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Evaluation of Non-Oil Contribution in Export Financing the Development of Nigeria's Economy: An Empirical Analysis of Export Processing Zone

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Abstract
This paper discussed Government decisive move to reduce the dependence on crude oil exports and diversify her export base through the non-oil export initiative. Indeed Nigeria quest for diversification of its export basket, which has over the decade been dominated by crude oil with agriculture trailing at a distant. This exploratory study, however, indicates that given recent proactive efforts from the private sector and export processing zone especially efforts of the banking sector to finance export of commodities, changes are becoming noticeable in the Nation" export profile. This is evidenced with the traditional commodities like cocoa, cashew nut and ginger been found in the Nigerian foreign market.
Keywords: Export, Non-oil sector, Dievrsification, Economy, Evaluation

1. Introduction

There is no gain saying in the fact that government policy to reduce the dependence on crude oil exports and diversify her export base has encouraged the non-oil export initiative. Indeed, Nigeria is in quest for diversification of its export basket, which has over the decade been dominated by crude oil with agricultural produce as a distant second is legendary (Abisogun, 1998: 35). But given recent proactive efforts from the private sector, EPZ and NEX1M especially efforts of the banking sector to finance exportation of commodities, changes are becoming noticeable in the nation export profile, with the traditional commodities like cocoa, being upstaged by new ones like cashew nut, ginger and sesame seed in the foreign market. Moreover, these developments are yet to interact positively on the contribution level of non oil export, both volume and value terms to the nation's export basket. Aware of the imperativeness of the diversification strategy, various regimes had at different times announced in their budgets their intention to rely less on the crude oil.

Paradoxically, in a bizarre twist of fate, manufacturing and agricultural sectors which were all along being touted as strategic in halting the nation's monoculture economic step have in the past five years been experiencing demanding fortunes in output. Also, in the recent time, Nigeria non-oil export trade to 147 countries of the world trade organization has been on the decline for the past six years, reports (CBN, 2001 & FOS, 2000). Official data from both institutions showed that the total value of exports from Nigeria collected and dominated in dollar from partner countries of WTO between 1995 and 1997 has been on the decline. According to the data, the value of exports from Nigeria in the years, under review stood at US $2.7 billion, $1.2 billion and US $l billion for 1999, 2000 and 2001 respectively.

But analysts of non-oil export trade in the country have argued that though the statistics did not capture Nigeria's actual total receipts in any year, there were proofs that official data from the two federal government institutions have often under estimated the achievement levels in the country's export sector. According to them, analysis of export trade statistics in the country reveals the achievement of increased product and market diversification by the community of Nigerian exporters even as there has been multiple diversification and strengthened international operations by Nigerian companies in recent years which they said it could assist in the effective management of associated trade risks and stabilize economy. The grim picture depicted by the country's non-oil export position explains the current emphasis by the present government on the promotion of value-added non-oil exports. The promotion of this sub sector however, is not a new phenomenon in the government economic programme (FBN, 1992).

However, experts are of the opinion that financing of non-oil export sector is still inadequate in spite of government pronouncements and private banks initiative to encourage their customers to diversify into export trade. Expectations are high that Nigeria Export Processing Zones (NEPZ) and Nigeria Export Promotion Council (NEPC) will lighten up the spirit of exporter who wants to take every formidable effort to explore the opportunities presently in the non-export trade. Government in the recent time has launched industrial policy which is also aimed directly at promoting local value-added non-oil exports. This could be regarded as the most crucial factor since the policy objectives include the acceleration of the pace of industrial development in the country through increased export of manufacturers' of goods and greater local content of industrial output. Added to this, is the establishment of EPZ and Nigeria Export and Import Bank (NEX1M) which will aid exporters in obtaining reliable information on the potentials of export markets and assist in underwriting export risks (Adeleke, 1993:10). Explaining in broad terms the financing of exports and its contribution in the economy, this paper explores specifically the contribution of the non-oil export financing in the Nigeria economy. Subsequently, the remaining parts the paper explored the Export processing zones and their contributions to the Nigeria economy.

