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Analysis of Supply Side Factors Affecting Bank Financing of Non-Oil Exports in Nigeria

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***Abstract*—**The banking sector poses a lot of problems in Nigeria in general and the non-oil export sector in particular. The banks' lack 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) results in non-oil exporters 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. The stated problems triggered this research. Consequently, information on bank financing of non-oil exports was collected from 100 respondents from the 20 Deposit Money Banks (DMBs) in Nigeria. The data was analyzed by the use of descriptive statistics correlation and regression. It is found that, Nigerian banks are participants in the financing of non-oil exports. Despite their participation, the rate of interest for credit extended to non-oil export is usually high, ranging between 15-20%. Small and medium sized non-oil export businesses lack the credit history for banks to judge them as reputable. Banks also consider the non-oil export sector very risky for investment. The banks actually do grant less credit than the exporters may require and therefore are not properly funded by banks. Banks grant very low volume of foreign currency loan in addition to, unfavorable exchange rate at which Naira is exchanged to the Dollar and other currencies in the country. This makes importation of inputs costly and negatively impacted on the non-oil export performance in Nigeria.

***Keywords*—**Supply Side Factors, Bank Financing, Non-Oil Exports.

I. Introduction

If viable banks are spread all over a country, it is assumed that economic growth is likely to be achieved. This is because, 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 [1]. Banks financing is therefore, one of the ways of boosting exports. This can be done through provision of enough and cheap credits to the sector [2]. 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. But, the banking sector poses a lot of problems in Nigeria in general and the non-oil export sector in particular. The banks' lack 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) results in the exporters 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 [3]. 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 [4].

As a result of the adverse effects of the above factors, the non-oil export is dwindling. It is in view of this, 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.

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II. Literature Review

A. Non-Oil Export Trade Finance

One of the most important obstacles to industrial development is a weak financial market, in which producers may face credit constraints and experience difficulties in finding the necessary resources to finance investments. Such constraints may depend on either inefficiencies of the financial sectors or lack of creditworthiness by private firms [5]. Sometimes, however, the problem can be purely informational, and the misalignment between credit supply and demand may be due to imperfect risk evaluation by firms or creditworthiness evaluation by banks and financial institutions. Governments may intervene in several ways to enhance credit access. Traditional measures are subsidizing credit for small firms, spurring competition in the credit markets, facilitating information transmission and providing credit insurance, non-oil export credit and non-oil export guarantees. By definition, non-oil export credit is needed in situations where (whatever the reason) the buyer of the goods defers the payment for a certain period of time. Non-oil export credits may be in the form of supplier credits (i.e. credit granted by an exporter to a foreign buyer) or buyer credits (i.e. the non-oil exporter gets in contract with a buyer, which is financed through a loan agreement between a bank in the exporter's country and a bank in the buyer's country). Export guarantees are instead instruments that cover the risks of non-oil export credits (political or commercial) in the case of default by the borrower. In most countries, the government assumes the credit risk through specialized institutions. It is clear that both these measures may result in an indirect form of non-oil export subsidy and, for this reason; their provision is regulated by the WTO. In addition the government may provide.

a) Foreign currency revolving funds, which is granting credit by the non-oil exporters' banks to pay the imports of intermediate inputs;
b) Pre-shipment export finance guarantee schemes, which are targeted at non-oil exporters or potential non-oil exporters that have no sufficient proof of creditworthiness by collateral but have export letters of credit;
c) Matching grant schemes, which are targeted at potentially successful non-oil exporters that overestimate the risk of the non-oil exporting project and so under-invest in it. As in the case of non-oil export and promotion subsidies, considerations regarding pressure lobbies, interest groups involvements and government failures are of primary importance for the implementation issues of these measures as well.

