nominal parallel exchange rate showed the CFA Franc to be 34% stronger against the Naira than it was before the CFA devaluation. However, owing to high rates of inflation following the petrol price rise of October 1994, prices in Nigeria were 171.4% higher in 1995 than they were in 1993. Thus, any gains in Nigerian competitiveness resulting from the slide in the value of the Naira in 1994 were decisively undermined by the high rates of price inflation, which have significantly limited the recovery of Nigeria's cross-border exports (Table 6.1). The slide in the value of the Naira appears to have been sufficient to eliminate the short-lived revival of local industrial exports from Niger, especially textiles, but high levels of inflation in Nigeria have also crippled the recovery of some Nigerian commodity exports, particularly grain, textiles and provisions. (Gregoire, 1995:25).

Table 6.1 Indices of Parallel Naira/FCFA Exchange Rates and Price Inflation in Nigeria, 1991-1995 (1993 = 100)

	1991	1992	1993	1994	1995
Exchange rate (Naira/F CFA)	35.4	68.0	100.0	85.0	134.5
Composite Consumer Price Index	44.0	63.6	100.0	157.0	271.4

Source: Fieldwork; Meagher and Ogunwale 1994; CBN, 1995.

As regards the impact of the devaluation on cross-border imports of local commodities, cowpea and livestock exports from Niger rose sharply in 1994, devaluation having made the prices of these products significantly more competitive on Nigerian markets. In the case of livestock, increased flows were given a further boost by a desire on the part of Nigerian commodity exporters to avoid holding CFA Francs in the immediate aftermath of the devaluation, for fear of further currency instability. This provoked a short-lived return to circuit trading, in which exporters to Niger used their proceeds

to buy products such as cattle or Lahda powdered milk, which could be quickly and profitably resold in Nigeria (Gregoire and Labazee, 1994:39). However, livestock exports from Niger appear to have slowed down by 1995. In the case of cowpeas, the greater competitiveness created by the CFA devaluation was given a further boost by a bumper harvest in Niger in late 1994. Cowpea exports which had dwindled under the pressures of Nigeria's structural adjustment programme, jumped to an estimated 140,000 tonnes in 1995 (Hamadou 1996). Various policy interventions on both sides of the border, and a less abundant harvest, seem to have reduced the level of cowpea exports in the course of the 1995/96 season.

Commentators on the Niger economy also noted a decline in cross-border imports from the world market passing to Nigeria via Niger, particularly in the case of cigarettes and textiles. This same trend was also reported in Benin which experienced a decline in the total value of its re-export trade between 1994 and 1996 (Galtier, 1997:2). The decline in re-export trade from Niger has been exacerbated by the continued re-orientation from Niger to Benin of northern Nigerian re-export purchases since the early 1990s, though this trend has not been sufficient to prevent declines in the value of Benin's re-export trade.

From the perspective of Wapa currency dealers, commodity traders and management personnel from relevant Nigerian industries, there is some further corroboration of evidence of a decline in re-export flows from all sources into northern Nigeria. At the level of Wapa, currency dealers perceive a measure of contraction in cross-border imports, particularly during the course of 1996, owing to declining consumer purchasing power and the tight monetary situation in Nigeria. In the case of cigarettes and used clothing, dealers and industrial management from the Nigerian cigarette and textile industries indicate a continued rise in imports since the late 1980s, with no perception of a slowdown during 1996. In the case of imported textiles, there is evidence of a definite slowdown in European imports, accompanied by a shift down-market to cheaper Asian textiles, owing to weakening purchasing power in Nigeria. The weakness of the Nigerian market has also largely undermined the profitability of the electronics trade from Saudi Arabia.

## 6.2 Quantitative Estimates of Cross-Border Trade Flows **and Their Impact on Local Production**

From a combination of official re-export and import statistics from Benin and Niger, and existing research on informal flows of those commodities traded outside the official circuits of re-export economies, it has been possible to arrive at a rough estimate of the value of cross-border flows passing through the north of Nigeria in 1995, and a much more general assessment of the

relative importance of cross-border trade to official levels of international trade in Nigeria, as well as in the West African sub-region as a whole. However, these estimates should be treated as very rough orders of magnitude, given the difficulties associated with the measurement of informal trade flows.

As mentioned above, the main staples of cross-border imports into the north of Nigeria are, at the level of re-exports from the world market: cigarettes, textiles, used clothing, used cars, spare parts, and some elements of the provisions trade (especially rice and sugar). At the level of locally produced Franc Zone goods, the major imports consist of cowpeas and livestock. The major cross-border exports from Nigeria involve petrol, provisions (particularly rice and sugar), grain, textiles, plastic goods, building materials, spare parts and fertilizer. Other commodities mentioned in the initial inventory of cross-border trade flows are fairly negligible in proportion to those just mentioned. Unfortunately, it was not possible to obtain figures on cross-border flows between northern Nigeria and Cameroun, Chad and Saudi Arabia, but it should be noted that these three cross-border trading partners are significantly less important than Benin and Niger.

In the case of cigarettes, market intelligence from NTC, obtained from the ports in Cotonou, places cigarette flows into Nigeria at 7 billion cigarettes in 1995, which would have a value of approximately 30 billion F CFA. Five out of the 7 major informal import depots are in the north of Nigeria, roughly 80% of Nigerian cigarette consumption being concentrated in the north. This would imply flows with a value of approximately 20 billion F CFA into northern Nigeria.

Based on 1993 figures of flows between Nigeria and Niger, adjusted on the basis of current trends, textile imports via Niger can be estimated at 4–5 billion F CFA (Gregoire and Labazee, 1994). Figures for textile re-exports from Cotonou in 1995 indicate flows of 20.5 billion F CFA into Nigeria, roughly one third to one-half of which goes to northern Nigeria (Galtier, 1997). This would contribute an additional 8 billion F CFA in re-exported textiles, giving a total figure of about 12.5 billion F CFA.

Flows of re-exported used clothing from Cotonou to Nigeria amounted to approximately 7.0 billion F CFA in 1995 (Galtier, 1997). Used clothing consumption in northern Nigeria being significantly lower than in other parts of the country, one could estimate flows from Cotonou to northern Nigeria at about one quarter of the total for Nigeria, giving a figure of 2 billion F CFA.

Re-exported used cars and tyres from Cotonou to Nigeria amounted to approximately 10.5 billion F CFA in 1995 (Galtier, 1997). Assuming that approximately one half to one third of this goes to northern Nigeria, this gives a value of about 4.4 billion F CFA.

In the case of re-exported rice, sugar and milk products, the bulk of which again comes to northern Nigeria from Cotonou, flows into Nigeria as a whole amounted to 34.0 billion F CFA in 1995 (Galtier, 1997). By the internal distribution assumptions mentioned above, one could estimate flows to northern Nigeria of 14 billion F CFA.

Regarding exports to northern Nigeria of locally produced Franc Zone products, most of which come through Niger, livestock imports can be estimated at around 5–6 billion F CFA for 1995 (derived from Gregoire and Labazee, 1994). 1995 volume estimates of cowpea flows, obtained from collaborative research between the Office des Produits Vivriers du Niger (OPVN) and the Institute for Agricultural Research in Nigeria, indicate imports of 142,000 tonnes from Niger (Meagher *et al.*, 1996). At annual average prices for 1995, this would place the value of cowpea imports at 13.3 billion F CFA. It should be noted, however, that these estimates are extremely liberal, and actual flows could be as much as 20–30% less.

Turning to cross-border exports from the north of Nigeria, no value figures were available for petrol flows into Niger, but annual volume estimates for the period after 1994 placed them at about 40–50% of Niger's national consumption, which in 1992 was about 99,000 tonnes (*L'Écho des Frontières*, No. 3:7; Gregoire and Labazee, 1994:29). This would suggest annual flows of approximately 40–50,000 tonnes, which at parallel market prices in Niger would come to about 9 billion F CFA. The trade in provisions from the north of Nigeria to Niger can be estimated at a value of at least 20 billion F CFA. Liberal volume estimates for grain place flows at 80,000 tonnes for 1995, which would have a value of 5.2 billion F CFA (Meagher *et al.*, 1996). Taking account of the negative effects of the devaluation on exports of Nigerian textiles, textile flows to Niger could be placed at only about 1 billion F CFA. For fertilizer, annual estimates for the period following 1994 indicate a value of 3.2 billion F CFA (*L'Echo des Frontieres*, No.4:I-III)

As regards export flows of building materials, plastic goods and spare parts, no clear figures were obtained, but estimates from 1993 figures for Niger suggest that 1995 flows from northern Nigeria are likely to be in the region of 20 billion F CFA.

Overall, these figures suggest import flows in excess of 60 billion F CFA, and export flows in the order of 50 billion. Tentatively, the figures available suggest a significant contraction in export flows from northern Nigeria (in 1993, export flows to Niger alone were estimated at 43 billion F CFA, equivalent to 86 billion F CFA at 1996 values), accompanied by a more moderate decline in import flows. All in all, this gives a figure of about 110 billion F CFA in cross-border trade between northern Nigeria, Niger and Benin, and one could estimate as much as 150 billion F CFA, or US\$ 280



million, in 1995 for the whole of northern Nigeria's cross-border trading activities, including trade with Cameroun and Chad.

Compared to official international trade flows, these cross-border flows represent just over 1.4% of Nigeria's total international trade for 1995, which amounted to US\$ 19.2 billion (ADB, 1996). Similarly, these flows represent only 1.4% of total ECOWAS exports for 1993, which were put at US\$ 19.7 billion. If northern Nigeria's share of total cross-border trade in Nigeria is estimated at one-third of total cross-border trade flows—not an unreasonable assumption considering its role as one of the two most important centres of cross-border trade in Nigeria, with Onitsha and the south-eastern region of Nigeria following a distant third—it would indicate that, in 1995, cross-border trade in Nigeria represented only about 4% of Nigeria's official international trade, and just over 4% of total ECOWAS exports.

