An Analysis of Banks Financing of Non-Oil Exports in Nigeria

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Abstract

In Nigeria the Non-oil export sector of the economy is contributing only 4% of total exports and the volume of non -oil exports growth is very low. One of the reasons for the declining growth is insufficient access to bank finance. Banks are not willing to advance credit to the non-oil export sector as they consider the sector very risky for investment. Another problem is the increased cost arising from exchange rates fluctuations and high cost of bank finance. Because of these factors the non-oil exports dwindled. The problems above triggered this research; consequently, questionnaires were developed and distributed to 120 non-oil exporting firms. Tools used for data analysis and hypotheses testing included, Mean and standard deviation, multiple regression. The multiple regression indicates that Non-oil Exports Financing by Banks significantly accounts for slightly 16% of variance in Non-oil Exports Performance, similarly beta coefficient reveals that Firm' Perception of Banks Attitude to Risk of Financing non-oil exports has the highest beta value followed by Cost of Bank Finance, in the case of Exchange Rate fluctuation Effects and Volume and Access to Credit Facility they present insignificant relationships with the Non-Oil Exports performance. This research indicates relative importance of NEFB in predicting the direction, composition and pattern of trade in non-oil goods in Nigeria. The result of the research would go a long way in making the managers of exporting firms to find ways of financing their firms especially as there is high need of up-front fixed cost in export business. The research indicates the need for governments to develop financial sectors of their economies for improved exports. The research reveals the need for exports subsidies in developing countries because of the large number of small sized firms in the export business who cannot cope with the high capital requirements of exports business in Nigeria. But in doing so government must work hard toward elimination of corruption for the policy to yield the needed result. Without financial support provided by banks, the wheels of export cannot move. Banks should be ready to learn and specialize in two to four export products that they can handle and do well and explore the letters of credit option to provide secured funding for exports.

Key Words: Banks, Non-Oil Exports, Nigeria

1.0 Introduction

In Nigeria from 1960s-1970s, the Nigerian economy was dominated by agricultural commodity exports. According to Ogunkola, Bankole and Adewuyi (2006) and Okoh (2004), the situation later changed, crude oil now constitutes 96% of total exports as against 4% for non-oil exports in Nigeria (a negative trend). The performance of the non-oil sector leaves little or nothing to be desired.

The policies aimed at reversing the trend have been to expand non-oil exports in a bid to diversify the nation's export base. The diversification of the economy is necessary for the following reasons: (1) the volatility of the international oil market, (2) the attendant volatility of government revenue and (3) the fact that, crude oil is an exhaustible asset unreliable for sustainable development of the economy.

Specific Policies put in place include the abolition of marketing boards; various export expansion schemes, establishment of the Nigerian Export-Import Bank (NEXIM) and the establishment of National Export Promotion council (NEPC). Part of the policies put in place by Nigeria included joining the membership of the Economic Community of West African States (ECOWAS) and the World Trade Organization (WTO) (Ogunkola and Oyejide, 2001). Despite these efforts, non-oil exports have dwindled due to Poor access to financial services, high cost and complicated financing among other reasons.

One of the ways of boosting exports is making finance available to the export sector. This can be done through provision of enough and cheap credits to the sector (Phillips 1991). Banks are important institutions that can provide finance to the non-oil export sector in Nigeria. Banks are internationally recognized financiers and guarantees payment to exporters. CBN (1992) sees bank credit as money lent out by banks as loans and advances with a future date of repayment. Venedekian and warfield (1991) sees bank credit to non-oil exports to include bank overdraft, unsecured line and financing foreign receivables.

Export trade is an integral part of international trade, it has to do with selling of goods and services to other countries (World Bank, 1993). International trade depends on some factors which Beck (2001) referred to as endowment factors which determine the flows of trade among countries. Kletzer and Bardhan (1987), Beck (2002, 2003) incorporated a financial sector in to the Hecsher Ohlin trade model and show that financial sector development in general and banking sector in particular gives countries a comparative advantage in industries that rely on external financing. Countries with better developed financial institutions such as banks and markets should therefore, have a comparative advantage in industries that rely relatively more on external finance.

