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EXPORT CREDIT, NIGERIA'S EXPORT AND PRODUCTIVITY PERSPECTIVE

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ABSTRACT

In this paper, the role of the Nigeria Export Import Bank, NEXIM is discussed as an important factor in facilitating exports and therefore for supporting export promotion policies. Such policies are discussed as essential for the mobilization of domestic resources and capital to enable developing countries develop. The export credit nexus is examined with relations to Nigeria and the failure of the merchant and commercial banks to provide sufficient export credit is analysed. NEXIM's productivity is contrasted with this and its role in producing credit is demonstrated. A criticism of Nigeria's monocultural exports status leads to the conclusion that NEXIM's activities should be sustained and diversified.

INTRODUCTION

Role Of Credit In Export

If a self supporting, lasting process of development is to be set in motion, domestic mobilization of resources and accumulation of capital are essential. The process of mobilization of domestic resources and capital accumulation in developing nations is often blocked by a number of factors, as illustrated in the vicious cycle of saving mobilization and investments. Low per capital income is responsible for low savings which in turn leads to inadequate investment and technological innovation. The result is low productivity, followed by low income, thus completing the circle.

The question posed here is how to break out of this cycle, and the important role which export plays in the process. In discussing this question, it should be stressed that export is an important sector in all developing nations.. In Africa, it will remain the predominant sector in the foreable future.

Inspite of export Pessimism (Reidel, 1988; Bhagurati 1988) and Sluggish economic activities in the industrialized nations, Balassa (1978, 1950), Kruege (1983) and Khan and Saqiz (1993) have reaffirmed the virtues of export oriented policies for developing nations. They believe that export promotion policies lead to efficient resource allocation, greater capacity utilization. The policy will also enhance greater exploitation of economics of scale, stimulation of demand, savings and capital accumulation. Finally, the policy will lead to technological improvement in response to competition abroad and increased foreign exchange earnings and economic growth.

Apart from the importance of the export sector in the total economy, other factors indicate that export credit has an important part to play in export promotion and therefore development. Indeed, the need for credit within the process of export development is beyond dispute.

Technical progress requires investment and increase spending on means of production. In an export sector, these expenses can seldom be financed without credit facilities. Traditional systems which meet need for credit in a more or less stationary economic situation are not able to satisfy the demands of broadly based innovation. Only an expanding system of credit with institutional support can cope with the additional credit requirements.

NIGERIA'S EXPORT CREDIT AND EXPORTS

EXPORTS

The value of Nigeria's total export stood at N330.4 million in 1960s when the nation gained its political independence. It grew to reach its highest peak of about N11 billion in 1980, slumping to N7.8 billion in 1983 and N9.8 billion in 1986. However, during the sepera there was a continuous upward trend, about N30 billion in 1987 and about N20t billion in 1992 (see table 1 which is expressed in longithnic form). The adverse growth recorded between 1981 and 1986 was due to adverse development in the International Oil Market (Umo, 1991).

A structural analysis of Nigeria's export shows that between 1960 and 1970 non oil exports comprising mainly agricultural products such as palm oil, palm kernel, cocoa, cotton, coffee, rubber etc. dominated total exports, accounting, on the average for over 80% of total exports (see table 1). However, from 1970 onwards, crude oil exports started to exceed 50% of total exports, receiving a major boost during the oil crisis of 1973-1974. Oil exports reached a record value of N14 billion in 1980, representing 96.1 percent of total exports.

This change in the structure of Nigeria's export trade could be attributed to a number of factors, such as:

Increase in total population which has raised the domestic absorption of output. Incessant drought problem in the 1970's. slow growth and increased protections in as well as reduction in the intensity of raw material utilization/production system in developing countries. Slow producer prices for agricultural commodities. The import substitution strategy of the 1970's and early 80's. increased vulnerability of the economy to external shocks. Lack of diversification in export trade (Obadan, 1983; Fabayo, 1993).