It should be noted, however, that the weight of these cross-border flows in the economies of Benin and Niger is more significant. The estimates of northern Nigeria's cross-border flows with Benin and Niger account for roughly 6% of the international trade of Benin and Niger combined, which amounted to US\$ 4.8 billion in 1995. On the above assumption that northern Nigeria accounts for roughly one third of Nigeria's cross-border trade flows, this would put cross-border flows for the whole of Nigeria at about 18% of the combined international trade of Benin and Niger for 1995. This is further borne out by the fact that, in Benin, receipts from the re-export trade accounted for 13% of total state revenue (Galtier, 1997:3).

At the regional level, the official figures for 1993 on ECOWAS interregional trade as a percentage of total ECOWAS exports is 8.6%. Added to the official figures, our estimates of cross-border trade in the region of Nigeria and her Franc Zone neighbours would put official and unofficial inter-regional trade up to about 13% of total ECOWAS exports. Given that the Nigerian economy, both official and unofficial, is by far the largest in West Africa, these figures suggest that the combined total of official and unofficial interregional trade in West Africa is unlikely to exceed 20% of total ECOWAS exports. This contrasts sharply with the more enthusiastic figures of up to 40% cited by some of proponents of cross-border trade as a vehicle for regional integration, (which rely on many of the same sources used above) (Igue, 1997 conference presentation).

#### The Impact on Industrial and Agricultural Production

While the overall proportion of cross-border trade in the Nigerian economy appears fairly minor, the impact on industrial production in Nigeria and its Franc Zone neighbours has been more significant. When it is remembered that petrol exports account for over 90% of Nigeria's foreign exchange earnings, it

becomes clear that the weight of cross-border trade flows in the agricultural and manufactured goods markets of Nigeria and its neighbours is somewhat more important.

Proponents of market integration argue that, by widening markets, cross-border trade creates positive incentives for investment in productive sectors, such as agriculture and industry (Mahmane *et al.*, 1993; World Bank, 1989). However, empirical evidence suggests that the impact of cross-border trade on production, both in Nigeria and neighbouring Franc Zone countries, has been much more mixed. From the perspective of Nigeria's Franc Zone neighbours, cross-border trade flows have seriously undermined industrial production since the onset of Nigerian structural adjustment. Several studies point to the de-industrialization of Niger under the impact of competition from cheap Nigerian products (Mas, 1993; Naudet, 1993; Gregoire and Labazee, 1994). Since the early 1980s, the growing industrial sector in Maradi has been completely wiped out by competition from Nigerian products, and the overall survival of Niger's textile, chemical, cement and milling industries is under threat. A similar picture has been painted in Cameroun, where a more vibrant industrial sector is also under threat from Nigerian competition, especially the textile, agro-industrial, cement and metallurgy, and plastics and petroleum sectors (Engola Oyep and Harre, 1992:67). In the case of Benin, the country's re-export strategy combined with competition from Nigerian manufactures has mortgaged any hope of industrial development.

The agricultural sector of Nigeria's Franc Zone neighbours has not fared as badly, due largely to the benefits derived from inflows of subsidized Nigerian inputs, especially fertilizer. Inflows of Nigerian grain have undermined the intensification of Niger's grain production, but the Nigerian market has provided a significant stimulus to the production of cashcrops such as cowpeas, *aya*, and groundnuts (Hamadou, 1996). In Cameroun, cross-border trade with Nigeria has exerted an unfavourable impact on prices for yams and fruit, but has contributed significantly to the stimulation of the rice sector, especially in the area of production and milling. In Benin as well, agriculture has generally benefitted from access to inflows of Nigerian inputs, especially the cassava, maize, and cotton sectors (Egg and Igue, 1993:90-1).

In Nigeria, the impact of cross-border trade on production has also been mixed. Inflows of European goods, such as textiles, cigarettes and used clothing, and of cheap Asian goods, such as textiles and batteries, have seriously undermined local industries, particularly since the advent of SAP. At the same time, rising demand for Nigerian goods in Franc Zone markets has provided a boost to a range of industries, including cement, textiles, cosmetics and plastic ware.

In the case of the Nigerian cigarette industry, the effect of cross-border trade has been largely negative, with the closure of two of the industry's three

factories since 1982. Production fell by 40% between 1993 and 1995, and the number of tobacco farmers has declined from 17,000 in 1992 to 9,300 in 1995 (see appendix). In the case of the textile industry, the negative impact of clandestine Asian imports has been compensated, at least in part, by the gains of parallel exports to the Franc Zone, until the devaluation of the CFA Franc, which has been a central factor in the closure in 1996 of 8 major and up to 32 medium-scale textile factories in Nigeria, with an aggregate turnover of N4 billion (*The Guardian* (Lagos), 30/7/96: 1-2).

At the level of agriculture, outflows of grain and other staple foodcrops to the Franc Zone have contributed to rising grain prices, with a positive effect on surplus producers, but a negative effect on small farmers and consumers. Cross-border inflows of wheat and rice from the world market, at least until the unbanning of these products in the early 1990s, had the opposite effect (Meagher, 1993b; Meagher and Ogunwale, 1994). Inflows of cowpeas and livestock, largely from Niger, have posed less of a threat to the agricultural sector, although they create some downward pressure on the major cashcrops of the border regions of the north.

From this survey of the impact of cross-border trade on productive sectors in and around Nigeria, it is clear that cross-border trade shows some potential for stimulating growth in agriculture as well as industry, but also poses a threat to the survival of a number of industries, especially in the context of SAP. An appraisal of the extent to which the negative effects of cross-border trade can be limited by adjustments in policy, particularly the regional harmonization of economic and monetary policy and of industrial development strategies, requires a clearer understanding of the organization of the trade and the interests behind it.

### 6.3 The Organization of the Cross-Border Commodity Trade

The structure of cross-border trade is based on three distinct levels of operation, each of which have different implications with regard to demand for foreign currencies. The best known level is that which involves importation from and export to neighbouring Franc Zone countries, and creates a high demand for exchange between the Naira and CFA Francs. As indicated above, this is actually the bottom rung of the cross-border trading structure.

Above these traders are those who import goods directly from the world market to Cotonou, Lome or Maradi, and then organize the entry of these commodities into Nigeria. The major currency demand of this group of traders is for dollars or other international currencies, with some demand for CFA Francs in order to clear goods, organize transport and pay various incidental expenses. Exports to the world market are no longer a significant aspect of cross-border trading activities based in the north of Nigeria,

although they remain somewhat more important in the cocoa-growing south. While there is limited international export by northern-based operators of primary commodities such as skins and gum arabic to Europe and sesame to Saudi Arabia, these activities cannot be classified technically as cross-border trade. With the liberalization of export regulations under structural adjustment, it is no longer the practice to smuggle these goods into neighbouring countries before exporting them. Export is now direct from Nigeria, by sea or by air. The only cross-border export of a commodity destined for Europe that came to light in the course of the research involved limited quantities of gum arabic, which are procured by Sudanese traders who come to purchase goods in Nigeria, and then export the gum arabic from Sudan.

The third level of the cross-border hierarchy involves those who import goods from the world market only as far as Cotonou, Lome or Maradi, from where they sell them to smaller operators who bring them into Nigeria, or trade them to other West and Central African countries (Galtier, 1997:8). In a sense, commodity dealers who import goods only as far as Cotonou, etc. operate above the framework of cross-border trade, since their activities are neither illegal nor do they require the services of parallel currency markets. This group are not illicit operators, because import into the Franc Zone of goods for re-export into Nigeria is a legal activity in the Franc Zone countries where these traders operate. Their activities do not pass through Nigerian parallel currency markets, because they sell their goods in CFA Francs, which they can change directly for hard currencies through the banking system in the countries where they operate. In another sense, this group of traders constitute the commanding height of the cross-border commodity trade, since they are the source of supply for the vast majority of cross-border operators who move goods from the Franc Zone to Nigeria.

A fourth group of traders is comprised of those who import contraband directly into Nigeria. This requires the connections and capital to get contraband cleared by Nigerian officials, and is, technically speaking, not cross-border trade, since the goods do not cross any borders to enter Nigeria. However, the activities of this group overlap with those of the other three categories, particularly in the case of trade with Saudi Arabia, which normally comes by air to Kano. The major currency demand for this group is for international currencies, though, until 1994, the CFA Franc played an important role in the Saudi circuit.

In fact, when import conditions in Nigeria become difficult, particularly in the case of commodities coming in by sea, this fourth group often divert their goods to Cotonou. As one commodity dealer explained, people import goods through Cotonou for three reasons: it is faster, cheaper and less complicated. From Cotonou, a consignment can be cleared and delivered to Kano in 4–7 days, while through Lagos it can take two weeks or more, even with all the

requisite payments to officials. The total cost of clearing goods in Cotonou and bringing them across the border is only about 60% of the cost of 'clearing' them through Lagos. Cumbersome regulations in Nigerian ports also encourage diversion to Cotonou. The imposition of bans on certain categories of goods and the strict enforcement from March 1996 of the Import Duty Receipt (IDR), cause delays and complications for importers. However, particularly at the level of registered companies, large-scale dealers in imported goods are forced to import a significant quantity of goods through Lagos because of the conspicuousness of their operations. This, however, does not prevent them from diverting goods to Cotonou when necessary.