With viable banks spread all over the country, it is assumed that economic growth is likely to be achieved. Bank-based financial system, where banks have close ties to industry, reduces the costs of acquiring information about firms. This makes it easier for the financial system to identify good investments, exert corporate control, and mobilize savings for promising investments than securities market oriented financial system, where the ties between banks and industry are less intimate (Gerschenkron 1962, Allen and Gale 1994). Therefore, this study is intended to assess the bank financing of non-oil exports in Nigeria. Banks financing of export in general and non-oil export in particular is capable of boosting non-oil export sector which brings economic growth.

1.2 Statement of the Problem

There are some challenges for countries with natural resource abundance such as oil (such as Nigeria) in comparison with other countries. The main point is that in parallel with windfall of oil revenues these countries have to pay more attention to the development of the non-oil sector as well as its export performance (Sorsa, 1999). Because in the most of the cases oil driven economic development leads to some undesirable consequences such as Dutch Disease in the oil rich countries. Therefore Nigeria needs to pay more attention to the development of non-oil exports sector to create the sorely needed growth and development.

But, the Non-oil export sector of the Nigeria economy is faced with a lot of problems. For example, the export of non-oil commodities contributes only 4% of total exports in Nigeria (Okoh, 2004; Ogunkola et al 2006) and the volume of non -oil exports growth is very low (approximately 4% per annum) from the middle of 1965-1985 as asserted by Maidugu et al (2003). One of the reasons for the declining growth is insufficient access to finance in general and bank finance in particular. Access to banks financial services for non-oil exporters is one of the major problems stifling the growth of the sector in Nigeria, because of high interest rates and little disbursement in terms of the volume of credit (Ijaiya, 2003; Theodore, 2004; Sanusi, 2010a, 2010b). In Nigeria very insignificant portion of non-oil exports was financed by bank credit. Export from Nigeria is largely crude oil which is funded from outside the country (CBN 2006). According to Ijaiya, (2003) Commercial banks credit to non-oil exports sector has been very low. According to Odularu (2008), high cost of finance does not allow non-oil exporting industries to modernize outdated plants and machineries in Nigeria, which results in poor quality goods for non-oil exports. Banks are not willing to advance credit to the non-oil export sector as they consider the sector very risky for investment despite directives from NEPC to do so (Odularu, 2008).

The banks' lack of effectiveness in handling small, medium or long-term credit risk (lack of training of loan officers, lack of information on borrowers and absence of a reliable credit registry) result in the entrepreneurs being burdened with high requirements, such as up to three years of financial statements, enough collateral to cover both the loan principal and interest (including a cash deposit that may be up to 30% of the loans' net present value), and to provide every detail of the international trade transaction in question (Marc, 2007). The sector has been declining due to poor access to credit facilities at pre-shipment and post shipment stages as opposed to what is happening in other countries of the world (Azzam, 2000). There is also the problem of increased cost arising from exchange rates fluctuations which has been identified by (Elumelu, 2002). Some of the roles of NEXIM are purchase and sale of foreign currency, maintenance of a foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production.

Exporters have access to these facilities only through commercial banks operating in the country (Theodore, 2004; Ijaiya, 2003 and NEXIM, 1997). However the effect of NEXIM bank source of finance on export performance was not found to be significant and encouraging Aworemi, Oyedokun and Odeyemi (2011).

According to Lawal (2009) Most Nigerian banks were only interested in granting loans to facilitate importation rather than exportation. The high interest rate charged by some of the banks in Nigerian makes producers and exporters not being able to compete favourably with their counterparts in other African countries like Ghana. As a result of the adverse effects of the above factors, the non-oil exports dwindled. It is in view of that the banking sector being the major source of financing in Nigeria needs to be examined to ascertain the contribution of the sector to non-oil trade. Based on the problems identified above the research would be guided by the following research questions.