The average rate of growth of real exports had been decelerating, reaching a high negative level in the 1980-85 period. It picked up during the reform era of 1985-90. on the other hand, due to the strong impact of the ups and downs of oil prices, the share of Nigeria's Export in GDP rose between 1960-65 and 1975-80, and fell again in the 1980-85 period. It picked up again from the 1980-90 period. The export diversification indicators (i.e. share of manufacturing in total exports), growth, while the growth rate of manufacturing exports mirrored the share of exports in GDP.

EXPORT CREDIT

Existing system of export credit in Nigeria can be roughly grouped into two categories: a system based on banking and, a system based on export credit guarantee and insurance – a mixed export credit system.

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TABLE 1: NIGERIA'S EXPORTS 1960-1992 (NM)

YEAR	TOTAL EXPORTS	OIL EXPORTS	SHARES OIL EXPORT IN TOTAL (%)	NON OIL EXPORT	SHARES OF NON OIL EXPORTS IN TOTAL (%)
1960	330.4	8.8	2.8	321.2	97.2
1961	346.9	6.7	323.8	323.8	93.3
1962	334.2	33.5	10.2	300.7	89.8
1963	371.5	40.4	10.9	331.1	89.1
1964	429.2	64.1	14.9	365.1	85.1
1965	536.8	136.2	25.4	400.6	74.6
1966	568.2	183.9	32.4	384.3	67.6
1967	483.6	144.8	29.9	338.8	70.1
1968	422.2	74.0	17.5	348.2	82.5
1969	636.3	261.9	41.2	374.4	58.8
1970	885.4	510.0	57.6	375.4	42.4
1971	1293.3	950.0	73.7	340.3	26.3
1972	1434.2	1176.2	82.0	258.0	18.0
1973	2277.4	1893.5	83.1	383.9	16.9
1974	5794.8	5365.7	92.6	429.1	7.4
1975	2925.5	4563.1	92.2	362.4	7.4
1976	6751.1	6321.6	93.6	429.5	6.4
1977	6756.6	7453.6	93.4	523.0	6.6
1978	6064.4	5401.6	89.1	662.8	10.9
1979	10836.8	10166.8	93.8	670.0	6.2
1980	14077.0	13523.0	96.1	554.6	3.9
1981	10470.1	10250.3	98.2	189.8	1.8
1982	8206.4	8000.9	97.5	205.5	2.5
1983	7636.6	7201.2	94.3	435.4	5.7
1984	9131.2	8840.6	96.8	290.6	3.2
1985	11214.8	10890.6	97.1	324.2	2.9
1986	9820.5	8368.4	93.8	552.1	6.2
1987	30360.6	28208.4	92.9	2152.0	7.1
1988	31192.8	28435.4	91.2	2757.4	8.8
1989	57971.2	55017.0	94.9	2954.2	5.1
1990	109886.1	106626.8	97.0	3259.3	3.0
1991	121533.1	116855.8	96.1	4677.3	3.9
1992	205611.7	20183	97.9	4227.8	2.1

Sources: CBN Annual Report statement accounts, various years
a) Nigeria's Economic and financial indicators 1970-1990
b) Economic and Financial Review, various years
c) Statistical Bulletin, December, 1993.

The Central Bank, commercial and merchant banks, all participate in export finance. Prior to July 1988, the Central Bank of Nigeria's role in export finance took the form of financing export produce and stipulation of guidelines of banks on export credit financing. Following the demise of the produce bill finance scheme in 1968, the Central Bank of Nigeria was directed to be the sole source of credit or pre-shipment financing of produce by the commodity boards. This system operated until 1986, when the boards were abolished. Table 2 below shows the Central Bank of Nigeria's direct advances to the commodity boards between 1968 and 1986. These advances fluctuated from N45.7 million in 1968 through N540.9 million in 1981 to N239.5 million in 1986.

