Int. j. adv. multidisc. res. stud. 2025; 5(1):714-718

Received: 04-12-2024
Accepted: 24-01-2025

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Export Financing in Nigeria: An Assessment of the Nigerian Export-Import Bank (NEXIM)

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Abstract

Oil and non-oil exports serve as the catalytic agents that speeds up the growth and development of an open economy. Thus, the advancement of exports financing is essential for an economy that hopes for development at a fast pace. In view of this, the paper examine the implication of exports financing in the Nigerian economy with focus on the Nigerian Export-Import Bank (NEXIM). NEXIM Bank came into being by Decree 38, 1991 after the institution of Structural Adjustment Programme (SAP) in the year 1986, which states the services rendered by the NEXIM Bank towards export financing and all the necessary procedures required by an exporter to go into export business. Secondary information on exports financing and NEXIM were collected by means of the library science, particularly journal publications, seminar papers and texts books. This paper identified that, financing export is essential because exports are considered as a high value business. Therefore, the success of the exports depends to a great extent on the role play by NEXIM in making funds available to finance and cater for the chain of exports activities business in processing, manufacturing, assembling and packaging the goods for exports in order to generate revenues for the growth and development of the Nigerian economy. Given the above, the paper suggested that, the management of export financing should be given free hand to perform and be empowered with more fund in order to make NEXIM perform maximally. Also, government should provide export credit guarantee and exports credit insurance to exporters particularly, non-oil export in order encourage diversification.

Keywords: Catalyst, Credit, Exports, Financing, NEXIM, Oil Export, Nonoil Export

1. Introduction

Generally, the development of bilateral and multilateral exchange of products among nations dates back to the medieval era when it was initially based on the barter system. But with the development of improved trade scheme, a high level of dynamism was introduced which prompted better monetization of the world economy. The net result was the principles of specialization, increased numbers of countries involved in foreign trade motivated by interdependency on one another for human and financial resources. Consequently, Gbosi (2019) [11] defined foreign trade as the exchange of goods and services among nations using a commonly acceptable currency. He affirmed that, traditional analysis of international trade usually focused on the transfer of physical goods from one country to another and added that in recent times, the emphasis is gradually shifting to trade in services. At the heart of international trade is exports trade. Thus, exports have to do with selling of goods and services to other countries. Exports trade depends on some factors which Beck (2003) [4] referred to as endowment factors which determine the flows of trade among countries.

Beck (2003) [4] integrated a financial sector into the Hecsher Ohlin trade model and demonstrated that, financial sector development in general and banking sector in particular gives nations a comparative advantage in industries that rely on external financing. Thus, 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 (Allen & Gale, 1994) [1]. Meanwhile, in the 1960s and 1970s, the Nigerian economy was dominated by non-oil exports especially, agricultural commodity exports.

But the situation later changed, as crude oil now constitutes over 90% of Nigeria total exports as against 4% for non-oil exports (Ogunkola, Bankole & Adewuyi, 2006).

One of the means of enhancing exports is making finance available to the export sector. This can be done through provision of enough and cheap credits to the sector (Sama "ila, 2013) [18]. Banks are important institutions that are internationally recognized to provide finance to the non-oil exports sector of the Nigerian economy. Central Bank of Nigeria (2019) [7] sees bank credit as money lent out by banks as loans and advances with a future date of repayment. 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 confronted with numerous challenges. For example, the export of non-oil commodities contributes only 4% of total exports in Nigeria (CBN, 2019) [7] and the volume of non -oil exports growth is very low (approximately 4% per annum) from the middle of 1965-1985. One of the reasons for the declining growth is insufficient access to finance in general and bank finance in particular. 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) [15]. 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) [3].

Meanwhile, NEXIM was established by the federal government to correct the balance of payments problem facing the Nigerian economy and also to diversify the exports base. The diversification of the economy is necessary due to the volatility of the international oil market, the attendant volatility of government revenue and the fact that, crude oil is an exhaustible asset unreliable for sustainable development of the economy (Sama"illa, 2013; Ogunkola & Oyejide, 2001) [18, 16].