2. Understanding the Nature of Export Financing

Export financing is finance for export. It involves funding a new export venture that will move from a domestically focused business model, to one that is internationally oriented and export based. Finance for exporting calls for creating and executing a financial plan for the successful conduct of international business. By contrast, export financing (or export finance) relates directly to transactions and/or export orders. Export finance has a very specific meaning in international finance: it covers a series of financing mechanism which are typically, short term and involve well-known techniques that banks, government agencies and private-sector service providers use in support of Nigeria Export. Finance for the exporting and export finance can be discussed in two broad categories; pre-shipment export finance and post-shipment finance. As well, pre-shipment finance will refer to the broad category, including the financing of new export ventures, as well as specific, transaction level export. Post-shipment finance involves other activities of financing aside pre-shipment activities (Canadian Website on Export financing). Export finance includes all the challenges and risks of domestic business finance, familiar to any SME or entrepreneurial venture, plus a series of extra challenges. These extra challenges include: (1) Longer delivery and payment time frames (2) Exchange rate risk and exchange controls (3) Limited and cosily dispute settlement and legal recourse options.

Financing international trade specially exports can be accomplished in a variety of ways, using a broad range of public and private sector sources in addition to any funds provided through internal financing using one's company resources, (chikeleze, 2001: 46) certain export finance solutions can address or instigate many of the risk noted above. Financing exports can involve a number of scenarios and objectives. Typically trade finance product and services focus on:

- Providing cash flow or working capital
- Facilitating or expediting the remittance of funds
- Obtaining financing based on the expected completion of an export sale or shipment.
- Providing credit to a buyer, to make the transaction more attractive.
- Mitigating against a variety of complex risks inherent in international trade, such as non-payment political or foreign exchange risk, loss or damage of goods in transit, and many others (Van, 1998)
- An overriding aspect of international trade, as well as the financing related trade, is the significantly higher risk of pursing business overseas, an awareness and understanding of export risk, coupled with the appropriate risk strategy, will determine the success or failure of your venture, and will largely shape individual financing options (INMS, 1998: 35). Export related risk is similar to domestic risk, but vastly different in scope. The many additional factors of an individual need to account for in international commerce and the techniques used to manage those risks-should be at the forefront of any well-considered export strategy and export finance approach one may choose. A few banks in private sector have introduced schemes aimed at reducing risk related to export trade. One of such bank is INMS. In the pursuit of the Federal Government Export drive for non-oil product, INMB has established an export desk that provides specialized financing/advisory services. The bank has direct link with the world through its affiliates State Bank of India (SBI). It provides the following special packages for non-oil exporters.

Export Marketing Services

The bank conducts intensive survey of foreign market through State Bank of India on behalf of Nigeria exporters for various export commodities including cashew, gum Arabic season, ginger, etc.

Trade Information Services

The bank collects trade information both in Nigeria and abroad and provides a forum for discussion between exporters and importers. Government Institutions like promotion council have been in the forefront in providing those special advise through various scheme. Some of these schemes we shall discuss in the proceeding subhead.

3. Nigeria Export Processing Free Zone Scheme (NEPFZS)

Since the inception of the new democratic administration led by President Olusegun Obasanjo in May 29; 1999 a number of efforts have been made to attract both local and foreign investors to the country to boost Nigeria's economy. To point the country towards the path to industrialization will involve discipline, focus and hard work from all sectors to the economy has led to de-emphasizing the role of oil production and exports within the county's economy. Much needed focus has thus been devoted to other sectors like solid mineral tourism, telecommunication, commerce and industry,