These various levels of cross-border trade are associated with differences in the minimum capital levels required for entry. In both the import and the export trade, the bottom level, which involves trade between Nigeria and neighbouring Franc Zone countries, requires a minimum capital level of roughly 300,000–500,000 F CFA in 1996 prices. The capital range for this level of activity is extremely wide, varying with the centre of purchase in the Franc Zone and the type of commodity imported. The bottom rung involves trade with Niger or Cotonou, with a focus on commodities such as used cars, plastic shoes, spare parts, and some textiles. The capital range for these activities is roughly half a million—4 million F CFA. The upper range concerns trade to Cotonou and more distant Franc Zone entry points, such as Lome or Abidjan, and is dominated by such commodities as cigarettes, textiles and used clothing. The capital range of these activities is from 10–30 million F CFA, but can go as high as 100 million in exceptional cases.

Above those who operate between Nigeria and the Franc Zone are operators who engage in direct import from the world market. Direct import has two broad divisions in terms of capital levels and the types of actors involved. The first involves trade with Saudi Arabia, which is less exacting in terms of capital, makes some use of traditional Hausa trading infrastructure and, until recently, involved the use of CFA Francs. These advantages have made it easier for smaller operators to enter. The current minimum capital level is estimated at 1 million Naira, or about 6.25 million F CFA.

Above this group are those who trade with Europe/U.S. and Asia. This involves a higher capital threshold, estimated fairly consistently at U.S. \$50–60,000, equivalent to 25–30 million F CFA. The upper threshold, particularly in the case of those who import only as far as Cotonou/Lome or Maradi and sell to cross-border operators, can reach \$20 million U.S. or more. The majority of actors at this level operate outside the traditional Hausa trading structures. The commanding heights, which concern import only as far as Franc Zone ports and transit points, involves quantities of as many as 50 containers or more, and are dominated by Lebanese and Ibo commercial networks. Galtier (1997:7) indicates that, in 1989, 250 Ibo-owned import-

export firms were enumerated in Cotonou. Similarly, 140 Lebanese heads of enterprises and about 30 Indo-Pakistanis shifted operations from Ghana to Cotonou in the early 1970s. This may be taken as indicative of the relative importance of these groups in the commanding heights of cross-border trade, although the relative weight of the Lebanese in value terms is certainly much higher than these figures indicate, given that Lebanese entrepreneurs head some of the largest enterprises in the import-export trade into Cotonou. The majority of Hausa actors at the level of direct import from Europe and Asia do not operate at the top levels; they bring in goods from the world market on a much smaller scale and oversee the smuggling of these goods into Nigeria. Quantities often involve only one or two containers at a time.

#### The Role of Trading Networks

Contrary to the impression given by proponents of liberalization, cross-border trade does not simply represent the 'unstructured' activities of a plethora of small-scale operators. In-depth research on the structure of cross-border trading operations makes it clear that the bulk of cross-border trade is carried out in the context of vast, hierarchical networks (Gregoire 1992; Herrera 1995). The most lucrative commodities are dominated by a handful of actors who handle the import of goods from the world market into Cotonou, Lome and Maradi. In the cigarette business, imports into Cotonou are said to be dominated by fewer than 10 firms, while, as of 1993, two Syro-Lebanese establishments (Amar Taleb and Sobimex) controlled 68% of Niger's cigarette re-export market (interview with Managing Director, Nigerian Tobacco Company (NTC), 20.9.96; Gregoire and Labazee, 1994:25). Imports of European textiles to Cotonou are said to be dominated by a small number of Lebanese firms. In Niger, two European import houses control the import of European waxes, 90% of which is re-exported to Nigeria, while, as of 1993, 6 Niger-based importers controlled 91% of the re-export market for jaquard, lace and used clothing (Gregoire and Labazee, 1994:26-27).

Commodities such as used clothing, used cars and spare parts appear to be somewhat more diversified at the top, although all three are heavily dominated by Ibo trading networks at the level of import into Cotonou. Estimates by commodity dealers indicate that Ibo operators constitute 70-80% of the direct importers of these commodities.

The import dimension of the provisions trade (particularly sugar and rice), neither of which is currently contraband in Nigeria, but both of which are subject to heavy import duties, is controlled in Nigeria by two Nigerian importers, Isiyaku Rabiou and Alhaji Dangote. Even the grain and cowpea trade, which involves only local circuits between Nigeria and Niger, is highly concentrated. Until the liberalization of trade in Niger, cowpea imports into

Nigeria were monopolized by the Dantata family, and are currently dominated by about 6 Kano-based wholesalers. Similarly, the grain trade is dominated by not more than 20 Kano-based wholesalers (Amselle and Gregoire, 1988; Meagher *et al.*, 1996).

Relations between the handful of commercial operators at the top and the broad base of traders operating between the north of Nigeria and the Franc Zone involve the inter-relations of different trading networks, especially those of the Lebanese, Ibo and Hausa. The roles of the various networks in these activities have been shaped by the varying range of capital, skills and geographical scope characteristic of each. However, the penetration of market relations, and the limitations imposed by the structure of Hausa networks on their participation in the more lucrative dimensions of cross-border trade, have contributed to the increased participation at all levels of cross-border trade of actors operating outside of traditional network structures.

As indicated above, the commanding heights of cross-border trade are dominated by Lebanese and Ibo networks, though a range of other Nigerian (including Hausa) and West African actors can also be found at this level. The Lebanese tend to avoid direct involvement in commodity smuggling into Nigeria because of their greater political and economic visibility, and content themselves with the very lucrative business of supplying cross-border traders, especially in such commodities as cigarettes and high value imported textiles (European waxes, jaquard, and lace). Ibo networks, which are said to have pioneered the used clothing trade in Cotonou, also dominate the trade in spare parts, and are involved in the cigarette business (Forrest, 1994:178; Egg and Igue, 1993:19). The Lebanese operate from Cotonou and Lome, and are particularly prominent in Maradi-based outlets for re-exports to Nigeria, while Ibo actors involved in supplying goods directly from the world market operate largely from Cotonou and Lome.

Hausa/Fulani actors are not dominant in any line of direct import from the world market, except in the area of sugar and rice, some of which is imported directly into Nigeria, and, therefore, benefits from a range of political interventions. For the most part, important areas of dominance for Hausa/Fulani trading networks are restricted to the import of local and re-exported commodities from Franc Zone neighbours. In other words, the dominance of Hausa networks is confined largely to the distributive level of cross-border trade, which moves goods from Franc Zone neighbours into Nigeria, and from the north of Nigeria into the countries of central and sahellian West Africa.

At the level of the world market, Hausa importers operate at a significant disadvantage relative to Lebanese and Ibo operators, owing to their lack of global networks. Where Lebanese and Ibo entrepreneurs have been able to build up networks of relatives, townspeople and other personal contacts in

Europe, the U.S. and even Asia (Galtier, 1997:7), the Hausa commercial diaspora has remained predominantly within West and Central Africa, with some spread as far as Saudi Arabia. As a result, Hausa/Fulani participants at the level of direct imports from the world market are obliged to operate essentially through market relations with foreign suppliers rather than through global ethnic procurement networks. Contacts are established with the help of commercial publications, and information from friends and business colleagues. This significantly restricts the ability of Hausa importers to respond to changes in the market, and to build up the volume of their business. While Lebanese and Ibo operators can call up a relative or townsperson in a relevant global location and request goods to be ordered from suppliers and sent over, Hausa operators have to operate directly through European, North American and Asian formal sector suppliers, and make formal payment arrangements, at least until credit relations have been established.

As indicated above, Hausa actors who engage in direct import of manufactured goods from the world market are predominantly smaller operators who import quantities averaging only a few containers. According to informants in Wapa and in the commodity trade, most of these are younger men, in their thirties and forties, who have had some exposure to Western education and have learned the skills relevant to handling bills, receipts, international orders and the clearing of goods through customs in Cotonou or Nigeria. Many are new entrants into the line of trade they pursue, rather than coming from commercial families which have a history of involvement in cross-border imports of the commodity concerned. Entry into direct import from Europe or Asia represents a move beyond the traditional skills and commercial infrastructure of Hausa trading networks, such that families traditionally involved in certain lines of traditional cross-border trade would have no particular advantage, and, in terms of international contacts and the commercial skills necessary for international trade, often operate at a significant disadvantage. Major currency dealers and Hausa/Fulani direct importers claimed that cross-border operations through traditional Hausa networks, and linkages with correspondents in Niger, are for small-timers.

At the level of trade between the north of Nigeria and the Franc Zone, Hausa networks have the advantage. As noted above, however, this is essentially a distributive dimension of cross-border trading circuits. Ibo firms in Cotonou, especially those involved in the used clothing trade, make use of Hausa operators to import goods into the north of Nigeria, normally by giving them goods on credit. Used clothing is then distributed through cross-border Hausa/Fulani networks to areas of significant demand in Niger, northern Cameroun and beyond (Forrest, 1994:181). At the distributive level, the infrastructure and skills of Hausa commercial networks constitute a source of strength rather than a weakness, disseminating goods to a wide



range of markets throughout West and Central Africa. Wapa informants estimated that about three-fifths of the traders who operate only between Nigeria and the Franc Zone came from families with a history of involvement in long distance trade, or had been apprenticed to such families. The remaining two-fifths were made up of new entrants, without any background in long-distance trade in the region.

#### The Role of Non-Nigerian Traders

Together with the Hausa/Fulani trading networks, non-Nigerian traders form a critical dimension of the distributive structure of the cross-border re-export trade. They also play an important role in the movement of agricultural commodities and local manufactures between Nigeria and her Franc Zone neighbours. In commodities such as textiles, plastic ware and provisions, non-Nigerian traders are estimated to constitute about 30–45% of the business of Kano dealers in the major wholesale markets for these products.