B. Other Factors for Successful Non-Oil Export Promotion

Effectiveness of government non-oil export promotion activities depends on a wide range of other factors that it is worthwhile mentioning according to [6] as follows:-

i. Cost competitiveness (exchange rates, wages, labor and other factors productivity). Sometimes NEPPs may conflict with other national policies or be incompatible with resources availability and technological levels; cost competitiveness also depends on the organization of production [7].
ii. ICT diffusion. The technological level in the given country may also be important to facilitate the implementation of government policies. High-technology diffusion may be a long-term target for many developing countries.
iii. FDI and international fragmentation of production. Changes in the international organization of production, via FDI and outsourcing, further alter the responsiveness of non-oil export performance to government NEPPs.
iv. World demand and product mix. Changing the basket of goods and services a given country is good at exporting takes some time. Hence the success of non-oil export strategies strongly depends on the match between domestic comparative advantage and world demand composition.
v. Geographical, cultural and institutional factors. There are factors that cannot be controlled in the short to medium term and that are strongly conditioned by globalization forces: distance, cultural (religion, language, social norms) and institutional (legal practices, rule of law, contractual arrangements) diversity, and networking.
vi. International agreements and requirements under WTO rules. WTO is becoming more and more restrictive about export promotion practices, in general, and about export subsidies, in particular. Specific subsidies are always forbidden and developed countries are prohibited to provide financial assistance that distorts trade in non-primary products under the WTO ASCM.
vii. Political institutional environment. The success of NEPPs often requires changes in political equilibria in order to align incentives of the elites and of the political power endowed entities with those of the societies [8]. These changes take time and society-wide efforts.

C. Trade Finance Provision in Developed Countries

Credit access constraints still represent an important barrier to non-oil export even in developed countries because imperfections in the credit markets increase the transaction costs faced by firms that intend to export. To deal with these market failures, government may provide trade credit and trade insurance. For instance, trade credit provision is a widely used intervention both in the US [9] and in Europe [10] where it is handled by the national Export Credit Agencies (ECAs). Since the 1980s, public trade insurance provision and non-oil export credit policies have however been more strictly controlled and their scope has been restricted by international authorities. In particular, the WTO ASCM's rules impose that premiums for non-oil export credit guarantees should be adequate to cover non-performing trade credit and operating costs. An attempt at harmonizing and coordinating rules and practices for trade credit and trade insurance among industrialized countries has been conducted by the OECD. Currently these measures, that require the premiums to reflect the underlying risk, are restricted to extra-OECD trade or to non-oil export credits of long duration. Reference [10] provides an empirical study of the effects of the public non-oil export credit guarantees provided by the Austrian Public Non-oil export Credit Agency (Oesterreichische Kontrollbank) using non-oil export data for the period 1996-2002. The Authors find that the impact of non-oil export credit guarantees is relatively small in the long run and requires a very long period to materialize.

Reference [11] illustrate the instrument of public non-oil export credit guarantees available to German firms (called Hermes guarantees) to mitigate the negative effects of political risk; their empirical inquiry covers German non-oil exports to 130 countries for the period 1991 to 2003. The main justification for public intervention here is that private credit markets are unable to provide proper risk coverage to non-oil exporters and this may lead to underinvestment. There are two ways of providing non-oil export guarantees: (a) the ECA grants a supplier credit, meaning that the insurance is sold directly to the non-oil exporter; (b) the ECA gives the insurance indirectly to the non-oil exporter by covering the default risk to the bank that finances the non-oil exporter. As emphasized by the Authors, the interventions implemented by the public ECA are governed at the international level by various institutions namely: the WTO ASCM, regarding the use of non-oil export subsidies; the Knaepen-Package, regarding minimum risk-based premium fees for country and sovereign risks; the European Union, regarding the restriction of the public non-oil export credit activities to nonmarketable. The Authors find that the political risk is an important determinant of non-oil exports and that public non-oil export guarantee has a positive and statistically significant impact on non-oil exports. As a part of the Australian Department of Foreign Affairs and Trade, the Export Finance Insurance Corporation is the agency which provides insurance and finance services to SMEs in order to increase non-oil export profitability and reduce the related risk [12]. Financial measures include: (a) non-oil export credit insurance, (b) political risk insurance, (c) fixed interest rate finance scheme for foreign buyers of Australian products, and (d) direct or indirect (through banks using Export Finance Insurance Corporation's Export Finance Guarantee) credit provision to buyers. Reference [12] documents that between 1992 and 2002 the export volumes of firms participating in Export Finance Insurance Corporation's programs have gradually but substantially increased.