TABLE 2: CENTRAL BANK OF NIGERIA'S DIRECT ADVANCES TO THE COMMODITY BOARDS (NM)

YEAR	TOTAL ADVANCES
1968	45.7
1969	77.6
1970	33.0
1971	31.0
1972	50.3
1973	87.1
1974	127.9
1975	153.9
1976	156.7
1977	223.1
1978	412.1
1979	452.9
1980	431.5
1981	540.9
1982	535.3
1983	345.5
1984	534.7
1985	399.7
1986 (end June)	239.5

Source: CBN, Annual Report and Statement of accounts, various years.

Advance to the community board (NM)

Prior to April 1979, the Central Bank of Nigeria classified the export subsector, of the general commerce sector under the less preferred sector. However, with the nation's deteriorating balance of payments, the export subsector was classified under the preferred sectors of the economy for which the prescribed targets are minimal. Consequently, commercial banks were required to grant a minimum of 6 percent of their loans and advances to the export subsector instead of a maximum of 6 percent as in previous years. However, banking institutions have failed woefully in meeting these guidelines, hence the continuous downward revision of these requirements. Table 4 shows the comparative performance of commercial and merchant banks in terms of export credit allocations and the overall bank export credit. One major reason adduced for the non-compliance of banks in meeting export credit requirements had been the absence of a guarantee and insurance system for export transaction. As the table shows export credit as a percentage of total domestic credit had generally been on the downward trend falling from 43 percent in 1960 to 0.4 percent in 1985 rising again during sapera of special note is the relatively greater performance of commercial banks than merchant banks throughout the entire period.

TABLE 3: NEXIM'S EXPORT CREDIT DISBURSEMENT 1991-1992 (NM)

TYPES OF FACULTY	1991	1992
1. Rediscounting and refinancing	2099.0	2871.2
2. Stocking	90.2	249.1
3. Foreign input	99.3	26.85
4. Repurchase	3.9	24.87
TOTAL	2292.4M	3172.02M

Source: Nigeria Export – Import Bank (NEXIM, 1992) Annual Report and Statement of Accounts – Lagos

In addition, the Central Bank of Nigeria, as far back as 1970, designed an export credit guarantee scheme which was approved by the government. It was not until July, 1988, that Decree No. 15 formally establishing the Nigerian Export Credit Guarantee and Insurance Corporation (NECGIC) was promulgated (Anyanwu, 1989). In 1991, the Nigeria Export-Import Bank (NEXIM) was established by Decree 38, and replaced. NEXIM as the export credit agency. Its initial share capital of N500 million, was held equally by the Federal Government and the Central Bank of Nigeria. Its principal functions include:

- Provision of export credit guarantee and export credit insurance facilities to its clients
- Provision of credit in local currency to its client in support of export
- Establish and management of funds connected with exports.
- Maintenance of a trade information system in support of export business.
- Provision of domestic credit insurance where such facility is likely to assist exports.
- Provision of investment guarantee and investment insurance facilities.

NEXIM's outstanding export credit stood at N942.5 million in 1991 as against the banking systems N1549.2 million. This rose to N1,457 million. In 1992 as against the banking system's N1,682.6 million (NEXIM, 1992).

Table 4: Shows NEXIMs operations in 1991-1992. It shows that NEXIM trade finance facilities rose from N2292.4m in 1991 to N3171.02 million in 1991 as illustrates in table 4 below.

EXPORT CREDIT RELATIONSHIP: REGRESSION ANALYSIS

EMPIRICAL RESULTS

What is the effect of bank export credit on export earnings value or performance (Shafaedin, 1994; Matin, 1992; Hargreaves et al, 1993; Ali et al; 1991; Andorton, 1992; Dermek, 1992; Pick and Vollroth, 1994). The export performance equation is specified to depend upon bank export credit (total bank export credit).