Despite these efforts, export trade particularly, non-oil exports have dwindled due to poor access to financial services, high cost and complicated financing among other reasons. Given the above, the paper examined the role of Nigeria's NEXIM bank in export financing. Objectives of the study include to examine the concept of export finance and sources of export financing; identify the issues being faced by exporters in export financing, highlight the role of NEXIM in export financing.

2. Export Trade and Finance in Nigeria

Export financing is a significant competitive factor for exporters and may increase their opportunities of signing a contract. There are several advantages for both importers and exporters in having the bank handle and finance their transaction. Export financiers provide funding in a very similar way to how you would obtain an invoice finance facility – either in the form of an export factoring or export invoice discounting facility. Some financiers have expert, multi-lingual client managers who will be able to assist one with credit control. By securing a facility and releasing funds, one can look to continually grow his/her trade opportunities.

Nigeria's export sector is regarded as "the dominance of a single export commodity" (crude oil) which is made up of about 96percent of total exports (Ojo, 2010). Macroeconomic policies have been adopted with a view to achieving growth in exports, particularly in the manufacturing sector in the recent time. Therefore, the financial need of this sector has considerably increased since the firms involved in export are consistently graving larger, more productive, more capital intensive (Bernard, Jensen, Redding & Schott, 2009) [5]. Also, Chauffeur and Farole, (2009) [9] opined that, export trade finance is indeed a critical factor for trade activity because export trade finance is more sensitive to economic fluctuation and financial crisis than domestic trade finance.

Ayodele, Akinyede and Iriobe (2017) [2] averred that, apart from the general structural barriers facing export trade, access to deposit money bank financial service is one of the major problems hindering the growth of export trade in Nigeria as a result of high interest rates and little disbursement in terms of the volume of credit. Also, high cost of finance does not allow exporting industries to modernize outdated plants and machineries in Nigeria, which result in poor quality goods for exports. Therefore due to the constraints mentioned, many exporters and importers have opted for looking up to the Nigeria Export Import Bank (NEXIM) for a better financial assistance.

2.1 Challenges of Financing Export in Nigeria

Export financing in Nigeria is abounding with various inhibitions arising from enabling laws, institutional frameworks, buyers and sellers among others. These include: Inability to access funds and inadequate funding, poor standard of products and export of primary commodities, poor knowledge of packaging request proposals, poor documentation and improper procedures, long gestation period of export transaction, inability to pay-back (in time), poor level of export contract volume, insincerity of exporters, import mentality; and desire for quick turn-over by banks.

2.1.1 Cost of export finance in Nigeria: The cost of funds for exports is general a function of market conditions (money and capital markets), inflation rates and predictable rate of return on equity capital. It is also relevant to state that, obtainable cost of export finance from banks are essentially a function of the sum of their break-even cost and profit margin, which is largely due to level of interest and overhead expenses.

2.1.2 Cost and access to banks financial services: Access to banks financial services for non-oil exporters is one of the major problems reducing the growth of the sector in Nigeria, because of high interest rates and little distribution in terms of the volume of credit. According to Odularu (2008) [15], 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.

The banks' lack of effectiveness in handling small, medium or long-term credit risk, result in the entrepreneurs being weighed down 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 30percent of the loans' net present value) and to make available all detail of the transnational trade transaction.

3. The Nigerian Export-import Bank (NEXIM)

Export financing is not new to Nigeria. Thus, the NEXIM Bank was established to handle the promotion of export products. The Nigerian Export-Import Bank (NEXIM) was established in 1991 as an Export Credit Agency (ECA). This Bank was established following the introduction of a Structural Adjustment Programme in 1986 and the abolition of Commodity Boards.

Meanwhile, according to Uzoechina and Uwajumogu (2015) [19], the Bank's broad mandate of NEXIM includes; “provision of export credit in local and foreign currency, provision of export credit guarantee and export credit insurance facilities, establishment and management of funds connected with exports, sustain a foreign exchange fund, to import foreign inputs — used for export production and maintain a trade information system, to assist export business”. Similarly, NEXIM also carried out export and support services function, business and financial advisory services function and as well as trade and market information.