Finally, in New Zealand, firms frequently cite lack of finance – particularly to meet working capital requirements – as a key barrier to non-oil export growth [13]. Nonetheless, the University of Auckland Icehouse's experience with start-ups suggests that knowledge about access to finance is often a more crucial issue than its actual supply.

D. Trade Finance Provision in Developing Countries

Reference [14] reports that 14 out of 26 countries in Latin America have some institutional scheme to provide credit to non-oil exporters. Credit to non-oil exporters comes from ECAs in five countries in the sample, and from special credit lines for non-oil exporters in national development bank in six countries. As expected, smaller countries (particularly in the Caribbean) do not provide credit facilities but they rely on grants from the Caribbean Export Development Agency to finance their non-oil exporters' activities. ECAs usually provide non-oil exporters with two types of loans: (a) loans to finance working capital, and (b) loans to finance fixed investment costs. The Author reports that 14 countries out of 26 provide only credit to finance working capital, while 10 have programs that in addition finance also fixed investment costs. Only seven countries provide buyers' credit (i.e. loans to foreign buyers of domestic non-oil exports) and provide credit insurance services to their non-oil exporters. In Argentina and Brazil, the national development bank offer, in addition to the activity of the national ECAs, dedicated credit lines for the export of capital goods.

Besides standard credit schemes, there are also other financial services that are increasingly used to promote non-oil exports. One of these is the factoring service that allows firms with foreign creditworthy buyers to sell their accounts for immediate cash. This financial tool entails: (a) credit protection, (b) accounts receivable bookkeeping, (c) collection services and financing [15]. It has been extensively used by both developed and developing countries, and, in particular, by China, Mexico, Turkey and Brazil, providing profitable opportunities for non-oil exporters and SMEs.

Evaluating the effects of non-oil export credit and financial programs in developing countries is particularly difficult because of data limitations. One possibility is to look at the users' opinions about these programs. According to [16], Colombian exporters positively evaluate the activity of non-oil export credit provision offered by Bancoldex. Non-oil exporters extensively use these services because of two main advantages they provide: (a) interest rates were lower than the market rates; and (b) credit availability for longer periods with respect to commercial banks. In their survey on Malaysian SMEs, [17] show that entrepreneurs agree that most of the 10 different types of incentives offered by the Non-oil export Import-Bank of Malaysia (such as bank letter of credit and policy, buyer and supplier credit facility, overseas project financing facilities) played a positive role in increasing non-oil export.

III. Data and Methodology

The research adopted a cross- sectional survey method. Survey was adopted because of its uniqueness and the fact that it allows every respondent to give same information at one point in time [18]. Information on the bank financing of non-oil exports was collected from 100 respondents from the 20 Deposit Money Banks in Nigeria and is presented on Tables I and II. It consists of 2 sections on the behavioral characteristics of banks in financing non-oil exports and the variables measuring the supply of bank financing of non-oil exports and the non-oil export performance in Nigeria. The reliability, validity as well as the normality of the data were examined and found to be fit for analysis.

Non-oil Export Performance (NEP) had been identified as a dependent variable and comprises of rate of growth in non-oil exports, non-oil Export product quality improvement, firm's ability to compete at the international market and rate of growth in earnings in non-oil exports; the independent variables includes (1) the Cost of Bank Finance (CBF) (2) foreign currency Exchange Rate (ERN) (3) Attitude to Risk of Bank in Financing Non-Oil Exports (ARB) (4) Access to Credit Facilities (ACN). Descriptive statistics as well as correlation and regression analysis were used to assess the data. SPSS software package was used for the analysis

