THE ROLES OF BANKS IN INTERNATIONAL TRADE FINANCING AND FACILITATION:

A CASE STUDY OF AFRIBANK NIGERIA PLC

BY

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DECLARATION

I hereby declare that apart from references to other peoples work which has been duly acknowledged and credited, this project was entirely composed by myself and it is a record of my own research work.

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To

Alhaji A.K. Muhammed.

and

Hajiya S.K. Muhammed.

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My sincere appreciation goes to my Supervisor Mr. I.F.Okeji for his relentless and patient supervision, suggestions and assistance.

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ABSTRACT

This study examines the role of banks in International Trade finance and facilitation using Afribank Nigeria Plc as a case study.

Beside the management of Afribank Nigeria Plc, a number of respondents from other banks were involved in the study consisting managers, head of foreign departments and other people directly or indirectly involved in International Trades and or facilitation.

One main null hypothesis was postulated based on the role of banks in International Trade financing and facilitation in Nigeria.

Both primary data in form of interview and secondary data obtained from official documents were used to provide answers to the main hypothesis

The findings show that Banks in Nigeria actually play important role in International trade financing and facilitation thereby rejecting the NULL hypothesis and accepting the ALTERNATIVE hypothesis.

Consequently, it was recomnended among others that management of foreign exchange allocation be decentralized, effective marketing tools be put in place to facilitate easy trading; constant training of staff of foreign department, and head of Divisions and Branches; wide and reputable corespon-dents (foreign) and stable macro-economic environment are very necessary to enhance performance of the Banking sector in International trade financing and facilitation in Nigeria.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The history of International trade in Nigeria dates back to some five centuries ago when the old Northern Empires trade with the North african Merchants through the Trans-Saharan trade routes. In the later part of the centuries, the Southern Forest kingdoms also began to exchange goods with invading European Merchants.

With the Colonial rule from 1900 - 1960 Nigerian Economy heavily depended on the export of Agricultural products, such as, Palm-Kernel, Palm Oil, Raw Cotton, Rubber, Kola nuts, Beniseed, etc. There were also exports of timber in various forms. Hides and skins were quite prominent on the schedule of exports, while tin ore and coal formed the major minerals that were exported.

Earnings from non-oil exports within 1960 to 1965 accounted for more than 90% of the Country's total foreign exchange earnings (CBN Report). Nigeria was once the largest producer of cocoa after Ghana and the world's fourth largest producer of Tin.

However, with the discovery of crude oil in the late fifties and subsequent exportation, the trend changed dramatically, the discovery of this commodity in large quantity did not only reduce the relative importance of

Agriculture produce but also led to a considerable neglect of Agriculture for example, in 1960, non-oil exports contributed about 93% to the country's foreign exchange earnings, while minerals including oil, accounted for only 7%. Conversely, in 1970, Petroleum alone contributed 57.6%; 96.9% in 198; 97.3% in 1984 and till today still maintain the lead.

The Pattern of foreign exchange earning could not by itself have constituted the magnitude of Nigeria's economic crises of the 80's cum 90's. The oil "boom" of the mid 70's brought about tremendous changes in the Nation's economy. There increased government control of the economy arising from sudden increase in government revenues.

Between 1970 and 1980, the Federal government revenue rose from ₦675.6 million to ₦12.2 billion while expenditures rose from ₦531.9 million to ₦9.7 billion respectively, with more than 66% of this amount going into capital projects. The import substituting production which depended largely on imported inputs with low local value-added were also proliferated during this period. What finally rendered the economy vulnerable to external shocks was its heavy dependance on oil and imported inputs.

With the collapse of the world oil market in 1981 and the resultant balance of payment crises, the economic stabilization Act was introduced in 1982. It was discovered that more stringent measures were required to combat the economic crisis, the magnitude and duration of which could not

be ascertained. These series of measures which were introduced between 1983 and 1985 budgets had enormous costs and other adverse effects on the economy, such as, under utilization of industry capacity and mis-allocation of resources and yet no significant improvement in both the economy and foreign exchange position.

It was against this background of worsening economic crisis resulting from inappropriate and ineffective policies of the past that the Babangida Administration embarked on the "Structural Adjustment programme (SAP) in 1986. SAP according to government combines a variety of measures aimed at promoting economic efficiency and long growth with stabilization policies designed to restore balance of payments equilibrium and price stability. The specific objectives which SAP aims to achieve include:

- Restructuring and diversification of the productive base of the economy in order to reduce its dependence on the oil sector and imports achieving fiscal and balance of payment viability over the period;
- Laying the basis for a sustainable, non-inflationary or minimal inflationary growth and reducing unproductive investments in the public sector;
- improving that sectors efficiency and

enhancing the growth potential of the private sector.

The diversification of Nigerian economic base and the promotion of new export policy with the aim of boosting non-oil exports became one of the cardinal principles and thus forms the developmental strategy adopted for balanced development. For example, the Federal Government rolled out a package of incentives for interested Nigerian exporters. These incentives were contained in Decree No. 18, 1986 as well as other official releases. Some of these are:-

(i) Abolition of export License which is aimed to encourage Nigerian Exporters to widen their production base for export.

(ii) The abolition of export duties except on petroleum products.

(iii) Scrapping of the commodity boards. This enable producers to get better prices for their products through competitive price mechanisms

(iv) Exporters free to retain 100% of their export proceeds in foreign exchange in their domiciliary account in Nigeria which are disposable in accordance with CBN guidelines.