In most lines of business, traders from Niger and Cameroun were said to constitute the most important customers, although trade from Camerounian customers was felt to have fallen off significantly since 1992 in the provisions trade. It was noted by several commodity dealers, however, that Niger and Cameroun often constituted a rather loose identification. The term 'Niger' often included Algerians and Libyans, who were difficult to distinguish from Tuaregs from the far north of Niger. In the case of such commodities as grain, fertilizer and petrol, traders from Niger also relayed a significant proportion of their purchases to Mali, Burkina Faso and Ghana. Similarly, sales to customers from 'Cameroun' often included trade to Chad and Sudan, since Camerounians and Chadians often bought goods for onward sale to Chad/Sudan, or acted as agents for traders from these places.

Traders from Chad and Sudan also constituted a significant source of demand in their own right. In Wapa, a large contingent of Sudanese traders are said to come once every three months to purchase a range of basic commodities, including basic toiletries, plastic shoes, low quality textiles, bicycles, and spare parts for bicycles and motorcycles, as well as spices and gum arabic. The level of purchases for one such visit was estimated to exceed N 10–20 million for the whole party. Central African Republic, Benin, Togo, Ghana, Algeria and even Senegal and Zaire were also mentioned as countries from which traders came to change money and purchase commodities from Kano-based dealers. Traders from these places constitute a relatively small percentage of overall business, but were prominent enough to be mentioned consistently by Wapa dealers as well as commodity wholesalers. It was also noted that those from more distant countries come to Kano less regularly, but sometimes make fairly substantial purchases.

The traders from these various countries appear to be a mixture of indigenous operators and nationalized members of the Hausa trading diaspora (many communities having been resident in these areas since pre-colonial times). In some cases the cultural blend is fairly close, as in the case of traders from Niger and northern Cameroun. The majority of traders from Niger are Nigerien Hausa, although Tuareg and other ethnic groups are also represented. In Kano circuits, traders from Cameroun are dominated by northern Camerounians, who are predominantly Fulfulde-speaking Fulani, although many also speak Hausa. Owing to the history of the Hausa diaspora, traders from northern Ghana, Burkina Faso, northern Togo, Chad, and even beyond to the Central African Republic and Sudan, can often speak Hausa, even if they are not themselves part of the Hausa diaspora. For those who do not speak Hausa, translation is organized either by their dealer in Wapa, or by Kano-based agents who specialize in dealing with traders from that particular area.

#### The Impact of Adjustment and the CFA Devaluation

The impact of adjustment on the operation of these networks has been to increase competition at all levels, and in the process, increase the entry of 'outsiders' in areas previously monopolized by particular ethno-cultural networks. At the level of direct import from the world market, liberalization has facilitated the entry of Hausa/Fulani importers operating at the 1--5 container level, especially in the area of Asian textiles and used clothing. At the distributive level, studies of trade between Nigeria and Niger have also noted the increased entry of small-scale operators since the liberalization of markets in Niger (Mas, 1993:96; Hamadou, 1996:10; Gregoire and Labazee, 1994:8, 27). At the same time, there has been an increasing penetration of Nigerian operators into Niger markets, bypassing their former Niger correspondents through whom they had been obliged to operate prior to liberalization. These trends have been particularly noted in the grain and textile trade (Gregoire and Labazee, 1994:16; Hamadou, 1996:10). In Niger, this has brought about a protectionist backlash on the part of the country's grain traders seeking to protect themselves from the competition of their commercially better-endowed neighbours to the south (Meagher *et al.*, 1996; Hamadou, 1996:6).

The devaluation of the CFA Franc and the simultaneous skyrocketing of prices in Nigeria has thrown a further twist into these developments. It has tended to increase costs in Nigeria, and significantly reduce the activities of smaller operators, particularly those operating from the Franc Zone. In the provisions trade in particular, a significant decline has been noted in the level of business of smaller-scale customers from West and Central Africa. Large-

scale customers, however, are reported to have returned to normal levels of trade within six months of the devaluation. In the spare parts trade, squeezed margins and increased costs in Nigeria since 1992 have prompted many Franc Zone customers to by-pass their former Nigerian suppliers and import directly from suppliers in Saudi Arabia. These developments point to a trend toward increasing differentiation in cross-border trade, and an increasing trend of networks bypassing their traditional cross-border counterparts to deal directly with foreign-based suppliers or customers.

#### 6.4 Transiting, Marketing and Financial Services

Cross-border trade is not based only on the independent operations of individual cross-border trading firms. There exists an extensive parallel trading infrastructure which, by facilitating the operation of these firms, has contributed importantly to the scope and expansion of cross-border trading activities in West Africa. Cross-border trading activities depend on a number of services outside the scope of the extensive supply and distribution networks. Critical among these are the transport and border-crossing services of transit agents, and marketing and financial services of Wapa currency dealers.

Cross-border operators do not handle the transiting of goods into Nigeria, except at the lowest level of traders hiding a few items on their person or in small vehicles, canoes or donkey loads. For the entry of contraband goods into Nigeria on any significant scale, commodity traders contact specialized transit agents, who are independent of cross-border trading firms (see also Gregoire and Labazee, 1994). After contacting the agents, cross-border operators pay the fee and supply the location to which they want the goods delivered. The major transit agents operate from Kano, Lagos or Cotonou, and include some well known Nigerian businessmen, but smaller agents can be found in many of the border towns as well. Agents handle the payments to relevant officials along the way, and have connections in sufficiently high places to ensure that nothing goes wrong. Goods received in Cotonou can be delivered right to a commodity dealer's warehouse in Kano.

Currency dealers constitute a second important group of service providers. In addition to changing currency, they provide a number of important commercial and financial services to cross-border operators, direct importers and direct exporters. Most of the firms based in the north of Nigeria operate through Wapa, even those which do most of their business with Cotonou. Dealing through Wapa saves them the trouble of negotiating Lagos and making new connections with currency dealers there. They simply change money before going south, and stop in Lagos only long enough to get transport to Cotonou. In addition, major commodity dealers from various parts of West, Central and North Africa who come to procure goods in northern

Nigeria exchange their currency in Wapa, where they can benefit from commercial services when arranging their commodity purchases.

The standard commercial services provided by the larger currency dealers in Wapa include accommodation, security for valuables and a range of marketing services. Accommodation ranges from booking the client into a hotel, which may or may not be paid for by the currency dealer, to accommodation in houses owned by the Wapa host. The level of accommodation depends on the resources of the Wapa dealer and the nature of the relationship with the client. Only the better established dealers are in a position to accommodate their clients, which reinforces their ability to attract major clients from southern Nigeria and other parts of Africa. Wapa dealers will also provide security for money or valuables which the client does not want to carry with him when moving around Kano.

Marketing services involve anything from helping a client make contacts with appropriate suppliers, to sending one's 'boys' out to make the purchases for him, if the client knows the prices and items he wants. Better established dealers also supply a vehicle to take the client around to consult with suppliers and make his purchases. Many Wapa currency dealers have regular suppliers they deal with in the different commodities, to whom they send out of town clients. Suppliers reciprocate by sending their own foreign clients to their Wapa regulars if they need assistance with changing currency.

Translation services are also informally organized when the need arises. Particularly at the higher levels, clients appear to deal somewhat less through locally-based brokers from their own trading diasporas. They now go directly to Wapa or to commodity suppliers. If a client does not speak Hausa, the Wapa dealer will requisition the services of someone from his house, his shop, or from another part of Wapa who knows the language in question. Besides Hausa, which still functions as a lingua franca in trading communities throughout much of the Sahelian and savannah zones of West and Central Africa, Fulfulde and Arabic are important trading languages in Wapa, and English is also used for non-Africans and Anglophone West Africans. All of these languages are spoken by at least some of the dealers or their 'boys'. Fulfulde is particularly important as a language for dealing with clients from Central and West Africa. Not only is it the dominant language among traders from northern Cameroun, it can also be used to communicate with some traders from Chad and Central African Republic. Other dialects of Fulfulde are also spoken across West Africa as far as Senegal. Arabic, which is learned to varying degrees in the Koranic education system through which most Wapa dealers have passed, may be used to communicate with traders from Sudan, Chad and North Africa. Only clients who do not speak any of these languages, such as those from distant parts of West Africa, normally come along with a Kano-based agent or commercial contact to translate for them.

Credit is one service which is no longer offered by Wapa dealers. According to informants, it has been given to some extent in the past. In the 1970s, it is said that Wapa dealers could guarantee transactions between traders and suppliers, and payment would be made after sale. In fact, credit used to be a central aspect of Wapa activities. Since the early 1990s, however, the granting of credit by Wapa currency dealers has largely ceased, owing to the fact that, as currency dealers put it, people have become unreliable. If one gives credit to a client, he will not come back. This suggests that Wapa plays no significant role in the credit financing of cross-border trading activities, except to the extent that these activities are carried out by Wapa dealers who also participate in commodity trading.

Transport is another service not organized at the level of Wapa. Transporters are usually connected with transit agents, and operate independently from currency dealers, commodity traders and suppliers.