Again, the primary purpose is to ascertain whether bank export credit positively affects Nigeria's export performance. Our primary interest, therefore is to determine the coefficient and significance of bank export credit. And also to know whether productivity has been shifted from non oil export product to oil export product. The data were obtained

TABLE 4: Nigeria: Export Credit by Banks, 1960-1992 (NM)

YEAR	Commercial Bank's Export Credit	Merchant Bank's Export Credit	Total Banks Export Credit	Total Domestic Credit	Bank's Export Credit as % of Domestic Credit
1960	21.4		21.4	50	43
1961	24.4		24.4	92	27
1962	34.8		34.8	147	24
1963	37.7		37.7	233	16
1964	59.1		59.1	331	18
1965	65.2		65.2	353	19
1966	66.0		66.0	436	15
1967	64.3		64.3	479	13
1968	57.7		57.7	613	9
1969	66.8		66.8	818	8
1970	69.5		69.5	1133	6
1971	91.7		91.7	1109	8
1972	90.3		90.3	1249	7
1973	86.6		86.6	1357	6
1974	91.7		91.7	-186	-50
1975	100.6		-100.6	1160	9
1976	96.5		96.5	3064	3
1977	102.4		102.4	5923	2
1978	80.8		80.8	7674	1
1979	78.3		78.3	8625	0.9
1980	100.2		100.2	10688	0.9
1981	108.1	0.1	108.2	15740	0.7
1982	150.5	1.0	151.5	21286	0.7
1983	137.7	1.6	139.3	27067	0.5
1984	133.5	1.1	134.6	300056	0.5
1985	122.6	3.8	136.4	31623	0.4
1986	311.5	19.8	331.3	35935	0.9
1987	462.5	54.9	517.4	39709	1
1988	477.7	273.6	751.3	50135	2
1989	603.6	363.2	966.8	45072	2
1990	747.1	468.6	1215.7	60358	2
1991	942.7	606.5	1549.2	69533	2
1992					

Sources: CBN

a) Annual Report and Statement of Accounts various years
b) Nigeria's Economic and Financial indicators (1970-1990)
c) Statistical Bulletin, December, 1993.

from various statistical publications of the IMF, the World Bank, and the Central Bank of Nigeria. The correlation coefficient R and coefficient of determination R2 will first be calculated to reveal the level of association between the two variables (export credit cx), as independent variable and value of cy) as dependent variable). The hypothesis will finally be tested using t-test statistics.

TABLE 5: REGRESSION EQUATION

Years	Total Export Credit N(M) x	Total Exports (y)	x^2	y^2	xy
1980	0.1	25.6	0.01	655.36	2.56
1981	0.11	17.16	0.01	294.47	1.89
1982	0.15	12.25	0.02	150.06	1.84
1983	0.14	10.61	0.02	112.57	1.49
1984	0.13	11.85	0.02	140.42	1.54
1985	0.14	12.46	0.02	155.25	1.74
1986	0.33	4.86	0.11	23.62	1.60
1987	0.52	7.55	0.27	57.00	3.93
1988	0.75	6.87	0.56	47.20	5.15
1989	0.99	7.83	0.98	61.31	7.75
1990	1.22	1.08	1.49	1.17	1.32
1991	1.55	12.26	2.40	150.31	19.00
1992	1.68	11.88	2.82	141.13	19.96

The estimated regression line is given as y=a+bx, where y is a dependent variable (value of exports), and x is an independent variable (export credits), a is the intercept and b is the slope of the regression line.

$$b = \frac{SSXY}{SSXX} = \frac{\dfrac{\sum XY - (\sum X)(\sum Y)}{n}}{\dfrac{\sum x^2 - (\sum x)^2}{n}}$$

where n is the number of observation

$\sum xy = (\sum x)(\sum y) = 84.41 = \frac{7.81 \times 154.25}{13} = 84.41-92.67 = -8.26$