(v) Rediscounting of short term bills for export. The scheme help exporters to discount their bills of exchange and promissory notes with merchant and commercial banks in order to

improve their liquidity positions and minimize cash-flow problems before collection of export proceeds from overseas buyers. Others are Capital Assets Depreciation Allowance; Duty Adjustment Scheme Fund (DASF); Export Development fund (EDF) Tax relief on Interest Income; Establishment of Export processing Zones (EPZ) Export Credit Guarantee and Insurance Scheme (ECGIS); the setting of Nigeria Export Import Bank (NEXIM) etc.

It is in the light of this principle that the concept of foreign trade finance will be explained. The financial mechanisms which bring together buyers and sellers of internationally traded goods will be described along with brief and concise explanation of the banking system.

The role of banks and government-sponsored bodies and other credit agencies will be examined to provide an overview and a basis from which to understand the international trade financing and facilitation.

1.2 STATEMENT OF THE PROBLEM

The topic under discussion is the role of banks in international trade financing and facilitation: A case study of Afribank Nigeria Plc. Specifically, the study will try to provide answers to the following problems.

(1) To what extent does the bank succeeded in satisfying customers satisfaction in the

delivery of services to bank's international traders -exporters and importers.

(2) What are the problems mitigating against the bank in performing its role in international trade financing and facilitation.

(3) How appropriate and acceptable are the banks products to its customers.

1.3 OBJECTIVE OF THE STUDY

The primary objective of the study is considered as an attempt to evaluate the bank's practice and procedures with a view to determining the effectiveness or otherwise of the role of the banks in international trade financing in comparism with other Nigeria banks.

Implicit in the above objective is the need to evaluate the bank's operating system with a view to assessing the extent to which they have succeeded in satisfying customers' satisfaction in the delivery of services to the banks international traders.

The study also seeks to evaluate the appropriateness and acceptability of the bank's products to its customers. In doing this attention would be focussed on the mode of service delivery, policies, and administration of bank.

The study also seeks to highlight the various means by which banks provide financial assistance to their importing

and exporting customers, and to examine the methods of international settlement through banks.

Finally, the study would then identify problems in the service delivery and marketing patterns of the bank and offer some recommendations on better ways of service delivery in conformity with the best acceptable practice within the legal framework in the banking industry.

1.4 SIGNIFICANCE OF THE STUDY

The theme of this study is the role of banks in international trade financing and facilitation: A case study of Afribank Nigeria Plc. Hence, the research is significant in that the findings would:-

(i) Determine the extent to which banks promote international trade in Nigeria.

(ii) Determine to what extent the banks involve in international trade.

(iii) Provide explanation on some of the problems facilitating against bank's role in international trade financing and facilitation.

1.5 RESEARCH QUESTIONS

The following research questions are put forward for this study.

(1) Is Afribank Nigeria Plc or other banks in Nigeria actually carrying out any meaningful role in international trade financing and

facilitation?

(2) Can Nigerian Banks be a meaningful instrument for promoting international trade in Nigeria?

(3) Is Afribank Nigeria Plc playing any significant role in international trade financing and facilitation?

1.6 HYPOTHESIS

The following NULL hypotheses together with their alternatives were postulated in other to provide answers to above research question:

a) Ho: Banks in Nigeria are not actually carrying out any meaningful role in international trade financing and facilitation.

Hi: Banks in Nigeria are actually carrying out a meaningful role in international trade financing and facilitation.

b) Ho: Nigerian Banks are not meaningful instrument for promoting international trade for Nigeria.

Hi: Nigerian Banks are meaningful instrument - for promoting international trade for Nigeria.

c) Ho: Afribank Nigeria Plc plays no significant role in international trade financing and facilitation in Nigeria.

Hi: Afribank Nigeria Plc plays significant role in international financing and facilitation in Nigeria.

KASHIM IBRAHIM LIBRARY

1.7 SCOPE AND LIMITATION OF THE STUDY

Specifically, the study is supposed to cover all banks in Nigeria, but due to time factor and inadequate financial resources the scope of this research will be limited to the activities of Afribank Nigeria Plc as laid down in its manuals of procedures.

Nevertheless, the study also touches on international trade financing (exports and imports) by Nigerian Banks and Financial Institution whose operations conform with the other provisions of the Nigerian Banking Act, 1969.

1.8 METHODOLOGY OF THE STUDY

Given the objectives of the study, this report will basically be narrative. It will lean heavily on sources of data as personal observation. Oral interview with selected bank's actors in their international department will be carried out. The oral interview provide reasonable avenues for free discussion of issues relating to the topic of the research with particular references to the bank history and structure, policies, strength and power sharing. The result of these will be used to complement and re-enforce some of recommendation in the concluding part of the project.

1.9 DEFINITION OF TERMS

1) **AFRIBANK NIGERIA PLC-** Is the parent company of the Afribank group of companies and performs the role of a holding company in addition to its main activity as a commercial bank.

2) **BILATERAL TRADE AGREEMENT**- Is an agreement between two countries for the promotion of trade.

3) **BILL OF EXCHANGE:** Is a written order, signed by the drawer ordering his debtor (drawee) to pay on demand or at a future date, a certain sum of money.

4) **BANKERS' DRAFT** - Is cheque drawn by one bank on another

5) **CERTIFIED INVOICE:** Is a normal commercial invoice which must be signed by Government agencies or chambers of commerce officials.

6) **DUTY DRAWBACK:** Is the repayment of import duties paid on some specially approved goods or raw materials that are needed in some export manufacturing products.

7) **EXCHANGE RATE:** Is the official rate which a local currency exchanges for the convertible currencies.

8) **INVISIBLE TRADES AND SERVICES:** Are trade and services which are not tangible.