Financial services include not only the changing of money, but remittance to suppliers either in Kano or overseas. The latter frequently involves bank transfers, often carried out through the medium of CFA Francs. Travellers cheques and even credit cards have also become increasingly common in overseas payment arrangements transacted through Wapa. There are two types of bank transfers carried out at the level of Wapa. The first involves acting as an intermediary between someone who has currency in an overseas bank account and needs Naira, usually exporters, and direct importers who have Naira and need to pay overseas suppliers. The person in need of Naira will write a cheque for the importer, who will deposit the equivalent in Naira with the Wapa dealer mediating the exchange. The cheque will be sent to the importer's account, and either cashed or transferred to a supplier's account in Europe or Asia. When the cheque clears, the Wapa intermediary will pass the Naira on to the party who wrote the cheque, after taking his own commission. Examples encountered of clients who use this service were an exporter of gum arabic to Europe, who received payment there, but needed Naira in Nigeria to buy the gum arabic, and an importer of watches from Japan, who needed to transfer the equivalent of N 20 million to his Japanese supplier.

A second method of bank transfer involves the use of Central African Francs, which are deposited in accounts in Chad or Cameroun, and can be transferred to suppliers' accounts overseas.

Both of these forms of bank transfer are preferred by clients dealing in amounts exceeding US\$100,000 since travelling with such amounts in cash can create problems with drug control authorities. It was noted, however, that Ibo importers seem more reluctant to negotiate overseas payments than their Hausa/Fulani counterparts. While Kano-based Ibo dealers will change money in Wapa, interviews suggest they are more prone to transferring it by travel-

ling abroad themselves or sending it with relatives or Ibo business associates who are travelling.

It should be noted that economic pressures and the penetration of market relations have modified the legendary matrix of trust which was traditionally said to underpin relations between brokers and clients in Hausa trading networks (Cohen, 1974; Lovejoy, 1980). When accommodating new clients in their houses, Wapa dealers require them to turn over their passports or travel documents as guarantees, and then return the documents when the clients leave. When clients deposit money with dealers, they are issued with receipts. Credit is no longer granted because of the general decline in the trustworthiness of clients, particularly since the onset of structural adjustment, which has provoked the increased entry of non-traditional participants in cross-border trading activities. Trust remains an important aspect of dealings between currency changers and regular clients, but is no longer the basis of commercial relations in Wapa. Relations of trust now constitute a residual element in the more contractual, market-oriented dealings between Wapa currency dealers and their clients.

#### 6.5 Cross-Border Firms and Interest Groups: Case Studies and Analysis

Cross-border trading firms have generally been identified with traditional forms of economic organization. Most studies of the organization of interregional or cross-border trade in Hausaland either focus on the pre-colonial and early colonial periods, or present an ideal-typical image of cross-border firms, based on traditional forms of organization (Lovejoy, 1980; Baier, 1980; Gregoire, 1992). This has been seized upon by proponents of structural adjustment to establish the traditional roots and popular legitimacy of international trade liberalization. Little attention has been devoted to the ways in which forms of organization of cross-border trade have been altered by the forces of liberalization and globalization. This section will attempt to fill in some of these gaps by considering the contemporary structure of cross-border trading firms, and the types of interest groups they form. The discussion will be prefaced by four case studies of firms involved in cross-border trade, either as suppliers or as actual cross-border operators. In each case, the owners of the firms are Kano indigenes, although one of the firms is not based in Kano.

##### Case 1.

Alhaji U. is a Kano businessman who imports used clothing from the U.S. to Cotonou and Lome. Because this activity does not contravene any laws in Benin and Togo, or in Nigeria, Alhaji runs it as a registered business, operating under a group of companies which is formally registered in Nigeria. His

used clothing business has offices in Lomé, Cotonou and New York, employing a total of 40–60 people, including Nigerians, Togolese and Americans. While some of the staff are apprentices and clients, others have attained qualifications in secondary school or university and are formally employed. Management positions are held by Nigerians and Americans.

Alhaji U. was born in the late 1940s or early 1950s in what is now Jigawa State. His father was an Arabic scholar and textile trader. Alhaji U. started trading in used clothes in the city of Kano in 1968, two years before the trade was banned in Nigeria. For the first four years, Alhaji U. worked as an assistant to established traders while he learned the business. He became independent in 1972, and launched his business with £2 of start-up capital which he was given by his mother.

When Alhaji U. was just starting out, he bought used clothing piece by piece from dealers who in turn bought from those who imported from Cotonou. He repaired and ironed the clothes and retailed them. By 1974, he had worked up to buying 60–80 pieces of used clothing at a time. By 1975/76, he was trading 5–10 bundles at a time, and had developed credit relations with his dealers. He no longer bought his goods from dealers in Kano, but travelled to Mai'Adua market on the Niger border to make his purchases, and then sold the clothing in Kano. By 1978/79, Alhaji U. had begun travelling to Zinder and Maradi in Niger to buy his goods, and subsequently went as far as Niamey. In 1982, Alhaji U. began importing used clothing from Cotonou, and by 1983/84, was importing from Lome. In 1986, Alhaji reached the level of importing from Europe and North America.

Alhaji U. began building up distributive networks very early on in the business. In the mid-1970s, before he began importing from Niger, Alhaji U. made efforts to impress his customers by meeting their orders as exactly as possible, and even adding a few extra items. By then, he already had customers coming from Cameroun and Chad.

Now Alhaji U.'s customers are importers who come from all over West Africa, from Ghana to Chad. Alhaji has diversified into the transport business, which is largely devoted to delivering used clothing consignments to his customers. He delivers directly from Lome to countries as far away as Chad. Like the used clothing business, the transport business is based in Lome. Alhaji U. has also diversified into commercial rice farming, which is carried out in his home state of Jigawa. This enterprise and the transport enterprise are managed by Alhaji U.'s brothers. Alhaji U. claimed to participate in no commercial associations.

Case 2.

Alhaji A. is a large-scale textile dealer in Kantin Kwari market in Kano. He has 3 shops in Kantin Kwari and 3 warehouses. In his textile business, he has 10 people working for him, 7 in Kantin Kwari and 3 permanently stationed in Lagos to clear goods. Most of his Kano employees are relatives or clients, but those stationed in Lagos were recruited from Lagos, and are salaried workers. Alhaji A. also has about 50 distributors working under him, who trade goods on credit to Kaduna, Abuja and other northern cities. Alhaji A. imports European and Ivory Coast waxes from Niamey and Batik prints from Asia, as well as selling a range of Nigerian textiles. He estimates his turnover at N10–12 million per week, an estimate that was independently corroborated by his brother.

Alhaji A. was born in 1956 in Dawakin Tofa, just outside the city of Kano. He is Hausa by origin, the eldest son of a large-scale farmer and tailor. Alhaji A. also farmed and raised cattle, but decided in 1976 to come to Kano to earn some money. He started out trading in foodstuffs, then decided to sell some of his cattle to buy a minibus which he operated as public transport. After some time, he sold the bus along with some more of his cattle and bought a car, which he operated as an airport taxi. Later he bought a second car which he also turned into a taxi. In the course of operating the airport taxi, Alhaji A. met a large textile dealer from Maradi, Alhaji G. Alhaji G. dealt in European waxes imported by CFAO in Niamey, which he distributed through Nigerian traders, often on credit. Alhaji G persuaded Alhaji A. to enter the textile trade in 1984/85, which he did with a capital of about N2,000. He operated as a distributor under Alhaji G., travelling to Niamey to purchase European imported textiles and selling them as an itinerant trader in Kano. Alhaji A. made his purchases in CFA Francs, after changing Naira in Maradi, where the rate was better than in Kano. Alhaji A. traded about 25 bundles at a time, and received some limited credit from Alhaji G. After about one year, Alhaji A. opened a shop in Kantin Kwari. At that time, he was only selling European waxes from CFAO in fairly small quantities. In order to attract customers, Alhaji A. started dealing in cheaper Nigerian textiles along with the European imports to fill up his shop.

Now a major Nigerian distributor for Alhaji G., Alhaji A. owes much of the growth of his business to the credit facilities and trust he has enjoyed from Alhaji G. In 1992, Alhaji A. began to import Batik prints from Indonesia, having been put in touch with an Indonesian supplier by friends. He started out importing about 3 containers at a time, but now imports about 7 containers. After ordering the goods, Alhaji A. normally sends one of his 'boys' from Nigeria to collect them, having made arrangements through fax and



phone contacts for the person to be received. From Indonesia, Alhaji A.'s employee arranges for the goods to be shipped to Cotonou or Maradi. Alhaji A. has also begun to import Ivory Coast textiles which are imported into Niger by CFAO and distributed to Alhaji A. via Alhaji G. Alhaji A. is now trying to get a contact to import textiles from Syria.

Owing to the large scale of his business, Alhaji A. now sources foreign exchange for his import activities in Wapa. He has stopped changing money in Maradi because he cannot source enough money there. His normal foreign exchange dealings involve either direct purchase of CFA Francs or bank transfers which he uses to pay his Indonesian suppliers.

Alhaji A. estimates that traders from other parts of West and Central Africa make up 40–45% of his business. These customers do not only buy Nigerian textiles, but also Asian and even Ivory Coast goods. He claims that traders from Ivory Coast come to buy Ivory Coast textiles in Kantin Kwari.

As regards diversification, Alhaji A. says he invests his money largely in expanding his textile business. He also trades on the side in 'anything that is moving', and buys urban real estate for resale. He has opened a small provisions shop in Kano which is run by some of his children.

Alhaji A. has no interest in joining commercial or political interest groups. He is a member of the local market association in Kantin Kwari only because membership is mandatory for all traders in the market. The Kantin Kwari market association only handles local market issues such as taxes and disputes between traders. It does not assist traders with financing or business contacts. Alhaji A. is not a member of the Kano Chamber of Commerce because, he says, he is not interested in 'government'. He feels that one succeeds best by solving problems with one's own resources. In terms of general policy attitudes, Alhaji A. feels that peace and stability are the most important thing. He is generally in favour of trade liberalization, but is against currency devaluation because he feels it hurts the common citizen.