All these efforts toward economic development led in November, 1991 to the establishment of the export processing free zone scheme (EPFZS). This scheme allows for interested persons to set up industries and businesses within demarcated zones known as export processing zones (EPZS) principally with the objective of exporting the goods and services manufactured or produced within the zones. But this novel scheme was slowed down by the political shenanigans in power then. It thus took another decade before it saw the light of the day with the inauguration by president Obasonjo of the multibillion naira Calabar Export Processing Zone very recently (EPZ, 2001:1). In a nutshell, the scheme is targeted to promote the diversification of the export base of the nation through the acceleration of export business with attendant loaded incentive, this is perception will include industrial production, offshore banking, insurance and re-insurance, international stock commodities and mercantile exchanges, commercial industrial research, agriculture and agro-allied industry, mineral processing, as well as international tourist resort development and operations. The promulgation of Decree No 34 of 1991 now Act of parliament 1991 provided for the establishment of geographical; enclaves within Nigerian normal customers' regimes do not apply. The object is to attract foreign investments and stimulate industrial production of export. Participants in the scheme will among other things enjoy free export production, elimination of all forms of bureaucracy, employment of foreign managers, 100% ownership of business and other incentives. Calabar in Cross River State has been designated as the primary EPZ territory and the necessary infrastructure has been put in place. A total of 80 serviced plots have been reserved for prospective investors for self-built factories. Having discussed this far it will be imperative to discuss the incentive available in EPZ. The incentive that comes to investors in the designated EPZ territories includes:

- Tax holiday relief
- Legislative provision pertaining to taxes, levies, duties and foreign exchange would not apply within EPZ at anytime with capital appreciation of the investment.
- Unrestricted remittance of projects and divided earned by foreign investors in EPZs;
- No import or export licences required;
- Rent-free land during construction of factory premises;
- Up to 100% foreign ownership of enterprises in EPZs;
- Sale of up of 25% of production permitted in domestic market;
- No quotes on products from Nigeria exported to the European Economic Community (EEC) and United States of America;
- Made-in-Nigeria goods are entitled to preferential tariffs in the EEC (EP, 2001)

The scheme when fully operational is intended to embrace industrial production, offshore banking insurance and re-insurance, international, stock, commodities and mercantile exchanges, commercial industrial research, agriculture and agro-allied industry, mineral processing, as well as international tourist resort development and operations. The Nigeria Export processing zones authority manages, controls and co-ordinates all activities within the zones (Uwah, 1993:12).

4. Other Export Incentives for Non-Oil Sector

What we discussed above is not exhaustive of the incentives available to exporters of non-oil exports. To supplement its rich oil mineral resources, serious efforts are being made by government to develop Nigeria's non-oil export. Various legislation accounts for the large package of incentives which are today available to person wishing to export from Nigeria. Some of these incentives which range non cash grants to duty and tax reduction and cancellation are now considered (Akpan, 1993:32).

1) Retention of Export Proceeds in foreign currency. Under this scheme an exporter of Nigeria commodities is obliged to open a foreign currency domiciliary account (D/A) with an authorized bank of its choice in Nigeria into which 100% of the proceeds of such export may be credited in foreign currency.

2) Export Development Fund (EDF)

The EDF is a special fund set up by the government to provide financial assistance to private sector exporting companies to cover a part of their initial expenses in respect of the following export promotion activities,

- Participating in training course, symposia seminars and workshops on all aspects of export promotion.
- Export market research
- Advertising and publicity campaigns in foreign markets including press/radio/television, catalogues, brochures etc
- Product design and consultancy
- Participating in trade missions, buyer-oriented activities, oversees trade fairs, exhibition and store promotion.
- Cost of collection trade information
- Organizing of joint export groups and mutual export guarantee associations.
- Backing up the development of export-oriented industries

The conditions for assistance eligibility from the fund are as follows:-

The exporting company which must be registered as an exporter with the Nigeria Export promotion council (NEPC) must be an exporter of any product of Nigerian origin with at least 35% value added or 40% local raw material content or/and of services e.g. engineering, consultancy shipping. In addition to a satisfactory status report such as company must have its marketing control in Nigeria. All applications for EDF assistance have to be made on the authorized application forms from NEPC and accompanies with a detailed work plan of the project to be undertaken plus a detailed report of past activities.

3) Export Expansion Grant Funds Scheme (EEGF) - This fund provides cash inducement for exporters that have exported a minimum of N50, 000 worth of semi-manufactured products. The cash incentives is to enable such exporter to

I) Increase the volume and value of export

II) Diversity their export products and market coverage.

Since 1997 government approved a uniform rate of 4% foreign exchange repatriated as basis for computation of export expansion grant. In addition, the autonomous exchange rate is applied in computing the export expansion grants (EEC) paid to beneficiary exporters. The fund is only available to exporters who have repatriated in full the proceeds from their export transaction. The repatriation must be certified by the CBN to be eligible.