2.0 Literature Review

The review first highlighted the nature of Nigeria economy starting with the industrial output which contributed almost half of the total output in Nigeria. This is followed by the services sector which accounted for over 30.0 per cent of total output. In terms of banking habit Nigeria was a cash economy in the 1960s, as cash holdings exceeded bank deposits. Banking habit grew rapidly in the 1970s and each of the two types of deposits outgrew cash holdings in the early 1970s.

In terms of trade Nigeria‘s export sector is characterized by the dominance of a single export commodity (crude oil) which constituted 96% of total exports. Macroeconomic policies have been adopted with a view to achieve growth in non-oil exports particularly manufacturing. For instance in the 1960s and 1970s, manufactured merchandize exports grew under high protective fiscal barriers and the establishment of The Nigerian Export Import Bank (NEXIM) among others.

Theories, suggest that the level of financial development influence the pattern of international trade flows (Beck 2002). Kletzer and Bardhan (1987) compliment the Heckscher-Ohlin (1933) trade model by incorporating a financial sector and show that financial sector development especially the banking sector development gives countries a comparative advantage in industries that rely more on external financing. Therefore finance is very important in boosting non-oil trade.

Financial sector development that mitigated liquidity risk was primary causes of the industrial revolution in England. They further argue that information acquisition costs create incentives for financial intermediaries to emerge (Diamond, 1984; and Boyd and Prescott, 1986). Without intermediaries, each investor must pay the fixed cost. In response to this information cost structure, however, groups of individuals may form (or join or use) financial intermediaries to economize on the costs of acquiring and processing information about investments. Outside creditors – banks, equity and bond holders – that do not manage firms on a day-to-day basis will create financial arrangements to compel inside owners and managers to run firms in accordance with the interests of outside creditors. Without pooling, households would have to buy and sell entire firms. By enhancing risk diversification, liquidity, and the size of feasible firms, therefore, mobilization improves resource allocation (Sirri and Tufano 1995). The finance system including banks functions in the area of lowering of transaction costs and technological innovation in terms of the advantages of money over barter.

There are some theoretical models that stress the importance of different institutional forms financial systems can take, but more important are the underlying functions they perform such as risk amelioration and mobilsation of savings. Some experts on exports like Barnard and Jensen (1999a, 2001) and clerides, Lach and Tybout (1998) opined that exporting firms are consistently larger, more productive, more capital intensive which clearly indicate the high need for finance in the sector.

2.1 Cost and Access to banks financial services

Access to banks financial services for non-oil exporters is one of the major problems stifling the growth of the sector in Nigeria, because of high interest rates and little disbursement in terms of the volume of credit (Ijaiya, 2003; Theodore, 2004; Sanusi, 2010a, 2010b). According to Odularu (2008), high cost of finance does not allow non-oil exporting industries to modernize outdated plants and machineries in Nigeria, which results in poor quality goods for non-oil exports (Ningi, Kurfi and Dutse, 2007).

The banks' lack of effectiveness in handling small, medium or long-term credit risk (lack of training of loan officers, lack of information on borrowers and absence of a reliable credit registry) result in the entrepreneurs being burdened with high requirements, such as up to three years of financial statements, enough collateral to cover both the loan principal and interest (including a cash deposit that may be up to 30% of the loans' net present value), and to provide every detail of the international trade transaction in question (Marc, 2007).

2.2 The Risk-Averse Behavior of Banks in Funding Non-Oil Exports

In Nigeria risk-averse behavior of banks has constrained the non-oil exporting firms from obtaining loans and hence the contribution of this sub-sector to GDP (Crocket, 1997; Ogujiuba, Ohuche and Adenuga, 2004). The bank financed exports to GDP remained as low as less than 5% between the periods 1970- 2006 in Nigeria (CBN, 2006). Nikini, (2005) reported that banks perceive high risks associated with lending to exporting firms in Nigeria.