### Case 3.

Alhaji S. is a provisions dealer in Singer market in Kano. He currently runs a business established by his elder brother some time around 1975–80. Alhaji S. entered the business in 1986 at the age of 25. When Alhaji S. joined the business, there were 11 workers, including the owner. There are now 23 employees, including a permanent employee in Lagos. Employment used to be on the basis of qualifications, but under current economic conditions there is a great deal of pressure to hire unemployed relatives, although even now, a number of employees are non-relatives. The man in Lagos is not a relative or client, but is employed on formal salary terms. The business has a turnover of approximately N2.4 million per week.

Alhaji S. is of Yoruba origin, but is an indigene of Kano city. His grandfather was a long-distance kola trader, and his father traded in groundnuts and cotton. Alhaji S. has a first degree in Economics from Ahmadu Bello University in Zaria (Nigeria).

Supplies for the business come from two major sources. Imported goods such as sugar, salt and rice come from importers in Lagos, mainly Isiyaku Rabi and Alhaji Dangote. He noted that none of the provisions dealers in Singer imports goods from abroad; they just distribute to Nigerian and Franc Zone customers. The second source of supplies concerns detergent, soap, pomade, etc, which are obtained from P.Z., a local manufacturer. Among the established dealers, goods can be obtained on credit.

Customers from outside Nigeria, particularly those from Niger, make up about 60% of his business. Camerounian customers used to be common, but have declined significantly since 1992.

Alhaji S. has not invested in any other business activities, except buying and selling houses in Kano. He feels investing in any kind of production is too risky under current economic conditions. Costs of machinery and inputs are very high and returns are unattractive. Production also involves investment in permanent assets such as factories and machinery, which are hard to liquidate and consume interest even when business is poor.

As regards participation in associations, Alhaji S. is a member of Kano Traders' Multi-Purpose Cooperative Society, a relatively broad-based organization which, at least in principle, represents the interests of indigenous medium and small-scale traders in Kano (Lucas, 1994:28). While this cooperative society is supposed to be primarily a capital sharing scheme, undertaking a range of commercial and industrial investments, Alhaji S. understood its central purpose to be negotiation with government over such issues as taxes, and undertaking infrastructural improvements, such as paving the main road through Singer market. Alhaji S. belongs to no other associations.

#### Case 4.

Alhaji Z. is a plastics dealer in Kofar Wambai market in Kano. He has 1 large shop and 1 warehouse in Kofar Wambai. He employs about 22 people, virtually all of whom are relatives or neighbours. The one exception in the permanent employee in Lagos, who is Yoruba, and is employed on a commission basis.

Alhaji Z. is of Habe origin, from Kano city. He was born around 1951, and entered the plastics trade in about 1984. Alhaji Z. began trading from the age of 4 or 5, when his mother gave him capital to trade tiny quantities of local soap. While still in primary school, Alhaji Z. diversified into manufactured soap and sponges. Upon completing primary school, he worked for 3 years in

a textile mill, during which time he saved up a capital of £ 50.00, and then went back to trading. He got a table in the market, and traded in a range of goods, including cosmetics, shoe polish, hurricane lamps, flashlights and suitcases. Eventually, he became a distributor for P.Z. through an uncle who worked there and a certain amount of entrepreneurial drive of his own. From there he moved into trading enamel ware and imported china. In 1984, when military government of General Muhammadu Buhari closed the country's border, supplies of imported china became scarce, and Alhaji Z. shifted to locally manufactured plasticware.

Supplies for the business are obtained from Nigerian plastics industries in Kano, Ibadan, Lagos, Onitsha and Kaduna. He does not trade to other countries, but has many non-Nigerian customers. Alhaji Z. estimates that 30% of his business comes from non-Nigerians, especially those from Niger and Cameroun.

With regard to other investments, Alhaji Z. claims he has not diversified into any other business activity. He invests his money predominantly in his plastics business, in buying plots and shops for rental and/or resale, and is also a shareholder in some companies, including P.Z. He is a member of the plastics dealers' union, which was formed in 1991/92. The major activity of the union is to negotiate with manufacturers concerning price increases, and it occasionally helps out members with individual problems. Membership in the union is not required for wholesale dealings with plastics manufacturers, but one tends to get better prices as a union member.

#### The Changing Structure of Firms

The existing literature on Hausa cross-border trading firms continues to emphasize their pyramidal and clientelist forms of organization, and their participation in regional Hausa trading networks, the organization of which dates from pre-colonial times (Baier, 1980; Cohen, 1969; Gregoire, 1992; Amselle and Gregoire, 1988; Hamadou, 1996). As indicated in the earlier discussion of changes in cross-border trading networks, however, liberalization and globalization have had a profound effect on the organization of Hausa cross-border operators. Penetration into direct import-export circuits has required large-scale operators to transcend the structure of Hausa trading networks because of their lack of a global dimension. This same process has also affected the structure and regional orientation of the cross-border firms themselves.

In his study of Maradi-based cross-border trading firms in the 1970s, Gregoire (1992:167) claims that 'The Alhazai have clients rather than employees'. As illustrated in the case studies, the clientelist structure of firms can no longer be taken for granted. While the employment of relatives and clients

on essentially clientelist terms still exists, there is an increasing penetration of formal employment relations, particularly in firms trading in goods which require dealings with the world market or with formal sector manufacturing firms within Nigeria.

The phenomenon of the permanent employee in Lagos is particularly representative of this tendency. Of the 10 cross-border firms interviewed, the six who could be described as large-scale operators all had at least one permanent employee in Lagos. In each case, the permanent employee was not a relative (and in some cases, not even a member of the same ethnic group), and was employed on essentially contractual rather than clientelist terms. The orientation toward Lagos rather than Maradi illustrates the ways in which the more global orientation of modern cross-border trade has required firms to transcend the regional structure of Hausa networks in order to participate directly in a global import-export market.

The adoption of formal employment relations with Lagos-based employees is a further reflection of the transcendence of traditional Hausa forms of economic organization. In the traditional Hausa system, social control over labour represents one of the central problems of economic organization, and the formation of strong clientelist-cum-kinship ties was the predominant solution to this problem (Baier 1980:181; Cohen 1969). In the much wider and looser networks required of a global form of operation, this cliental form of control becomes ineffective. One of the most common responses of respondents to the question of whether they had relatives or clients permanently stationed abroad was that such an arrangement was unworkable in the Hausa system—a relative or client stationed abroad would just ‘eat the money’. As one dealer put it when explaining why relatives were not employed in such positions: ‘This is business. We are in business to make a profit’.

It is also worthy of note that virtually all of the large-scale operators had Western primary education, and were almost without exception in the 35–45 year age bracket. While many came from commercial backgrounds, this was not universally the case, and in many cases, the respondents had gone into different lines of trade from their fathers. These observations are indicative of the need for new, more ‘global’, commercial skills for direct participation in modern large-scale cross-border trading operations.

As regards investment decisions, virtually all cross-border firms diversified into a fairly narrow range of what could essentially be described as ‘rent-seeking activities’. The most common were speculation in urban real estate and contracts. Only one case of directly productive investment was found, and one case of investment in shares of local companies. The prevalence of rent-seeking activities is symptomatic, not of any intrinsic antagonism of cross-border operators to developmental investment, but, as one dealer point-

ed out, to the negative economic environment which liberalization has created for productive investment.

One final observation relates to the issue of identity and its role in the organization of cross-border trade. Investigation of the identities of respondents, both in cross-border trading firms and in Wapa, revealed that ancestral origins no longer constitute a significant dimension of commercial organization or identity. While respondents were aware of their distant ethnic or sub-ethnic origins, they identified primarily with the broader ethnic category of Hausa, and secondarily with the state in which they and their fathers were born. Within the global structure of cross-border operations, which brings together the activities of Ibo, Lebanese and Hausa networks, the issue of pre-colonial origins within Hausa trading networks has become an historical detail. It had no consistent relation to current forms of economic organization, credit relationships, or the identity of clients and employees. In the case of Hausa trading networks in all lines of trade examined, including the currency trade, no dominant trend was revealed in ancestral origins of participants, even at the higher levels.

#### The Role of Credit

Credit from importers and large distributors has been an important factor in the growth and financing of cross-border trading firms, particularly in the context of operations that are predominantly informal and, within Nigeria, often illegal. The bulk of Nigerian commodity dealers have no access to formal sector credit from banks, except those major businessmen who have established groups of companies which can be used as a legitimate cover for loans.

This contrasts with the situation in the Franc Zone countries neighbouring Nigeria, in which bank credit has been a critical factor in the growth of importers involved in re-export to Nigeria. After independence, the growth of Maradi merchants was heavily dependent on access to bank loans, especially as regards their participation in the re-export business (Gregoire, 1992:145). In Benin, bank loans were also a vital factor in the growth of the re-export activities of nationals, especially after the nationalization of the banking sector in 1975 (Galtier, 1997:6; Igue and Soule, 1993:53, 64). Between 1980–1989, the Banque Commerciale du Benin (BCB) gave a total of 25.7 billion F CFA in credit for the importation of rice and wheat alone, and such activities may have played a role in the banking sector crisis in Benin at the end of the 1980s. It should be noted, however, that non-nationals operating in Benin do not normally enjoy such access to formal sector credit (Igue and Soule, 1992:106, 185–187). Even in Cameroun, where the re-export strategy has never played an official role in the accumulation strategy of the state, the national banking

system was an important source of financing for major operators in the re-export trade between the mid-1970s and the mid-1980s (Engola Oyep and Harre, 1992:50–51). The legal status of re-export activities on the Franc Zone side of Nigeria's border accounts for the greater importance of bank credit in these countries.