9) TARIFF: Is the duty imposed by countries on imports and exports for varied reasons.

10) **TERMS OF TRADE:** Is the ratio of price of import to the price of exports.

11) **VISIBLE TRADE:** Is the trade on tangibles.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The topic under research is "The role of Banks in International Trade financing and Facilitation: A case study of Afribank Nigeria Plc. In this chapter the following sub-headings will be discussed

a) The concept of International trade and Finance.

b) The importance of International trade

c) Banks and International Trade Financing in Nigeria.

d) Methods of Payment.

2.1 THE CONCEPT OF INTERNATIONAL TRADE AND FINANCE

International trade can be defined as the trade between nations of the world". Or trade between individuals domiciling in different countries". According to parry (1979) it can be defined as "Commerce carried on between Merchants in different countries, resulting in demand for foreign currencies concerned". In this line, international trade is specifically an exchange between members of different nations.

The need for foreign trade stems from the fact that nations are not equally endowed in terms of human and natural resources, as well as climatic conditions. Some countries, for example, may have favourable climatic conditions for the production of cash crops like cocoa and coffee while others may not. Also, some countries may have good supply of technical knowledge and expertise in the production of gadgets

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while others may not.

With these differences, the need for foreign trade is inevitable in order that we may obtain these goods and services which we can not get locally.

Given the differences in factor among nations, international trade to a large extent, has come to be looked upon as international division of labour in which participants concentrate their resources on the production of goods and services in which they have comparative advantage. This is the basic concept underlying the international trade.

Finance on the other hand, can be defined as" economics extended into the dimensions of time and uncertainty: long et al (1977). In broader sense, "Finance" can be seen as "The system that include circulation of money, the granting of credit, the making of investments and the provision of banking facilities". In the word of Parish (1970) finance is "The provision of money at the time it is wanted". In a nutshell therefore, finance is an action word meaning supply of fund.

When an exporter sells goods to an overseas buyer and the buyer is allowed a period of credit before having to pay for the goods, the exporter might suffer cash shortage. This is because he has paid out his own money to make and deliver the goods but has not yet received anything in return. Therefore, "Export Finance" is a term used to describe the various ways in which an exporter can obtain cash from a finance institution such as bank in advance of payment by the importer

Likewise, when an importer buys goods from a foreign seller, and is required to pay for them immediately, he might have cash problem. Ideally, he would like to have a period of credit, but the foreign seller will not allow this. Import finance is a term used to describe the various ways in which an importer can obtain money from finance institution s "a loan" in other to pay the exporter.

Finance of international trade therefore, involves "financing the movement of goods and services across the country's borders and subjects relating to modes of transport and insurance".

All major exporting countries have arrangements to protect exporters and the banks who provide them with funding support, from the risks of exporting.

Export finance in this context therefore, means "The set of facilities available to an exporter in any country to help him cover the risks of non-payment in his export business". It is therefore, an insurance concept. Since there will be no risk if cash is not received from the buyer with each order, this insurance is required only when deferred payments terms are offered to the buyer or when specific financing facilities are made available to him. Export financing is therefore, a mixture of insurance and banking Mechanism.

In the same taken, importers can also obtain finance for their imports in almost the same way as the exporters.

2.2 THE IMPORTANCE OF INTERNATIONAL TRADE

International trade plays an increasingly important role in our economic life, the value of world trade has increased during the last three decades not only in absolute value and volume but also in importance relative to Gross National Products (GNP) or other indicator of economic performance.

According to Heller (1988) "World trade" doubled approximately every decade since 1938. In 1958 trade amounted to U.S. $95.4 billion and a decade later, world export had more than doubled to U.S. $212.8 billion.

In relative terms the role of international trade differs greatly from country to country. In some relatively small countries like Belgium, imports account for more than one-third of all expenditures. On the other hand in the United States of America the foreign trade sector amounted to only approximately 5% of total GNP in 1970 (Heller, 1988)

Equally, International trade plays a critical role in a country's development effort by expanding the country's potential market beyond her borders.

It also promotes International specialization by making a country produce the goods for which it is best endowed and opening the country to international capital inflows.

Writing on the importance of export to the economy of Nigeria, William Ezeagu (1987) listed five benefits. These are:

1) "It helps the economy to earn foreign exchange to

pay for its imports.

2) Helps to diversify the country's export base which for sometime has largely depended on crude oil export thus exposing the economy to price fluctuations in the world market. But with the non-oil exports, Nigeria would derive foreign exchange from a variety of sources.

3) Helps stimulate economic growth, generate employment and make possible a better standard of living.

4) Brings international recognition and political advantage to the country.

5) Provides business opportunities for the large human resources who can participate in export business all the way from the village level up to national and international levels".

Still on the same subject, Ogbe (1988) remarked that "Nigeria has derived great benefits from international trade in foreign goods, both capital nd consumer goods, not produced in the country have been acquired and paid for from Nigeria export earnings. Total foreign trade has on the average constituted about 30% of the country's Gross Domestic Product (GDP) in recent years".

On his own part, whiting (1977) tested to the fact that capital from overseas enable the poorer nations to carry out capital projects which will increase their output of goods and

services, and hence raise their living standards. He went further to say that "better living standards will increase their demand for goods from overseas, and through the development of overseas trade their standard of living as well as that of other countries, will improve still further".

All the aforementioned facts on the importance of international trade point to one belief: that international trade can transform debtor nation into creditor nation.

Having examined the importance of international trade, let us now turn to the role of banks in international trade financing in Nigeria.