IV. Results and Discussion

A. Behavioral Characteristic of Banks in Financing of Non-Oil Exports in Nigeria

On the behavioral characteristic of banks in financing non-oil exports in Nigeria it was found that all the 100 respondents indicated that, the 20 DMBs do finance non-oil exports. This indicates that Nigerian banks are participants in the financing of non-oil exports. Despite their participation in the financing of non-oil exports, the rate of interest for credit extended to non-oil export is usually high, ranging between 15-20% as indicated by the responses on Table I. This makes it difficult for exporters to obtain cheap credit from the banks for production of non-oil exports of goods and services. Couple with the high interest rate is the exchange rate at which Naira is exchanged with foreign currencies which is also high. Table I shows that, exchange rate Naira/Dollar ranges between N150-N200 according to 77% of the respondents. This hampers the ability of exporters to import modern equipments and raw materials for production of exportable goods. The volume of credit extended by banks to the non-oil export sector has fallen short of the requirement of the non-oil exporters which averaged about N500m on yearly basis. The predisposition of banks in Nigeria makes the non-oil export to suffer from inadequate credit thereby stifling the growth of non-oil exports in the country. This agrees to the research finding earlier made from the demand (exporters) side.

TABLE I
CHARACTERISTIC OF BANKS IN FINANCING OF NON-OIL EXPORTS IN NIGERIA

Finance of Non-Oil Exports by Responding Banks	
Options	Frequency
Yes	100
No	0
Rate of Interest for Credit Extended to Non-Oil Export by Responding Banks	
Options	Frequency
15-20%	85
10-15%	12
05-10%	3
01-05%	0
Less than 1%	0
Volume of Credit Extended to Non-Oil Exports by Responding Banks	
Options	Frequency
500M and Above	70
N400M-490M	10
N300M-390M	8
N200M-290M	2
N100M and Less	10
Exchange Rate Naira/Dollar at Which Banks Supply Foreign Currency for Non-oil Exports by Responding Banks	
Options	Frequency
N150-N200	77
N100-N149	17
N50-N100	6
N1-N149	0
Less than N1	0

Source: Field Survey, 201

B. Banks Perception on Financing Non-Oil Exports

Table II, displayed the responses from the banks on financing non-oil exports. Responses on the first variable which solicited information on pledging of collateral by borrower exporters for the banks to grant loan was examined. The mean of the distribution is 2.29, with a standard deviation of 1.00 indicating that the banks require collateral to grant loan to the exporters. Normally collaterals are required by banks in granting loan but, the collateral requirements for non-oil exports are usually relax if a country would want to use non-oil export to promote growth and development. The collateral requirements on every short to medium term loan a non-oil exporter may require often create delays in processing the Non-oil export business. In addition, banks in Nigeria usually charges administrative, service and other charges whenever they grant loan to the exporters, this increases the cost of obtaining finance and leads to decline in exports. From Table III, charging of administrative and other charges has a mean value of 2.04 and a standard deviation of 0.82 indicating the agreement of the respondents (banks) to the assertion. Apart from the interest charges banks charge administrative, processing and other charges, this add to the cost of obtaining funds by non-oil exporters from the banks in Nigeria. The high cost reduces the quality and quantity of exportable goods and reduces the competitiveness and earnings of non-oil exporters thereby negatively affecting their performance. Request of up to 20-30% as cash deposit of loan net present value by banks when granting loan was another variable examined. The respondents disagreed as revealed by the mean value of 3.43 and a standard deviation of 1.3 in the distribution. Financing from banks to non-oil exporters are not forthcoming even as they disagree that, they require cash deposits of up to 20-30% of loans. Even as some do not require the cash deposit there a few of them that require it and most others use other means of protection which allow only insignificant credit volume to reach the exporters.