4) Duty Draw-Back/Suspension and Manufacture in Bond Scheme

In addition to the retention of 100% of expert proceeds by exporters, a duty draw-back/suspension scheme has recently been approved in order to further encourage manufacturing for the export market. Exporters/products for use in the manufacture of export products free of import duty and other indirect taxes and charges. The scheme covers a rebate of duties already paid on imported inputs and the suspension exemption from the payment of such duties by exporters. To qualify for duty draw back payment the actual exportation of the products which were produced with imported inputs must be completed within 18 months from the importation of the inputs. Duty suspension becomes a permanent waiver of duty payment only when inputs imported under the suspension scheme are used to produce export products and are exported within 12 months of the importation. The manufacture-in-bond-scheme will involve the importation of duty-free raw materials for production of exportable goods, on the basis of a bond issued by a first-class bank which guarantees that all the end product will be exported. The performance bond will be discharged after evidence of exportation and repatriation of foreign exchange has been produced. Raw material under import prohibition could be imported under this scheme. An exporter wishing to benefit from duty draw back, duty suspension or manufacture-in-bond scheme is to direct his application for participation to the Nigeria Export Promotion Council (NEPC)

5) Export Adjustment Fund Scheme

This scheme serves as a supplementary export subsidy to compensate exporters for (a) the high cost of local production arising mainly form infrastructural deficiencies

(b) other negative factors beyond the control of the exporter.

6) Nigeria Export- Import Bank (NEXIM)

The Nigeria Export-import credit agency replacing the Nigerian Export Guarantee and Insurance Corporation commenced operations in January 1991 has statutory functions which include:

- Export credit guarantee and export credit insurance facilities;
- Credit in local currency in support of export;
- Domestic credit insurance and reinsurance where such a facility is likely to assist exports;
- Investment guarantee and investment insurance facilities;
- The establishment and management of funds in the form of mutual export guarantee funds to support Nigerian exporters;
- Purchase and sale of foreign currency and transmission of funds to all countries;
- Maintenance of a foreign exchange revolving fund for lending to exporters; who need to import foreign input to facilitate, export production;
- Maintenance of a trade information system in support business;

NEXIM facilities include trade finance, project finance, treasury operations, export advisory services market information, exporter education services and guarantees to enhance its functions exporter have access to these facilities through commercial and merchant banks operating in the country. Advisory and market information services may be obtained directly by exporters from NEXIM.

NEXIM provides a rediscounting and refinancing facility (RRF) which is designed to assist banks to provide-pre-and post shipment finance in local currency in support of non-oil export. Sourcing of raw materials by exporters may also be made easier by NEXIM'S foreign input facility (FIF) and stock facility. FIF provides the export sector with immediate foreign exchange requirements needed for the importation of raw materials and capital equipment needed for production of goods for export. Stock facility is made available in local currency to assist manufacturers' exportable goods to procure local raw materials.

7) Rediscovering of Short term Bills: This scheme provides for an exporter of any product to discount his bill of exchange and promissory notes. The above discussions on EPZ and export incentives will help us understand the contribution of export financing in Nigeria economy. We can now go ahead to discuss the role or contribution of export financing in the Nigeria economy.

5. The role or contribution of export financing in the Nigerian's economy

Export financing (non-oil) involves the provision of finance for the pre and post shipment activities of exporters credit of reshipment can be provided by way of bank overdraft, credit, short and medium term loans, warehousing financing and delivery-in-store warrant financing. On the other hand, post shipment finance can take the form of short-term loan, negotiation of shipping documents and bills discounting. This financing role is played by government banks and non-bank financial institutions. These financial schemes or method of financing have been already discussed in the preceding sub topic, therefore, we are not repeating them at this point. Non-oil export have, a great role and potential for boosting export earnings as well as providing the needed diversification for the country's export structure. Thus, if effectively and adequately promoted, they can contribute immensely to meeting the present deficiency in the supply of foreign exchange in the country. Secondly, non-oil exports can serve as a strong compliment to oil exports and thereby contribute to improving the balance of payment position of the country, assist in resolving the acute debt burden and improve the stock of our foreign exchange balances. Thirdly and more importantly, non-oil exports have direct and major linkages with other sectors of the domestic economy. Thus expansion in non-oil exports has the greatest potential of stimulating general economic growth and production, increase domestic demand and improve capacity utilization in industries. It has also led to improvement in the unemployment situation. This evidence can be seen in the number of workers who work in various industries in export processing zones. Moreso, while oil exports continue to provide the main source of foreign exchange to the country, it is no gain-saying that for meaningful development and structural balance, there must be gradual transformation towards increasing reliance on traditional and manufactured exports.