NEXIM’s role in economic development is essentially in trade facilitation in that it helps to finance the trade of various forms of both oil and non-oil commodities as well as acquisition of plants and machineries for value-added production. Besides, NEXIM Bank supports activities that facilitate the development of non-traditional value-added exports as part of measures to enhance job creation and shore-up the country’s foreign exchange earnings. This is evidenced in the Bank’s large sectoral allocation to manufacturing and agriculture/agro-processing sector which stands at 48.59% and 35.86%, respectively in 2009 (Ayodele, Akinyede & Iriobe, 2017) [2].

Furthermore, as a result of financial supports of NEXIM, Nigeria’s non-oil exports apparently improved by about 14 percent from N1.74 billion in 2019 to N2.074 billion in 2020. According to information from the Nigerian Export Promotion Council (NEPC), some of the major non-oil export products that accounted for this figure include cocoa beans, sesame seeds, cashew nuts, urea, cigarettes, aluminum ingots, finished leather, soya bean meal, cocoa butter, processed frozen shrimp and crabs, among others.

3.1 Funding and types of loans available through the Nigerian Export-Import Bank

I. Direct lending facility

Given the direct lending facility, NEXIM can directly provide loans to exporters. This facility can also be used as part of a co-financing or syndication arrangement, with eligible deposit money banks. The credit advanced can be in both short term and long term at floating or fixed interest rates. The loans can be disbursed in both local and foreign currencies, and up to 80% of the total cost of a project or transaction can be funded. This facility can be used for the purposes of working capital and for the acquisition of equipment/machinery required to produce export products. The export of services may also be considered for financing such as consultancy or oil and gas services.

To be eligible for the loan, companies must establish that the credit will help develop or expand their export business.

II. Foreign input facility: Through the Foreign Input Facility, NEXIM grants credit to businesses with the help of participating banks. Loans can be disbursed for both in the short and long term purposes. As the loan is to procure foreign inputs, it is granted in foreign currency. Examples of what this facility may finance include the importation of raw materials, capital equipment, spare parts and packaging material all to be used for the production of goods for export.

To be eligible for the loan, the local value added of a business’s products needs to exceed 50%. To access this facility, an exporter needs to make an application through a participating commercial bank. The commercial bank will then forward the application, on behalf of the exporter, to NEXIM. Interest rates are flexible, depending on the amount borrowed and the loan tenor. Repayment terms of 7 years are possible. A moratorium of up to 2 years may also be secured.

III. Local input facility: The Local Input Facility may be used for purchasing any input that facilitates the export of goods and services from Nigeria. Things that can be financed include setting up new export projects, expanding factories and modernizing plants. As inputs are local, credit is provided to exporters in Naira through participating banks.

The applicable interest rate differs. Where the funds are to be used for working capital purposes, a 1 year repayment period applies. On the other hand, project related funds can be repaid over a 3 year period. At its discretion NEXIM may offer businesses a moratorium period.

IV. Nigerian creative arts and entertainment industry loans: NEXIM has designed a funding program, targeted at the creative and entertainment sector. With this scheme, its goal is to ensure businesses in the creative/entertainment industry, have access to the financing they need to grow and develop. As well as the growth of the creative/entertainment sector, with this fund, NEXIM seeks to improve the quality of services provided, generate jobs, create wealth, attract capital investment and broaden Nigeria’s export basket through the export of intellectual property and services. Any registered business can benefit from this facility, provided it operates in the creative and entertainment industry. Examples include fashion, film, music, radio and television related activities. Interest rates vary. Loans can be advanced for up to 7 years. Incubation or moratorium periods can also be approved.

V. Small and medium enterprise export facility (SMEEF): Export-orientated small and medium-sized enterprises (SMEs), may be able to get funding through this export facility. The aim of SMEEF is to support the non-oil export value chain, through industrialization and the subsequent production of value added goods for export. The mechanization of processes, involved in the production of goods for export, will considerably boost productivity and make Nigerian products more attractive on the international market. In doing so, an increase in foreign exchange reserves is likely to be seen.

To be eligible, business activities must relate to the export of goods wholly or partly made in Nigeria. Accordingly, financing is not just limited to working capital requirements, but also the import of goods that will facilitate export (e.g. foreign machinery and raw materials). Exports of viable services like consultancy, event planning, hospitality, tourism and transport can also be considered. Project financing has a maximum loan tenor of 7 years, while for working capital a loan tenor of 1 year applies. A moratorium of up to 2 years may be offered, and interest rates are set at 9%.