The respondents disagree with the assertion that they do not grant foreign currency loan to exporters indicated by the mean value of 3.09 and a standard deviation of 1.36 of the distribution. But even when foreign currency loan is granted banks give the currency loans at an unfavorable exchange rate of N150-N200 a Dollar as explained in Table I. This hinders free flow of foreign currency credit to non-oil exports and stifles the growth of non-oil exports. On the attitude to risk of the banks it is discovered that, they do not normally give loan until every detail of the export trade transaction is known to them. This is revealed by the response of banks, they do not give loan for exports to country experiencing political and economic instability. This is the level of risk avoidance of the banks in Nigeria. The mean value here is 2.11 and the standard deviation is 0.94. Banks usually required most secured method of payment before agreeing to extend credit to non-oil exporters, such secured methods of payment as letters of credit are usually required by Nigerian banks for credit extension to exporters. The level of agreement by respondents on the request of secured payment method is indicated by the mean value of 2.20 and the standard deviation of 0.96 in the distribution on Table II. Nigerian banks are generally wary of bearing risk and would instead seek to transfer risk to other parties instead of bearing it, as concluded by [19].

The respondents object to the fact that they charge high fees for letters of credit, indicated by the distribution mean value of 3.36 and standard deviation of 0.89 it is clear that they do not agree to the assertion (see Table II). But, what may be regarded as high by the exporter, may be considered as moderate by the banks because, of the difference in position as what exporting firms demands may not be what the banks may supply. Banks agree that they require export credit insurance; this is indicated by the mean of the distribution which is 2.68 and the standard deviation of 1.08. The banks highly perceived the non-oil export business as very risky they therefore buy protection against risk through credit insurance.

Banks highly rely on non-oil export firms' credit reputation as indicated by the responses. The responses mean value is

2.59 and a standard of 0.94. This means that non-oil exporting firms must exhibit high level of reputation and management to be able secure loans from the banks even as the NEXIM bank insures non-oil exports credits. Small and medium sized non-oil export businesses lack the credit history for banks to judge them as reputable or otherwise as most of them are not experienced enough to be judged. Banks also highly require every detail of the non-oil export trade transaction to grant the export loan to non-oil exporters, because they consider the sector very risky. The level of agreement of the respondents is indicated by the mean value of responses 2.09 and which has a standard deviation of 0.86. NEXIM bank usually guaranty and insure non-oil export credit. The mean value 2.59 and the standard deviation of 0.94 indicate that, the respondents agree that, the bank which is a development finance institution do guaranty and insure non-oil export business in Nigeria. Even as it is found in the literature that the bank do guaranty, insure and finance oil exports in Nigeria. In addition the level of financing, insuring and guaranteeing fall short of expectation as concluded by [20]. Responses on banks willingness to grant more loans than the non-oil export firm required indicated that, the respondents disagreed indicated by the mean value of 3.17 and standard deviation of 1.08. The banks actually do give less credit than the exporters may require and therefore are not properly funded by banks. This causes underperformance of the non-oil export sector in Nigeria. Bank grant very low volume of foreign currency loan as indicated by the mean response of 2.79 and the standard deviation of 0.13, this is in addition to unfavorable exchange rate at which Naira is exchanged to the Dollar and other currencies. This makes importation of inputs costly. These heavily and negatively impacted on the non-oil export performance in Nigeria. The variables on non-oil export performance indicate that, high rate of growth in exports has a mean score of 4.00 and standard deviation of 0.810 indicating the level of disagreement of the non-oil exporting firms. Improved product quality has a mean of 3.96 and a standard deviation of 0.666 also showing that non-oil exporting firms disagreement. On the competitiveness at international market and high rate of growth in earnings the means are 4.06 and 3.93, respectively and the standard deviations are 0.677 and 0.683, respectively.