2.3 BANKS & INTERNATIONAL TRADE FINANCING IN NIGERIA

One of the major problems of existing and prospective exporters in Nigeria today is how to get bank finance. In the past, only few companies, notably the multinational companies had access to credit since only such companies were in a position to meet the security and efficiency requirements of the banks. However, since the abolition of commodity Boards, many Nigerians who lacked the required physical assets but are very in products business have taken up the challenge to export.

In this section of the chapter, finance of international trade will be discussed from two angles -Export Credit Facilities and import credit facilities.

Finance for export can be tailored to meet specific exporters needs. The following general types are available:

a) Short term credit

b) Medium term and

c) Long term export credit.

(A) **SHORT TERM EXPORT CREDIT**

Most of the non-oil export from Nigeria since 1986 have been agricultural commodities that are seasonally available. Banks have preferred to use short term credit that is self liquidating from export proceeds to finance these transactions. banks sometimes use promissory notes which are for fixed duration, maturing on a specific date, and easy to monitor. Technically, a promissory note is "an unconditioned promise, in writing, made by one person to another, signed by the maker, engaging to pay, on demand, or at fixed determinable future time, a sum certain in money to, or to the order of, a specified person, or to bearer".

A promissory note does not require acceptance, since it is drawn and is payable by the same person. Promissory not tenor ranges from 90 to 180 or 360 days depending on the nature of export. They are usually paid off on maturity or could be rolled over for another specified time.

Other instruments, such as letter of credit, bankers acceptances and revolving credit overdraft negotiation and advance are used to finance and refinance export on short term basis.

Short term finance is usually given for pre-shipment, point-shipment and post -shipment of exports.

i) **PRE-SHIPMENT FINANCE**

Pre-shipment finance is the loan and advances which financial houses, usually banks, grant exporters for product manufacture, transportation, packaging etc before the goods are shipped or sold to the buyer.Loan or advances given are generally extinguished on receipt of export proceeds or negotiation of shipping document.

ii) **POINT SHIPMENT FINANCE**

Under this financing arrangement, goods are received into a secured warehouse operated by internationally recognized agencies where they are quality controlled, weighed and tallied. The warehouse agent issues warehouse warrants which the exporter discounts at the re-financing bank and pays his supplier or makes further procurement of produce or goods manufactured.

iii) **POST SHIPMENT FINANCE**

This is the loan/or advances which banks grant exporters (when exporters have sold their goods on credit to buyers) to start the next manufacturing or procurement of goods until the exporter pays for the goods. This is basically a brindging finance, where advances are made against shipping documents.

(B&C) **MEDIUM AND LONG-TERM EXPORT CREDIT**

This category of credit includes term loans or leases which are extended over a period ranging from three to ten years and are repayable by installments.

They are granted to industrialists to finance the importation of plants and machinery for the purpose of expanding or improving production and package lines to increase the volume and quality of their products and make them competitive in the export markets.

2.4 FINANCE FOR IMPORTS

The importers can also obtain finance for their imports in almost the same way as the exporters. The following are the various bank facilities available to an importer from his bank:

i) Open Account Payment Finance Facility

Open account business is an arrangement between buyer (importer) and seller (exporter) whereby goods and shipping documents are sent direct to the importer who disposes the goods as he pleases and effect payment at a pre-determined future date.

The essential features of open account business are that:

a) The exporter has absolute trust that the importer can and will pay at the agreed time.

b) The exporter is confident that the importer's country will not impose regulations deferring or blocking the transfer of payments.

c) The seller has sufficient liquidity to provide necessary credit to the buyers, or has access to export finance.

In this method of finance, the importer is being financed by the exporter since the importer has the opportunity of

selling the goods before paying for them.

ii) **DOCUMENTARY CREDIT AGAINST TERM BILL OF EXCHANGE ACCEPTANCE CREDIT.**

Where the exporter requires the importer to open documentary credit in his favour as a condition to grant a period of credit, the importer does this through his bank.

Under the credit, the issuing bank (importer's bank) undertakes to pay the exporter against term bill of exchange and instructs its correspondent bank to accept or confirm such bill of exchange. Where the documents presented agree with the terms of the credit, the correspondent bank will give its acceptance. The exporter may discount or negotiate such bill as its carries the acceptance of bank. The exporter bank may not necessarily be the same as the correspondent bank of the importer. The exporter will in this instance ask its bank to handle the negotiation of this bill against documents on its behalf and accept the bill. The correspondent bank in this case only serves as the advising bank. However, its credit worthiness is an essential pre-requisite for granting acceptance credit to the importer and guarantees payment to the exporter upon satisfactory performance as per the terms of the contract and credit.

Even if the documentary credit opened does not provide for bank's acceptance, the importer will accept the bill and collect documents of title to the goods from the advising bank. The importer will then arrange to pay for the goods on

maturity of the bill. Since it is a term bill the exporter may find buyers of the goods before expiry of the credit period.

iii) **DOCUMENTARY CREDIT:** Sight draft used for granting loan.

In this case, the draft is drawn payable at sight to the favour of exporter on successful negotiation of documents. Importers who enjoy this facility are of sound integrity since credit is readily available even before receipt and/or sale of goods under contract.

iv) **PERFORMANCE CREDITS**

This arrangement is similar to that of sight letters of credit, the difference being that the importer draws the accommodation bill on the advising bank, who becomes refinancing bank, to the order of the issuing bank.

To make use of this facility, the importer makes a formal request to his bank to open the credit. The importer submits term bill with date and amount left blank (inchoate bill).

The credit and inchoate bill are sent to the advising bank who advises the credit to the exporter and retains the bill in safe custody.