By contrast, many of the big dealers in Kano built up their capital through credit relations with larger dealers or suppliers. It is not clear to what extent those at top levels, especially major Kano businessmen and state officials, make use of formal sector credit in the financing of cross-border trading activities. For those firms operating outside these top echelons, however, credit remains an important factor in the financing of their trading operations. This applies particularly to firms embedded in wider ethnic supply networks, but also to those firms confined to market relations with foreign suppliers, who will grant credit once a satisfactory record has been established.

Credit is also a critical factor in the constitution of distributive networks, and in the financing of cross-border trading operations. Direct importers from the world market, and even distributors in the Kano wholesale markets, sell a significant proportion of their goods on credit to sub-distributors and retailers who operate in cities and villages all over the north of Nigeria, as well as to other parts of West and Central Africa. It can take anywhere from 1–5 years to build up credit relations with a dealer, depending on the reliability of the trading customer, the nature of the ties between them, and the value of the goods in question. Many Nigerian as well as foreign trading customers take goods on credit, and repay either after the goods are sold, or on a weekly or monthly basis, depending on the arrangement made with the dealer. Some Kano-based distributors estimate that as much as 40% or more of their business is done on credit.

It is through relations of credit, as well as other services rendered by importers and dealers, that distributive networks are built up around particular trading firms. In addition, trading customers from other countries may enjoy other services such as accommodation, safe-keeping for money or property, and assistance with changing money if they are unfamiliar with the currency market in Kano. Dealers use these services to build up their distributive networks. While trading customers are free to shop around and to verify prices with other distributors, they normally prefer to deal with their regular distributor in order to maintain the credit and other marketing advantages they have built up, as well as maintaining relations with a dealer of known reputation, particularly in the context of the Nigerian market, which is rife with uncertainties and the threat of falling prey to a dishonest dealer. The importance of these regular or 'personal' customers is cardinal in the establishment of distributive networks. While dealers often have a proportion

of customers with whom they have had no previous connection, their 'regulars' constitute the mainstay of their business.

#### Associations and Interest Groups

Proponents of market integration in Africa place a strong emphasis on the role of civil commercial organizations in the formation of a democratic constituency for liberalization and market integration (World Bank 1989; Bourenane 1996). Cross-border operators and Chambers of Commerce in particular have been cited as important social groups that could be mobilized behind an integrationist agenda. It is felt that such groups could constitute a challenge to the anti-integrationist interests within the state.

The formation of cross-border trade-related interest groups in Kano showed little support for this perspective. The Kano Chamber of Commerce has been the most active civil organization in the promotion of regional commercial integration. The Chamber executive have attempted to canvass support, among traders as well as with government, for the legalization and formalization of cross-border trading relationships. This process has also involved trade missions to neighbouring Franc Zone countries. In addition, the Chamber engages in trade missions to potential trading partners at the level of the world market, the most recent of which has involved a tour of Asian countries.

However, the Kano Chamber of Commerce is not in a position to lead an effective democratic coalition for market integration for two central reasons. The first is that the Chamber of Commerce adopts a pragmatic rather than an oppositional approach to the state. It relates to government essentially on the level of 'advice and appeals', and avoids coming out in direct opposition to contentious policies. The second reason is that even among its membership, some of whom are important actors in cross-border trade, the Chamber of Commerce has faced great difficulty in mobilizing any interest, let alone support, for its pro-integration activities. As the Chairman himself pointed out, 'The majority of them don't really care'. He explained that Kano businessmen involved in cross-border activities will continue to go about their business whether these activities are legalized or not, and, in any case, the informal methods they use now are faster than getting involved with formal procedures.

This general lack of interest was further evidenced by the fact that, despite its fairly moderate agenda, it was found that not one of the cross-border operators interviewed was a member of the Chamber of Commerce. The predominant position expressed on the matter was that such commercial associations were not traditional among the Hausa, and that it was not worth-while to get involved with 'government'. The large-scale operators

indicated a preference for individual solutions, which involved cultivating links with influential people and using money where necessary to get out of problematic situations. Collusion with traditional authorities and state officials was found more effective as a means of protecting their interests than the formation of civil interest groups.

The only evidence of participation in interest groups arose, not at the level of participation in policy formation, but related to more practical needs of operation within particular lines of trade. The most important of these involved associations formed to ensure the security of members in the face of government crackdowns. The three lines of trade most under threat of arrest and other forms of official harassment—currency, cigarettes and used clothing—had each formed relatively strong associations, as discussed in detail above in the case of Wapa currency traders. The extreme sensitivity of these three activities in Nigeria accounts for the greater interest in collective forms of protection.

In the cases of cigarettes and used clothing, it was not entirely clear why these activities should be particularly sensitive, but both displayed a high degree of secrecy, and, at the higher levels, a resistance to any research into their activities. Imported cigarettes, although recently unbanned, constitute a highly lucrative trade very much under the eye of the Nigerian secret service, and appear to involve the participation of particularly prominent Nigerian personalities. Used clothing remains banned, and is an increasingly lucrative business in the face of declining consumer purchasing power. In both cases, the associations formed by traders in these lines of business are used, not only for the protection of members, but as a means to control entry. If any non-members engage in the importation of these items, the association will inform the Nigerian security services and have the goods seized. This illustrates once again the central role of complicity in relations between cross-border operatives and the state.

Another type of interest organization related to negotiation over more mundane concerns such as taxes and infrastructural improvements in markets. Local market associations and the Kano Traders' Multi-Purpose Cooperative Society negotiated with government over taxes and organized infrastructural improvements. However, only small and medium-scale dealers appeared to be active in these associations. Large-scale operators expressed no interest in such organizations, and were only members in cases in which membership was mandatory in the market in which they operated.

In cross-border export lines, trade-specific organizations which represented traders' interests to government and to local industry appear to have become more common since the early 1990s. At the beginning of the 1990s, Kano dealers in plastic ware formed an association of plastics dealers which focused on price negotiations with the industries. Kano spare-parts dealers



had also just formed an association in 1995. The formation of these associations appears to be associated with the increasing instability of prices of locally procured goods, and with the greater legitimacy of cross-border export activities in the context of liberalization.

In all of these cases, only the Kano Chamber of Commerce shows any potential for exerting an influence on government attitudes toward integration. However, the indifference of members, as well as other cross-border operators, to mobilization behind these policy issues constitutes a significant constraint on the effectiveness of this integrationist lobby. In general, interest groups among cross-border operators are oriented more toward the protection than the legalization of their activities, and involve a relationship with state officials based more on collusion than on opposition. Within this context, the political allegiances of cross-border operators, as well as their influence in the Nigerian political equation, depends less on their direct participation in trade-based interest groups, which appears to be minimal, than on the political orientation of their protectors within the state whose economic and political interests are supported by their collusion with cross-border operators.

## 7. By Way of Conclusion: Adjustment to Integration

While many questions have been left unanswered by this study, the evidence presented here is sufficient to challenge some of the ideological assumptions of proponents of liberalization regarding the nature of cross-border trade. Principal among these are the notions that cross-border trade represents a traditional, largely pre-capitalist form of economic organization, that it is giving rise to the development of a more authentic and independent bourgeoisie, and that structural adjustment has improved the effectiveness of this social group as agents of regional integration.

### 7.1 The Contemporary Transformation of Cross-Border Trade

The evidence presented in the course of this study has made it clear that, while traditional commercial structures play an important role in the operation of cross-border trade, they have been significantly transformed by modern economic forces, most notably those of liberalization and globalization. The ethnic basis of the organization of these networks has been loosened by liberalization, which has promoted the increased entry of outsiders into lines of trade previously dominated by particular ethnic networks. This is exemplified in the penetration of Ibo and Yoruba traders into the previously Hausa-Fulani dominated area of currency trading, and by the penetration of Hausa-Fulani operators into the Cotonou-based re-export trade. In addition, liberalization has encouraged the bypassing of traditional trading correspondents in neighbouring countries, undermining more traditional forms of organization between networks. In this regard, it must be noted that, under pressure of increased competition from trading external networks, the strategy of these networks has tended to shift from one of 'liberalization from below' to one of 'protectionism from below', as exemplified in the recent protectionist responses of grain trading networks in Niger (Hamadou, 1996).

Similarly, the effects of globalization are evident in the tendency of Hausa-Fulani traders to transcend the traditional regional structure of Hausa cross-border networks in order to penetrate into direct import circuits at the level of the world market—once again, bypassing their traditional Ibo and Lebanese correspondents who dominate this dimension of cross-border trade. Far from constituting the major strength of the organization of cross-border trade, the traditional form of Hausa-Fulani networks, with their lack of global pene-

tration, has tended to disadvantage Hausa cross-border traders relative to their Ibo and Lebanese counterparts. These various developments tend to contradict the argument that cross-border trade represents the resurgence of pre-capitalist forms of economic organization. On the contrary, the competitive edge of these networks depends on their ability to re-organize themselves in response to the global economic forces of contemporary capitalism—as indeed their survival up to this point has depended on significant transformations in response to pre-colonial economic change, and to the economic and political contexts of colonialism and independence.

Similarly, the structure of cross-border trading firms is also being altered by the requirements of operation within a global economy. At the upper levels of cross-border trade based in the north of Nigeria, the necessity of dealing with a global economy has increased the importance of Western education and encouraged the development of more formal structures of labour control, particularly in the context of operatives stationed in Lagos. While clientelist forms of training and employment persist, they are increasingly complemented by more contractual arrangements, based on qualifications rather than social ties, and formal terms of employment, particularly in lines of trade that necessitate direct dealing with formal sector industry or the world market. This has contributed to the increasing prominence of new and often younger entrants, who can combine a familiarity with the traditional aspects of the commercial infrastructure of cross-border trade, with a knowledge of the new commercial and technological skills needed for dealing with the world market.