2.3 Exchange Rate Fluctuation Risk

Banks are capable of minimizing Exchange rate fluctuation risk between major traded currencies through a hedging operation by taking a reverse position in the forward market or using options (to buy or to sell) foreign exchange in the futures market, thereafter be able to provide importers and exporters with competitive rates (Nkini, 2005; Theodore, 2004; Ijaiya, 2003 and NEXIM, 1997 and Aworemi et al 2011). NEXIM carries out the purchase and sale of foreign currency and maintenance of a foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production. Exporters have access to these facilities only through commercial banks operating in the country. However, the finding of (Aworemi et al 2011) revealed that the effect of NEXIM as the banks' source of finance on export was not found to be significant and encouraging.

3.0 Methodology

Based on the theoretical scales developed, pilot study was conducted and a pilot of 102 firms was used. One constructs were dropped and based on the results of the pilot survey reliability, validity and developed from literature four constructs were retained. This formed the basis for the final questionnaire designed, on a five-point likert scales arranged in the form of 1 strongly disagree, 3 neutral and 5 strongly agree with 24 items measuring the constructs. Questionnaires were personally distributed to firms across the cities of domicile of the firms. Out of the 160 questionnaires distributed, 120 were retrieved and used for the analysis. Tools used for data analysis and hypotheses testing included: Mean and standard deviation multiple regression. Challenges experienced in the course of conducting this research ranged from many of the non-oil exporting companies were not willing to fill the questionnaire, and some questionnaires could not be retrieved even after repeated visits. Some companies were registered for the purpose of receiving government export assistance due to high level of corruption in the country. The sample of 193 could not be attained because of the apathy of respondents in returning the questionnaires, more so some of the firms listed by the NEPC as registered exporting firms were actually not found at the address they provided as contained in the list of non-oil exporting firms. Response rate was low at 62% and the cost of the survey was also on the high side because most of the firms are located in large cities and in highly urbanized states like Lagos.

4.0 Results and Discussion

Data analysis starts with data screening, assessment of data accuracy and normality test. Theoretical and statistical analysis of content validity as well as reliability supports the validity of the constructs. Consequently, multiple regressions indicate that NEFB significantly accounts for slightly 16% of variance in NEP (see table 1A and B),

Table 1A: Reliability statistics

S/No	Construct	Cronbach's alpha	Cronbach's alpha based on standardized items
1	Cost of bank finance to non-oil exports	.503	.502
2	Effect of exchange rate on non-oil exports	.527	.530
3	Volume and access to credit facilities to non-oil exports	.511	.513
4	Firms perception of bank's attitude risk of financing non-oil exports	.723	.724
5	Non-oil exports performance	.589	.589

Source: field survey, 2011

Table 1B: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.401[a]	.161	.132	.44374

a. Predictors: (Constant), Volume and Access to Credit Facilities For Non-oil Exports, Firms Perception of Bank's Attitude Risk of Financing Non-oil Exports, Effect of Exchange Rate on Non-oil Exports, Cost of Bank Finance to Non-oil Exports

b. b. Dependent Variable: Non-oil Exports Performance

Source :-field survey, 2011

similarly beta coefficient reveals that firms perception of banks attitude to risk of financing non-oil exports (FPBARF) has the highest beta value followed by cost of bank finance (CBF), in the case of exchange rate fluctuation effect on non-oil exports (ERN) and volume and access to credit facilities of non-oil exporting firms (VACN) present insignificant results (see table 3).

Table 2: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.338	4	1.084	5.507	.000[a]
	Residual	22.644	115	.197		
	Total	26.981	119			

Source:-field survey, 2011

Non-oil exports financing offered by banks (NEFB) is useful as a predictor of non-oil exports performance (NEP). Combined analysis of overall Non-oil exports financing offered by banks (NEFB) vis-a-vis non-oil exports performance (NEP) mean plot comparison, constructs correlation and results of multiple regression particularly constructs beta coefficient reveals that the Hecsher Ohlin trade model which was developed further by Kletzer and Bardhan, 1987; Rajan and Zingales 1998; Beck, 2002 is robust in explaining bank financing of non-oil exports.