VI. Women and youth export facility (WAYEF): NEXIM has established the Women and Youth Export Facility, to support both women and youth involved in the non-oil export value chain. With this scheme, NEXIM hopes to increase the access to credit that these groups have, and by doing so facilitate national industrialization for valued added exports. In the process, jobs and wealth are likely to be created, with the added bonus of the economy diversifying away from oil and gas. Women and youths between the ages of 18-35 are eligible for this scheme. Participants may include co-operatives, non-governmental organizations, trade associations or registered businesses. A maximum of N50 million can be borrowed, and any monies advanced will not exceed 80% of the total project or transaction cost. Loans are extended for a maximum of 12 months, with a possible moratorium period. The applicable interest rate is 9percent.

3.2 Eligibility for the Nigerian Export-Import Bank (NEXIM) loan

All companies involved in export related activities are entitled for a loan from NEXIM. The basic requirements are that, any activity that NEXIM is to fund, should lead to an export of goods or services. For example, if one business needs to import engines to manufacture goods for export, NEXIM may be able to help, but if otherwise, that is machine that are to be used for local consumption or individual consumption, it will be out of reach of NEXIM.

In most cases, NEXIM cannot directly finance individuals. As a result, one is required to have a registered business or company with the Corporate Affairs Commission (CAC). NEXIM can lend to companies directly. However, NEXIM also finances businesses by means of intermediary or participating banks. These banks may also have their own lending criteria, in addition to that of NEXIM.

3.3 How to apply for a Nigerian Export-Import Bank loan

Individuals and enterprises intended in applying for a NEXIM loan, would need to apply either directly to NEXIM or apply through a deposit money bank. Thus, in either way, the individual or the enterprise will need to make an application in person at an appropriate branch of NEXIM or the deposit money bank.

The process for applying for a NEXIM loan is similar, regardless of, if one is applying directly through NEXIM or not. Before making an application, one may wish to discuss the requirements with NEXIM staff at the bank in order to be provided with details, as to which credit facility best suits such needs.

An individual will be given an application form to complete. This application form, will help evaluate the eligibility of the project seeking to be financed. In it, one will be required to provide information on his/her business and the project at hand. So, details of the amount of money required, the purpose of the loan, the location of the project and more must be provided. And once the completed form is submitted, an assessment will be made as to the businesses suitability for financing. If the outcome is favourable, funds may be released to the individual as per the terms of the resulting approval letter.

A checklist of what is required, before a loan is approved, could include: Completed application form, company profile, project feasibility study or business plan, projected cash flow, bank statements of at least one year, audited financial accounts, tax clearance certificate, certificate of incorporation, proof of registration with the Nigerian Export Promotion Council (NEPC), valid means of identification (driving license, passport, voters card), proof of address and details of collateral offered (if any).

4. Concluding Remarks

Export is considered as the engine of growth and development of the world economy. Consequently its promotion is of great import for any economy that hopes to develop fast. But one of the major problems of export trade is the non-availability of funds at the disposal of people. Banks are usually reluctant to finance export transactions particularly at the pre-shipment stage because of the high risk of default involved. Thus, the paper assessed export financing in Nigeria with focus on Nigerian Export-Import Bank as an agent for promoting Nigeria's oil and non-oil exports. Library science method via secondary data information on export financing was used in the study. The paper identifies the various issues such as inadequate finance and inadequate access to credit as some of the problems faced by Nigeria's exporters. Also, the special schemes available to exporters in respect of pre-shipment and post-shipment finance and also spells out the importance of the role being played by Nigerian Export-Import Bank (NEXIM) as a development financial institutes in providing the finance to the exporters in Nigeria. Also, the paper revealed the need for exports subsidies in Nigeria 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. Thus, the paper suggested that, since banks in Nigeria have negative attitude to risk of financing non-oil exports, government should make the banks 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. Also, cost of bank finance to exports is generally high and has direct negative effect on the sector's performance. The bank financed exports to GDP remained as low as less than 5% in Nigeria. NEXIM bank should establish a bond with NEPC 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.

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