On successful negotiation of documents the exporter is paid the inchoate bill by inserting the date and the amount paid. It then accepts the bill, discounts it and credits the issuing bank with the discounted proceeds. At this juncture, the issuing bank has been charged with the payment under the documentary credit, but credited with the proceeds of the discounted accommodation bill. The issuing bank and the

importer are in effect obtaining a loan at a current rate of interest or discount rate.

The issuing bank is debited and will claim from the importer at a time when the advising bank has to meet its liability on the accommodation bill.

v) **LOANS AND OVERDRAFTS.**

Application or loan for overdrafts will be considered against the normal canon of lending, just as in the case of domestic trade backed up by adequate security. However, where a bank insists on taking security from importer who has no property other than the imports the bank may grant loan or overdrafts to cover proportion of the cost of the imports pending re-imbursement from the proceeds of sale of such imports. this type of advance is called "advance against inward collection". The bank retains the negotiable instruments which shall be issued to order and endorsed in blank. The customer's current account is debited with the amount of the loan or overdraft.

The bank maintain control on goods and establish a right of lien. Insurance cover should also be evidenced and a letter of pledge or hypothecation taken from the customer. if the transport documents are not negotiable e.g. Airway bill the goods should be consigned to the bank.

On arrival of the goods, they are warehoused in the bank's name and the warehouse receipt retained by the bank. The goods are insured at the customers' expense and the policy

held by the bank. Notice must however, be given to the insurance company of the bank's interest.

To enable customer take possession of the goods for sales purposes, the bank requires that the customer signs a Trust letter by which the customer undertakes to warehouse the goods in bank's name and to account to the bank for delivery of warehouse receipts and proceeds of sale of the goods and to hold the goods on trust for the bank. The bank may however sell the goods itself.

On the goods being sold, the proceeds are remitted to the bank who credits the customer's account to offset the principal advances and interest. The difference stands to the credit of the customer.

In granting advance against inward collection, the following considerations apply:

1 The customer must be of undoubted integrity and have both experience and proven ability in dealing with the particular goods at hand.

2 There must be ready access to reliable and established market. The commodities must be of a suitable nature, that is not speculative or highly perishable.

3 Preferably, the goods should be pre-sold and status report obtained on the buyer(s) as to their financial standing and integrity. Status report should also be obtained on the warehouse keepers, exporters and any shipping or forwarding agents that may be involved.

4 The bank, normally, will not lend 100% of the invoice value of the goods. It will normally lend a proportion of the cost, perhaps up to 85% depending on the credit worthiness of the customer, among other factors.

5 Additional security aside from the goods, may be taken.

2.5 **EXPORT CREDIT GUARANTEE DEPARTMENT (ECGD)-**

Back finance for imports. This can take any of the following forms.

i **BUYERS CREDIT GUARANTEE**

This is a medium or long-term guaranteed loan by bank or syndicate of banks direct to overseas buyers to enable them pay their suppliers on cash terms.

Loans are normally arranged in foreign currency. Between 15-20% of the contract price must be paid by the importer to the supplier from his own resources.

The guarantees are limited to financing large contracts and are issued without recourse to buyer. The ECGD guarantees the loan as to 100% of capital and interest. The lending bank charges fixed rate of interest determined by the ECGD.

ECGD acts as a lender of last resort in the event that the bank is unable to renew currency finance.

ii **LINES OF CREDIT**

This takes the forms loans by banks based overseas to importers in Nigeria, to purchase capital goods. It could be project line of credit or general purpose line of credit to finance a number of different contracts for capital good and

associated services.

All lines run for a specific period. The portion of any contract to be financed by the loan will be specified and I normally be 80%-85%

Writing on short-term import and export finance, whebele (1965) took time to explain what finance in relation to international trade means, distinguishing between domestic trade finance and foreign trade finance.

Domestic trade he said,is essentially "the granting of overdraft to a credit-worthy borrower, with the borrower himself providing the mechanism for using it in the form of his own cheque issued against the agreed facility".

Whereas, in the foreign trade financing, "the buyer's cheque is not enough in itself and provision of means of effecting settlements is required of banks as part of the finance of foreign trade. He concluded by saying that finance of International Trade both the making of payment and the provision of credit, becomes an excess in bridge-building in which internally operating banks provide materials and under take the work. Still on the same subject, whebele (1965) considered variety of forms of credit to exporter the choice among which he said depends on the urgency with which the exporter wants finance, his willingness to have the transaction appear in his balance sheet an overdraft or a loan and the relative cost between a bill advance and acceptance credit.

Concentrating on the medium and long-term finance, LUNN (1965) stressed the need for medium and long-term credits which according to him was brought about by increasing competition and non-availability of cash to meet demand for credit during the post-war period. He therefore defined medium -term export credit as "post-shipment finance provided by a financial institution in the exporting country to the supplier, thus enabling him to give his buyer credit terms of two to five years in respect of specific transaction". In-the same vein, he defined long-term export credit as

> "The provision of finance by a financial institution in the exporting country direct to an overseas buyer of heavy capital equipments , thus enable the buyer to pay the supplier on a cash basis. The period of the loan is likely to exceed 10 years".

Writing on various types of bank finance available for the exporter, WHITING (1976) identified Bill Finance with recourse, medium and long term finance guaranteed by ECGD, factoring, confining and export houses, and international credit unions as some of the means available for exporter to finance his business.

In addition to whiting contribution, COX (19881) identified Advance Against Shipping Document (AASD) as one of the financing means available to exporter.

BENZ (1975) wrote on the factors to take into consideration when making credit decisions. He said that,

"deciding whether to allow credit and how much to allow involved evaluation, approval and the establishment and monitoring of credit worthiness". The entire credit system according to him is based on Confidence and good judgement, but there must be certainty as to whether a customer is acting in good faith and not over estimating his future ability to pay".