$\sum x^2 - \frac{(\sum x^2)}{n} = 8.73 - \frac{60.99}{13} = 8.73-4.69 = 4.04$

$b = \frac{-8.26}{4.04} = -2.04$

a = y – bx

$\frac{154.26}{13} = -2.04 \frac{(7.81)}{13}$

11.870 + 1.23

= 13.096

= 13.096 = 13.1

Then the estimated regression line is

y = 13.1 + (-2)x

y = 13.1-2x

the correlation coefficient R is

$R = \frac{SSXY}{SSXXSSYY}$

$SSYY = \sum y^2 - \frac{(\sum y)^2}{n}$

$1559.78 - \frac{2796.15}{13}$

1559.78 – 1830.47

= -270.69

$$R = \frac{-826}{\sqrt{-270.69 \times 4.04}} = \frac{-8.26}{1\sqrt{1093.586}} = \frac{-8.26}{-33.07}$$

R = 0.249 or 24%

R^2 = 0.0625 or 6.2%

HYPOTHESIS TESTING

To be ascertain whether the value of estimate slope b is different from zero, we will carry out test of hypothesis to test the null and the alternate hypothesis thus:

Null hypothesis

H_O: b≠0 (export credit does not contribute enough information to the prediction of exports performance.

Alternative hypothesis

H_1: b=0 (export credit does contribute enormous information to the prediction of exports performance. This test is carried out at 5% level of significance giving = 0.05 using t-test statistics, t-calculated t = b/s

$$\frac{\frac{b}{s}}{\sqrt{SSXX}}$$ where b = slope = -2.

$\sqrt{SSXX} = \sqrt{4.04} = 2$ approximately.

S = Standard Deviation = $\sqrt{\dfrac{SSE}{n-2}}$

SSE = SSYY - bssxy

=-27.69 – (-2x-8.26)

= 27.69-(16.52)

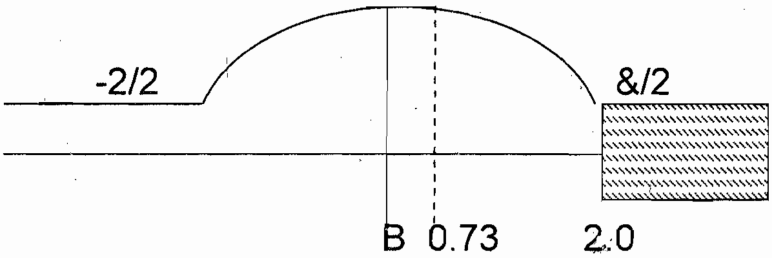
=-27.69 – (16.52) = -287.21

n=2 = 11

$$S = \sqrt{\frac{SSE}{n-2}} = \sqrt{\frac{-287}{11}} = \sqrt{\frac{26.13}{1}} = -5.11$$

$$t = -2/\frac{-5.11}{2} = \frac{2 \times 2}{5.11} = \frac{-4}{-5.11} = 0.78$$

t-tabulated at = 0.025 is t &/2 = 0.025 at 11 degree of freedom = 2.201 = 2.2



INTERPRETATION OF RESULTS

The value of the correlation coefficient R which is approximately equal to 0.249 or 24.9% implies that there exist a relationship between export credit and export in Nigeria but less important since the motivation it gives to export is minimal as petroleum export constitutes the greater proportion of export The coefficient of determination R2 which is approximately equal to 0.062 or 6.2% implies that about 6.2% of the error of predicted y was minimized or that the sum of the squares of deviation of y values about the predicted value has been reduced by 6.2% through the use of the least square estimate.
Since t = 0.78 > t/2, n-2 df = 2

Approximately, we accept the null hypothesis and state that export credit contributes a very small stimulus to the export performance.

Turning specifically to the relationship between export performance and bank credit, it can be seen that the coefficient did not bear the expected positive sign and are statistically less significant at 5% level of significance.