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	5.287	.400		13.234	.000
	Cost of Bank Finance to Non-oil Exports	-.319	.158	-.208	-2.013	.046
	Effect of Exchange Rate on Non-oil Exports	.074	.139	.051	.533	.595
	Firms Perception of Bank's Attitude Risk of Financing Non-oil Exports	-.399	.134	-.293	-2.977	.004
	Volume and Access to Credit Facilities For Non-oil Exports	.076	.142	.049	.537	.592

Source:-field survey, 2011

Evaluation of construct correlation, R^2, beta coefficients and relationship between non-oil exports financing by banks (NEFB) mean in relation to non-oil exports performance (NEP) mean revealed that the model accurately explain the perception of exporting firms in Nigeria. This research also indicates relative importance of non-oil exports financing by banks (NEFB) in predicting the direction, composition and pattern of trade in non-oil goods in oil rich countries that suffers from Dutch disease similar to Nigeria.

The research reveals that non-oil exports financing by banks (NEFB) affects non-oil exports performance among exporting firms in Nigeria. The result of the research would go a long way in making the managers of exporting firms to find ways of financing their firms especially as there is high need of up-front fixed cost in export business. The perception of firms as it relates to the banks is negative this indicates the need for the firms to strategically improves their image by the type of export business they do and be in business sectors intensive in external finance and intangible assets that can make them grow disproportionately faster. The research indicates the need for countries governments to financially develop their economies for improve exports (Rajan and Zingales 1998; Braun, 2003). The research reveals the need for exports subsidies in developing countries because of the large number of small sized firms in the export business who cannot cope with the high capital requirement of exports business in Nigeria. But in doing so government must work hard toward elimination of corruption for the policy to yield the needed result. It is also clear from the research that export subsidies ought to be set with caution because of the welfare outcome of subsidies to exporters

5.0 Conclusion

This research has empirically brought to light the relationship between non-oil exports financing by banks (NEFB) and non-oil exports performance (NEP) in Nigeria and other allied nations. Again most of the researches on financing of non-oil exports used secondary sources of data and many took the whole finance system.

In Nigeria effect of exchange rate conceptualized to be one of the constructs was based on the fact on ground. This is because banks are deeply involved in granting loans in foreign currency to exporters with full support of Nigerian Export Import Bank (NEXIM).

The research reveals that non-oil export financing by banks (NEFB) affects non-oil exports performance (NEP) among exporting firms in Nigeria. The result of the research would go a long way in making the managers of exporting firms to find ways of financing their firms especially as there is high need of up-front fixed cost in export business. The perception of firms as it relates to the banks is negative this indicates the need for the firms to strategically improves their image by the type of export business they do and be in business sectors intensive in external finance and intangible assets that can make them grow disproportionately faster. The research reveals the need for exports subsidies in developing countries because of the large number of small sized firms in the export business who cannot cope with the high capital requirement of exports business in Nigeria.

6.0 Recommendations

1) Banks have negative attitude to risk of financing non-oil exports in Nigeria, the banks should be made to perform their role of financial intermediation through CBN regulatory and supervisory roles, the Nigerian export promotion council (NEPC) should have a service that assists export-oriented firms especially Small and Medium Enterprises (SMEs) to improve their credit worthiness, prepare them to approach banks if they so choose and afterward assist them to improve their performance and ability to repay their credits.
2) Cost of bank finance to non-oil exports is generally high and has direct negative effect of oppressing the sector's performance. The bank financed exports to GDP remained as low as less than 5% between the periods 1970- 2006 in Nigeria. NEPC should establish a rapport with Nigerian Export-Import Bank (NEXIM) and the commercial banks to facilitate SMEs access to credit at low cost and to introduce subsidized credit to non-oil exporters with a view to encouraging existing and potential exporters from entering into export business.
3) Government should address the non-financial factors militating against non-oil sector of the economy such as infrastructural deficit, prevalence of fraud, the high cost of doing business and the capacity limitation of SMEs that dominate the sector and to embark on a vigorous country image re-building to boost non-oil exports.
4) Exporting firms should examine their financial structure and composition so as to find out the sensitivity of their firm exports to external finance need. Because, exporting firms that need outside funds, have fewer internal funds and hard assets are operating in sectors intensive in external finance and intangible assets in a financially developed economy and are therefore capable of generating high Export volumes.

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