The fundamental questions regarding credit-worthiness, he aid, are "Can he pay?" and "will he pay?. The answers to these require creative ability embodying sensitivity, fluency, flexibility, originality, skill at re-definition and analysis, ability to synthesize, and coherence of organization".

Generally, he stated the 5c's of credit-character, capacity, capital, conditions, and coverage as criteria for evaluating credit proposal, and in the alternative, the LAPP system (Liquidity, Activity, Profitability, Potential).

In his own contribution, DYER (1988) identified ten areas where banks in Nigeria promote international trade.

These are:

1 Some of the banks connect exporters to potential buyers.

2 They collect economic, social and political information from various countries and make them available to their customers who are exporters.

3 Banks also provide letters of introduction to overseas banks and agents.

4 Some of the banks seek and provide credit status enquiry of

foreign buyers to exporters.

5 Most of the banks provide consultancy services including market survey.

6 Some banks render export promotional services including joint trade mission, trade fairs and exhibitions.

7 Most of the banks provide consultancy services including market survey.

8 Banks are very essential in the negotiation and collection of Documentary bills.

9 They also play an important role in the negotiation of letters of credit.

10 Most of the banks assist in documenting bills of exchange for exporters.

2.6 <u>GOVERNMENT INCENTIVES THROUGH BANKS</u>

Government Incentives are contained in Decree No. 18 of 1986 as well as other official releases. Some of these are (1)

1 Abolition of Export licenses

2 Abolition of export Duties.

3 Scrapping of the commodity boards

4 Retention of foreign exchange

5 Export development fund (MU) (EPF)

6 Export Expansion Grant Fund (EEGF)

7 Export Adjustment Scheme Fund (EASF)

8 Duty Drawback Scheme.

9 Rediscounting of short term bills for export.

10 Export Credit Guarantee and insurance scheme

(ECGIS).

Of all the incentives listed above the last two are directly carried out through banks.

Rediscounting of short term bills for export scheme helps exporters to discount their bills of exchange and promissory notes with Merchant and Commercial banks in order to improve their liquidity positions and minimize cashflow problems before the collection of export proceeds from overseas buyers. The scheme covers both primary commodities and semi-manufactured and finished goods. The bills are to mature within 180 days.

Export credit Guarantee and Insurance Scheme (ECGIS) on the other hand, is meant to guarantee exporters for local reshipment loans granted to them by local bankers and also to enable such banks to extend credit facilities to overseas importers or buyers. The scheme is also to provide exporters with insurance cover against non-payment by overseas buyers.

ECGIS is fashioned along the same line with that of the British Government called the exporter credits Guarantee Department (ECGD). According to COX (1976) ECGD is established to "assist exporters of both goods and services by providing a special type of insurance covering two main areas of risk: the credit worthiness of overseas buyers, and the economic and political risks arising from events in overseas countries".

ECGIS in Nigeria is made up of three kinds of funds, namely, the guarantee fund, the credit insurance fund and

foreign exchange revolving fund.

The guarantee fund serves as a guarantee to Nigeria bankers for pre-shipment financing required by exporters for the purpose of facilitating production to meet export orders.

The credit insurance fund, on the other hand, is directed to two objectives, namely, to provide post shipment loan to exporters who may need to extend facilities to overseas buyers of Nigerian products and also provide risk cover for non-payment.

The political risks usually covered by such scheme fall under six broad categories.

1 Government or public sector's non-payment or refusal to comply with contractual terms.

2 Foreign government action which prevents the contract being performed. e.g imposition of import license or the enactment of a Law requiring the buyer to cancel the order.

3 Action by the exporter's government preventing performance such as the imposition of export licenses.

4 War, Civil war or revolution which frustrates the contract,

5 Delays in remitting the currency or the contract following payment in local currency by the buyer.

6 Confiscation of the exporter's asset by foreign government.

In many instances, ECGIS cover form an essential condition for the provision of export credit by a financial institution. Where the terms of payment require an exports to draw bills of exchange on the overseas buyer payable up to say

six months after sight, a bank may be prepared to buy such bills accompanied by the shipping documents and an ECG and insurance policy.

The ECGIS issue a variety of policies designed to meet the requirements of a diversity of sales contracts. Therefore, an exporter should be able to obtain the financial assistance he requires through banking channels.

Short term finance by way of loan or overdraft is treated by banks broadly in the same why as domestic short term finance, but in view of the added risk involved, the ECGIS cover may be required even where the bank's customer enjoy first-class credit standing. Goods of a capital nature requiring longer credit term even need more cover.

The third kind, foreign exchange revolving fund, is aim at providing foreign exchange revolving loan to exporters to import raw materials and spare parts required for special export production.

The Nigerian export credit and insurance corporation (NECGIC) was established to operate the scheme. The objects of the corporation as set up in decree No. 15 of 1988 are as follows

i To establish and carry on the business of export credit guarantee and export credit insurance.

ii To design and implement schemes for export credit guarantee to parties carrying on business in Nigeria in connection with the export, or manufacture, treatment or distribution of goods for

export, or the rendering of services or of any other matter which appears to the corporation conducive for the purpose of encouraging trade with other countries,

iii To undertake and guarantee the insurance of export credit and for that purpose, to enter with or for the benefit of parties carrying on business in Nigeria, contracts of insurance against risk of monetary loss or other monetary detriment attributable to circumstances outside the control of the person suffering the loss of detriment and resulting from the failure to receive payment in connection with or otherwise arising out of acts of transactions in the course of or for the purpose of trade with persons in any country other than Nigeria;

iv To accept re-insurance of all kinds and to enter into reinsurance agreements with parties whether resident in or outside Nigeria against all or any risk or liability assumed by the corporation under any arrangement insurance policy or other schemes entered into by the corporation;

v To enter into guarantee agreements within other parties to guarantee payment in specified circumstances;

vi To provide insurance against loss whether on the export of goods or provision of services or on loans made to facilitate the export of such goods or services;

vii To lend and advance money or give credit to such persons or companies on such terms and conditions as may seem expedient, and in particular to customers, companies, corporations, firms

to pay for the goods before he receives and checks them.