SUMMARY, CONCLUSION AND RECOMMENDATION

SUMMARY

In summary, the analysis of Nigeria's export trade has shown the dominance of crude petroleum in Nigeria's exports. It accounts for 96.5% of total exports. The other major export components are agriculture and manufactures, which constitute about 3% and 0.5% respectively.

The present structure of exports is a total reversal of the structure in the 1960's when non oil exports dominated the country's export trade. Over the years, government has formulated several policy measures of improve the share of non oil exports but the present structure of exports which has existed since 1970s could not be altered by the policies. Among these government policies is the credit to export sector and credit guarantee scheme.

Nigeria's poor export performance in manufactures and agricultural products, which was structurally induced by the sudden boom in the crude petroleum sector in the early 1970s is commonly referred to as the Dutch diseases.

The major effect of the disease is a shift in resources, particularly labour away from the agricultural sector. The enclave nature of the oil sector further ensured that resources did not move into the manufacture of exports linked to the sector and most of the resources which moved out of the agricultural sector were frittered away.

The government trade policy of improvement in export credit by banks has persistently fall short of prescribed minimum rate performance. There is an increase in aggregate export credit but bane export credit as a proportion of total domestic credit fell over the period under review. In the course of this study, there is a fairly weak association between export performance and bank export credit.

CONCLUSION

The findings in this study point to some general conclusions. First, Nigeria is still primarily a monocultural export country, based on crude oil, which contributes approximately 97% of total export revenue. Second, bank's export credit performance has persistently fallen short of presented minimum rates. Third, though aggregate export rose, bank export credit as a proportion of total domestic credit nose dived over the period, 1960-1992. Fourth, the study finds a weak association or relation between export performance and bank export credit. Fifth, the study equally shows that productivity has been shifted from non oil export product to oil sector alone. This confirm the hypothesis that bank export credit expansion has some link with export performance though show a minor improvement since oil export constitute about 97% which do not received credit.

RECOMMENDATION

From the foregoing analysis and conclusion, it is recommended that efforts should be intensified to increase bank export credit. NEXIM's activities since 1991 definitely constitute one of the answers and should not only be sustained but improved and diversified in terms of exporters and export product.

The Nigeria Export Promotion Council (NEPC) and the Nigeria Export Import Bank (NEXIM) concentrating all its attention on the provision of credit facilities; it should complement this with the provision of risk bearing facilities to minimize export risks.

As first step, raw agricultural products may have to be deemphasized in the export drive, given their low supply incentives. Efforts to increase the export of such commodities have not been successful because Nigeria has a large population to feed. It is difficult therefore, to meet the consumers household demand, satisfy local industrial needs, and, simultaneously generate a sizeable surplus for export.

The expectation of improved export performance in the manufacturing sector appears superficial in the light of the problems facing domestic manufacturers the most important of which is the poor infrastructural base.

The high cost of private power generation, the gross inefficiency of the telecommunications system and the virtual absence of water supply contribute to height manufacturing costs which make the manufacturers mono-competitive in the international market. If resources channeled to export promotion activities had been devoted to improving the operating environment for manufacturers, manufactured exports could have performed better.

Apart from improving the operating environment there is a need to specify the particular manufactures to be promoted for export. In the absence of such specification manufacturers of all shades scrabble for and benefit from government export incentives so that the incentives do not produce the desired effects on performance. For instance, despite huge commitments to the export sector through the duty draw back scheme, the foreign input facility and the various activities of the Nigerian export import bank in the past five years, there has been no significant improvement in non oil exports. So what the country needs is a general improvement in the climate for manufacturers and additional incentives for manufacturers of commodities that will be designated priority export products.

Having identified the manufacturers that require the available local inputs, government policy should descend from the present height of prescribing norms and incentives that do not translate into export promotion in identifiable sectors to setting targets using policy incentives for specific products. It is hoped that the EPZ (Export Processing Zone) now export free trade zone will recognize the imperative for targeting products for the export market. Couple with the establishment of Nigeria expert promotion council, this will mark the first initial step in a viable export drive.

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