#### 7.2 Integration from Below or from Above?

The argument that cross-border trade is a representation of popular economic aspirations, and represents a form of accumulation independent of the state, is similarly challenged by the available evidence. The strategies of organization and protection involved in cross-border trade indicate that cross-border traders take their cue from above rather than from below. The dependence of these networks on protection, cooperation and even financing from state-supported business elites and officials, and even on the state itself in the case of re-export economies, suggests that the political and economic aspirations of this group are more closely aligned with the perpetuation of the rent-seeking activities of the state than with the needs and aspirations of the 'grassroots'.

At the same time, one cannot ignore the fact that cross-border trading activities provide opportunities for income generation and even accumulation for a large number of small-scale operators, many of whom have entered the trade in response to the context of unemployment and declining real incomes created by structural adjustment. This observation, however, does not elimi-

nate the fact that the orientation of cross-border trade as it is currently organized is fundamentally rent-seeking, based as it is predominantly on the exploitation of fiscal and monetary disparities between countries, rather than on any principles of comparative advantage.

### 7.3 The Structural Determinants and Integrationist Impact of Cross-Border Trade under SAP

A number of factors, revolving around the exacerbation of policy disparities, account for the greater tenacity of West African cross-border trade in the context of structural adjustment. Disparities between trade policies, fiscal regimes, currency values and levels of international convertibility, which constitute central factors in the growth of parallel trade, have generally been exacerbated in the context of structural adjustment. Differing policy mixes and rates of implementation of adjustment programmes between countries have tended to exaggerate rather than harmonize critical policy disparities (Daddieh, 1993:11). In West Africa, this has been accompanied by the less liberalized character of adjustment programmes, especially in countries such as Nigeria, which has resulted in the persistence of differential patterns of trade bans, tariff restrictions, and degrees of over- and under-valuation of currencies.

In addition, the West African sub-region is characterized by a particularly complex and extensive development of cross-border trading infrastructure, involving financial, marketing and transport services, which have acted to facilitate the expansion of cross-border trade. Additional support is provided in the context of the much stronger links between cross-border trading activities and the private and national accumulation strategies of West African states. The existence of official re-export economies such as Benin, Togo, and Niger, for which the supplying of cross-border trading circuits constitutes a central aspect of the fiscal strategy of the state, is a case in point. These economies have been known to engage in the competitive reduction of duties and taxes in order to maintain the competitiveness of re-exports in the context of moves toward liberalization in Nigeria (see Galtier, 1997).

The close links between cross-border trade and the state have tended to reinforce rather than diminish the dependence of cross-border trading circuits on goods imported from the world market. Within this context, integrationist arguments deployed in support of cross-border trade by proponents of liberalization tend to ignore the question of precisely which markets are being integrated. Economic changes since the pre-colonial period have resulted in the increasing penetration into cross-border circuits of goods imported from Europe, Asia and North America. Products of local agriculture and industry constitute an increasingly minor part of the cross-border trading portfolio. In

this study, the estimates provided indicate that more than half of the value of commodities traded through the cross-border circuits in the study area is made up of imports from the world market. Even in the case of cross-border exports from Nigeria, which were given a boost by the devaluation of the Naira, structural adjustment has contributed to a rising proportion of cheap Asian imports in cross-border flows moving from Nigeria into the Franc Zone. Thus, cross-border trade, rather than constituting the antithesis of the heavily import-dependent official economies of West Africa, reflects a similar dominance of imports from the world market. As a result, cross-border trade, far from contributing to a greater share of locally-produced commodities in regional trade, tends to promote the expansion of global penetration of the West African market.

Despite the impressive development and sophistication of cross-border trading activities in West Africa, evidence from this study suggests that its overall importance in national and regional trade is less pronounced than proponents of the 'new regionalism' suggest. Based on the evidence presented here, cross-border trade accounts for only about 4% of Nigeria's total international trade, and is unlikely to add more than 12% to official statistics on the proportion of inter-regional trade to total ECOWAS exports.

#### 7.4 The Developmental Prospects of Informal Market Integration

Evidence from Nigeria and neighbouring Franc Zone economies suggests that the impact of cross-border trade has been mixed. In both agriculture and industry, some sectors have been undermined by cross-border activities, while others have been given a boost. In Nigeria, agriculture has not benefited from cross-border trade, nor have such industries as automobiles, cigarettes, batteries and to some extent textiles. On the other hand, local toiletries, plastics, textiles, and a range of other consumer goods' industries have benefited from the informal expansion of their markets into the Franc Zone, especially following the devaluation of the Naira. In fact, some of these industries have been badly affected by the devaluation of the CFA Franc precisely because it undermined their Franc Zone markets. Similarly, much local industry in the neighbouring Franc Zone countries has been very badly affected by cross-border trade, while some agricultural subsectors have gained, owing largely to the supplies of subsidized Nigerian fertilizer and other improved inputs.

While the negative effects of cross-border trade on local agriculture and industry are cause for concern, it must be noted that structural adjustment policies have posed at least as great, if not a greater, threat to these sectors as cross-border trading activities. The real question, then, is not whether cross-

border trade is positive or negative in its impact on the Nigerian and neighbouring economies, as well as on the regional economy of West Africa, but whether structural adjustment has created a context for the productive integration of regional markets through the activities of cross-border trade.

One could argue that, despite their more problematic effects, adjustment policies have contributed to the expansion of regional markets for Nigerian manufactures and agricultural commodities, which should help to compensate for the weakening of the home market. For the most part, however, the gains from expanding regional markets have failed to compensate for the negative effects of adjustment. Most of the activities which have benefited from the greater extension of markets into the Franc Zone, especially the textile and foodcrop sectors, have been increasingly crippled by escalating production costs, lack of adequate access to essential inputs, declining consumer purchasing power, and increased competition from goods legally imported from the world market. The crisis in these sectors has been exacerbated by the devaluation of the CFA Franc, which has provoked a contraction in Franc Zone demand, in the context of a skyrocketing of Nigerian production costs and continued inflows of competing goods from the world market. The 'transactional advantage' of the CFA Franc has persisted, although in a modified form, somewhat limiting the extent of parallel currency and commodity movements, without significantly improving the capacity of any of the states involved to regulate these movements.

Within this rather daunting context, does cross-border trade offer any potential for the development of productive structures of regional integration, either with or without the assistance of structural adjustment? In principle, the answer is yes. Cross-border trade offers by far the most efficient financial and commercial infrastructure for regional trade which can, within an appropriate policy framework, contribute to the expansion of markets for local industrial and agricultural goods. Structural adjustment as currently conceived does not constitute an adequate policy framework for this task. Liberalization unleashes an indiscriminate range of economic forces, both positive and negative; it is the role of state policy to direct these forces toward positive economic outcomes. Similarly, cross-border operators and currency dealers are first and foremost business people. Their objective the world over is to make a profit, not to worry about whether profitable opportunities will have a positive or negative impact on the economy. Once again, it is the responsibility of the state to shape economic incentives in ways that will direct commercial activity, both formal and informal, toward a strengthening rather than a weakening of the productive potential of the economy.

A more suitable policy framework would include the regional coordination of industrial and agricultural planning, a regional harmonization rather than wholesale reduction of tariffs, and regional coordination of mone-

tary policies. The regional role of the CFA Franc needs to be given careful consideration with a view to balancing its role in expanding access to regional markets and limiting the downward pressures on non-convertible currencies such as the Naira, against the need for some measure of regulation of regional currency and commodity movements. Unfortunately, the inconveniences of formal sector procedures, and the lack of autonomy of cross-border operators from various private interests within the state, compromise the possibility of mobilizing them behind such a policy agenda. The initial impetus will have to be sought in a coalition of interests increasingly dependent for their survival on greater stability and rationality in regional trade flows, particularly local manufacturers and surplus agricultural producers.

#### 7.5 Policy and Parallel Currency Markets

It can be argued that the attitude of state officials towards parallel currency markets consists of two responses. The first is what in the literature has been called financial repression (McKinnon, 1973; Shaw, 1973) where the markets are denied legality and administrative control measures are instituted to eliminate them. When these controls fail and the balance of payment crisis deepens leading to slimmer reserves, the state complements financial repression with more legal and physical force. This is meant to discourage involvement by increasing the risk of participation. However, this also often increases the return or profit margin, thereby making the risk worthwhile. The response of some parallel currency traders might well be to quit and do other things. But if the returns are worth the risks, they might go further underground and camouflage their trade making public policy no better off.

The failure of financial repression has given impetus to the neo-liberal arguments contained in SAPs. Thus devaluation, liberalisation and a move towards currency convertibility are put forward as solutions to financial repression. However, these are just another set of state responses, responses which we call *market coercion* because the state is actively involved in regulation and intervention through monetary and fiscal mechanisms to undermine and eliminate the parallel currency market. Market coercion assumes that parallel markets are based on market distortions and not, as we saw in the case of Wapa, a real market niche. Therefore, while market coercion is a different policy approach from financial repression, they both share the same policy focus and aim which is the elimination of the parallel currency market. In this way they both differ from a developmental approach and response which from the result of this study we can argue is infinitely superior, more real and more likely to achieve the best result.

A development approach would not seek to eliminate the parallel currency market but to integrate it with the formal market. As Wapa has shown, in

any integration the parallel currency markets will be bringing with them experience and knowledge of customer service, flexibility, speed, ease, convenience and a knowledge of the financial needs of ordinary people. In all these areas, our study of Wapa has shown that the parallel market is ahead of the formal sector, including the BDCs.



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