OPEN ACCOUNT PAYMENT

Open account payment involves the shipment of goods by the exporter, who then waits for the importer to pay when he receives the goods. According to Watson, this is an arrangement between buyer and seller for the buyer to settle his debts with the seller at a pre-determined future date.

Writing on the method of payment through open account, Whiting (1978) listed of the following forms of payments: Telegraphic transfers, mail transfers, Bankers Draft, importer's own cheque and SWIFT (Society for World-wide Inter-bank financial Telecommunication). The methods listed here offers no security to the exporters he cannot ensure payments. It requires familiarity and trust between them.

In his own contribution to open account payment, COX (1976) remarked that "the open account basis of international trade is forced on exporters because of short sea journeys which do not give time to process documents so as to enable more secure methods of payment to be used". He further remarked that with the increasing use of air and road transport, exporting on open account is becoming more common.

On his part, OVWIELEFUOMA (1988) pointed out that, "the difference between the SWIFT and the Telegraphic Transfer is that SWIFT "is computerized, faster and very secured".

In considering the various payment arrangements, whiting (1976) said that the most satisfactory arrangement is to

receive payment for the goods in advance and that the exporter will only trade on open account basis with the importer if there exists no strong relationships between the two parties. The two aforementioned methods of payment are unsuitable for international trading because of the lack of familiarity, trust and confidence between the trading partners. A more effective method of payment include documentary collection or bill of exchange.

DOCUMENTARY COLLECTION

It involves the exporter asking his bank to arrange the collection of the payment by handling the shipping documents, bill of exchange and other documents as agreed in the sales contract. Here, the exporter uses a bank to obtain payment from foreign buyer. The foreign bank keeps the documents until payment is collected from the buyer and will only release title to the goods when the buyer complies with the exporter's requirements.

COX (1976) identified two methods under this system. These are documents-against-payment method and documents-against-acceptance of bill. According to him, if the documents-against payment method is used, the exporter is able to retain a measure of control over his goods as he know that the documents of title will not be released by the overseas bank until payment has been made. When documents are released against acceptances of bill, he further remarked, the exporter loose control of his goods and relies on the credit worthiness

and integrity of his overseas customer to pay on the due date.

> According to Watson (1978) "a documentary collection can offer the exporter a degree of security in the transaction, which is not inherent in clean collection (collection of financial documents). Here bank handles a bill of exchange, promissory notes etc for payment but they do not have to handle the invoice, bill of lading etc, or open account method provided all the documents of title are handled by the banks".

DOCUMENTARY LETTER OF CREDIT

A letter of credit is a guarantee of payment by the buyer's bank to the seller, if certain conditions stipulated in the credit are met.

In international trade, a letter of credit can be either a documentary letter of credit or non-documentary letter of credit. Under documentary letter of credit, the conditions set by the buyer (applicant) requires to seller (beneficiary) to present certain documents to the buyer's bank (the issuing bank) within a stipulated period of time. The seller will be paid immediately, if it is a sight credit, or at a specified future date, with an acceptance credit.

With documentary letter of credit the bank deals in documents only and not in goods. Sub heading letters of credit my be revocable and irrevocable. Paragraph. A revocable credit gives no under taking to the exporter that payment will

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actually be made or a bill of exchange accepted because it may be cancelled or amended at any time without the prior knowledge of the exporter.

An irrevocable documentary letter of credit may be confirmed or un-confirmed. Where it is confirmed, besides having the irrevocable undertaking of the issuing bank, it also has the irrevocable undertaking of the advising bank in the exporter's country to make the payment under the terms of the credit.

An unconfirmed credit still carries the issuing bank's irrevocable undertaken but the advising bank does not add its own, merely informing the beneficiary of the terms and conditions of the credit. From the exporter's point of view according to COX (1984).

> "The best payment method a credit is by means of a confirmed, irrevocable documentary letters of credit because it contains the irrevocable undertaking of two banks, one of which is in his own country, and the terms of the credit cannot be altered without his knowledge; provided he complies with all the terms, he knows that he will either be paid or have his bill of exchange accepted".

Watson (1978) identified revocable as the best type of letter of credit for importer while the least favourable to exporter because goods may be shipped and the credit revoked before documentes are presented to the advising bank. He

further identified confirmed irrevocable letter of credit as the best for exporter, as explained by COX.

Letter of credit can also be either sight or acceptance credit. In sight credit, payment is immediately on presentation of the documents required provided all the terms of the credit are complied with.