TABLE II
BANK FINANCING OF NON-OIL EXPORTS IN NIGERIA

S/N	Variables	Mean	SD	Remark
1.	Banks Do Give Loan only when Collateral is Pledged	2.29	1.00	A
2.	Charges Administrative and other Charges When Loan is to Be Granted	2.04	0.82	A
3.	Bank Usually Request Deposit of up to 20-30% of Loan Present Value	3.43	1.31	DA
4.	Banks Do not Grant Foreign Currency Loan to Non-Oil Exports	3.09	1.36	DA
5.	Banks Do not Normally Give Loan For Exports to Countries in Political and Economic Instability	2.11	0.94	A
6.	Banks Usually Require Most Secured Method of Payment When Financing Exports	2.14	0.94	A
7.	Bank Usually Charge High Fees on Letters of Credit	3.36	0.89	DA
8.	Banks Usually Require an Export Credit Insurance	2.68	1.08	A
9.	Banks Highly Rely on the Non-Oil Export Firms Credit Reputation	2.09	0.86	A
10	Banks Highly Require Every Detail of the Export Trade Transaction to Grant the Export Loan	2.20	0.96	A
11.	NEXIM Usually Guaranty and Insure Non-Oil Export Credit	2.59	0.94	A
12.	Banks Are Willing to Grant More Loans than the Non-Oil Export Firm Requirement	3.17	1.08	DA
13.	Bank Grant Very Low Volume of Foreign Currency Loan	2.79	1.13	A
14	High Rate of Growth in Exports	4.00	0.81	DA
15	Improved Product Quality	3.96	0.66	DA
16	Competitiveness at International Market	4.06	0.67	DA
17	High Rate of Growth in Earnings	3.93	0.68	DA

Source: Field Survey, 2013 A= Agree, DA= Disagree

The correlation matrix in Table III exhibits the following correlation coefficients between NEP and CBF r=-0.019, ERN r = -0.289, ARB r = -0.077 and ACN r= -0.030. Inter-variable association indicates the strongest is between attitude to risk of banks to financing non-oil exports and cost of bank finance which is 0.345.

The non-oil export performance is given by (1) as follows:

$$Y= a + b1x1 + b2x2 + b3x3 + error \tag{1}$$

where y is the dependent variable, a is the intercept, b and x are the coefficient and the independent variables. Therefore the regression model given in (1) is as in (2) as follows:

$$NEP = constant + ß\, CBF + ß\, ERN + ß\, ARB + ß\, ACN + Error \tag{2}$$

The ANOVA statistics on Table IV indicates that, the linear combination of the four independent variables measuring the supply of the bank financing of non-oil exports are significantly related to the dependent variable F(1, 98) =

2.565, p = 0.043 ≤ 0.05. The coefficient of determination R and R^2 computed using SPSS is presented. The R^2 indicates that about 10% of the variation in non-oil export performance is accounted for by the independent variables

TABLE III
CORRELATIONS AMONG THE VARIABLES

	NEP	CBF	ERN	ARB	ACN
NEP	1.000				
CBF	0.019	1.000			
	0.426				
ERN	0.289	0.102	1.000		
	0.002***	0.156			
ARB	-0.077	0.345	0.110	1.000	
	0.223	0.000***	0.138		
ACN	0.030	0.192	0.066	0.236	1.000
	0.382	0.028**	0.258	0.009***	

Field Survey, 2013 *= sig @ 10%, ** = sig @ 5%, *** = sig @ 1%.

TABLE IV
MODEL SUMMARY AND ANOVA STATISTICS FOR BANK FINANCING OF NON-OIL EXPORTS IN NIGERIA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.242	4	0.561	2.565	0.043
Residual	20.758	95	0.219		
Total	23.000	99			
R =0.312	R^2 = 0.097				

Field Survey, 2013

V. CONCLUSION

Bank financing is important in contributing to the growth of non-oil exports in Nigeria. The cost of bank finance and the banks attitude to risk in financing non-oil exports negatively affects non-oil export in Nigeria, by reducing it s volume, quality of product and earnings. The banks should reduce rates of interest charged for credit extended to non-oil export which negatively affect non-oil exports. Banks should supply foreign currency for non-oil exports at a favorable rate to boost the sector. The CBN and NEXIM should create a window that can guarantee cheap foreign funds to the exporters through the banks. Export credit insurance service of the NEXIM bank should be improved to encourage the banks in extending credit to non-oil export.

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