The Export Processing Zone (EPZ) in Nigeria have made substantial contributions also to the nation economy. With Nigeria opening up its trade frontiers courtesy of the current trade liberalization, EPZ has offered so many indigenous and foreign investors the opportunity to participate in the processing of exports or goods. Through various incentive schemes, Nigerian exporters have actively engaged in export of made in Nigeria products. They have also gone into the processing of cash crops such ginger, cashew, cocoa, groundnut etc. Most importantly they have engaged in the processing of cassava for exports. EPZ has made employment available to Nigerian thereby reducing the acute unemployment situation in the country. Export processing zone through its various scheme have promoted the diversification of the export base of the nation through the acceleration of export business. It has also open up measures through which industrial production offshore banking, insurance and reinsurance, international stock, commodities and mercantile exchange, agro-allied industry and mineral processing are striving. Through the tax holiday reliefs giving to companies involved in export through the EPZ incentive scheme more capital have been ploughed back in the economy. This they use in the production or processing of exportable commodities. Intact, virtually all the incentives provided by EPZ are themselves contribution of the private sector economy.

Other Findings.

Explaining in broad terms the financing of exports and its contribution in the economy; this paper dealt specifically on the contribution of the non-oil export financing in the Nigeria economy. Since there are glaring indices to determine the contributions of the government and very few corporate bodies dominate the oil exports in Nigeria. One other reason why this paper is taking a firm bearing towards discussing the contributions of non-oil export financing to the development of Nigeria's economy is that Export Processing Zone (EPZ) which appeared in the topic deals specifically on non-oil exports. The fortune of the nation's produce, solid minerals, manufactured and semi-processed products have some time in the past suffered severe set back and in some other time prospered. The two zone scenarios explains the trend of export activities in the country given the export incentives and their implementation by the appropriate government agencies such NEPC and Nigerian Export- Import Bank's (NEXIM). The Nigeria Export processing zone has in no small measure added value to non-oil exports in Nigeria. This paper is of three parts. The first part gives an overview of the profile of the export sector of Nigeria with special attention given to non-oil export sub sector. The second part deals specifically on the nature of export financing in Nigeria, risk that are involving EPZ roles in export financing etc. the third part discusses the contributions of export financing to Nigeria's economy. A summary and a conclusion based on our discussion in the proceeding parts draws the curtain on this discourse.

6. Conclusion

We have in this paper periscope the structures of export financing. We earlier took a bearing that guided us that limited our discussion to non-oil exports because EPZ is mostly concerned with non oil exports. Non-oil exports business is gradually thriving when compared to statistics a decade ago. At least with government trade liberalization and actuaries going on in the EPZ export business is gradually making a come back. The various incentives offered by EPZ, NEPC have made export finance less frustrating and cumbersome. Removal of trade barriers also have increased the quantum of made in Nigeria goods exported outside the country. Although government package of incentives for the financing of non oil exports is laudable the growths in non-oil exports have not justify these incentives.

Further to boosting non-oil exports through these incentives the existing trade policies arrived at encouraging exports should be pursed vigorously. Government must take effective actions to reduce substantially the asymmetry in profitability between production for the domestic and export markets by taking advantage of the open market offered by the EEC countries and would trade organization member countries. In the current drive for export, greater attention should be paid to the evolution of a comprehensive export policy that gives adequate recognition to the development of the service sector such as tourism and entertainment. In conclusion, therefore, government must ensure consistency of policies if much more impact is to be noted in the export sector of the economy. The EPZ scheme must therefore be seen to a conclusive end. The export processing free zone (EPFZ) in various parts of the country is a right step to improving the export business in Nigeria

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