An acceptance credit on the other hand, stipulates that payment will be made to the exporter at later date than the date on which the exporter presents the documents. The payment date is specific date in future. Other innovative letters of credit are:

i **TRANSFERABLE CREDIT** where the original exporter can transfer to a second exporter his right to have the credit honoured on presentation.

ii **BACK-TO-BACK.** This involves two separate letters of credit. The first to be opened is established in favour of beneficiary who cannot supply the goods called himself, and who therefore wishes his own bank to issue a credit in favour of a beneficiary who can supply the goods. The beneficiary of the first credit will therefore become the applicant of the second credit. This method is most difficult and rare.

iii **TRANSIT CREDIT** here both the beneficiary and the applicant are in overseas countries.

iv **REVOLVING CREDITS** This may be in two ways, around time or around value. A revolving credit is a credit which contains a provision for the amount of the credit to be renewed or

reinstated automatically. This can be revocable, irrevocable, confirmed or unconfirmed.

v **Red Clause Credits:** A red clause credit is a credit containing a clause (usually written in red) which authorizes the advising bank to make advances to the beneficiary before he presents the required documents. The purpose of a Red clause on a letter of credit is to enable the beneficiary to draw up to 100% of the credit amount before shipping documents are presented and even before shipment.

CHAPTER THREE

3.0 INTRODUCTION:

There are many documents which are used for one purpose of another in international trade. Therefore to save extra costs and possible delays at point of import, the potential exporter should ensure that he is fully acquainted with all the actual procedures involved in getting goods from factory to the consignee. Similarly the importer must ensure he is fully acquainted with all the procedures and documentation required to facilitate easy and quicker delivery of goods and/or services under importer. It is therefore important to know the documents needed. Thus, this chapter of the project will consider these documents.

For full understanding and clarity, we shall classify export documents under five headings. These are:-

1 Insurance documents

2 transport documents

3 Financial documents

4 Commercial documents

5 Official documents

3.1 INSURANCE DOCUMENTS.

In the process of moving goods from country to another, certain risks are involved. These risks may be disastrous and crushing to the exporters. To be able to withstand such losses it is imperative for the exporter to take an insurance cover

Insurance cover is thus often requested in international trade to cover all risks of loss or damage to the subject matter insured. There are three basic types of insurance documents. These are:-

i **COVER NOTE:-** This is also known as a letter of insurance. It is issued by an insurance broker to provide notice that steps are being taken to issue an insurance policy or certificate.

A cover note does not contain details of the insurance said to be effected, and as it is possible that the insurance was not covered at all, banks do not consider this document as a satisfactory evidence of an insurance contract, where documents be tendered under a letter of credit. According to whitings (1977) cover notes issued by brokers are not acceptable unless specifically authorized in the credit.

ii **A CERTIFICATE OF INSURANCE:-** These are two types a Broker's certificate and Insurance Company's Certificate. A Broker's certificate is a document that is no better, from a banking point of view, than a cover note. It has been issued by a third party, not the insurer, and therefore if appropriate cover had not been effected, the course of action in the event of a claim (or) not be against. The insurer but against the broker.

Insurance Company's Certificates show the value and details of the shipment and the risks covered. They are

frequently drawn up by the insurer on forms printed on behalf of and issued by the insurance company under either a floating policy or open cover. It is usually signed by the exporter and the insurance company.

iii **INSURANCE POLICY:-** Insurance policies provide actionable evidence of a contract of insurance. Full details of the risks covered are shown on the policy. The right to claim from the insurers may be assigned by the insured in the first instance to someone else, usually the overseas buyer or a bank, by endorsement and delivery.

3.2 **TRANSPORT DOCUMENTS:** Goods might be transported in a number of different ways to an overseas country. Whatever method of transport is used, a transport document (usually in sevoral copies) to issue let us examine different kinds of transport documents:

1 **BILL OF LADING.** A bill of lading serve three basic functions:

a) As evidence of a contract of carriage between the shipping company and either the exporter or the foreign buyers, to transport the goods by sea.

b) As a receipt for the goods under carriage. For example (i) clean bill of lading signifies that goods under carriage suffers no defects. (ii) a dirty bill of lading is an acknowledgement of some defects in the goods or faulty packaging (iii) a received for shipment bill of

lading merely confirms that the shipping company has the goods in its custody for shipment. (c) As a document of title, that is, the holder has the right to possess the goods usually a signed original of the bill is requested.

As a document of title, when a bank handles a bill of lading, it ensures that it has a full set of the signed originals which is released to the buyer or holder as per the agreed payment arrangement.

An exporter (or a freight forwarding agent) prepare the bill of lading, the shipping company acknowledge receipt, and adds any statement about damaged goods or packaging where necessary. The shipping company will release goods at the port of destination to someone who presents a signed original of the Bill of lading.

The rights of title to the goods may be transferred:-

(i) By issuing the Bills of Lading to order and endorsing them in bank.

(ii) By issuing the Bills of Lading to the order of buyer or banks only; then arranging for the Bills of Lading to be delivered to the consignee direct or through the banking system.

TYPE OF BILL OF LADING.

This may be short form Bill of Lading, through Bill of Lading, Liner bill of lading, Combined transport bill of Lading charter party bill of lading and container bill of lading. Those commonly use in Nigeria are discussed

hereunder.

i **THROUGH LADING.**

A through Bill of lading is also known as transhipment bill of Lading. It is issued where there is no vessel sailing to the final port of destination, so that the goods have to be off-loaded into a second ship.

ii **COMBINED TRANSPORT BILL OF LADING.**

With the widespread use of containerized transport, goods are nowadays transported from place of taking-in-charge to a place of delivery in the same container (s), but on different modes of transport. For Example a containers lorry might take a container of goods by road to a seaport where the un-opened container will be loaded on to a ship. It will then be shipped to a port of destination, unloaded, transferred to another lorry and taken by road still un-opened to a place of delivery inland. The goods, although carried by two or more modes of transport, are shipped under a single contract of carriage and a carrier or freight forwarded will be responsible for the goods over the entire route. A single Bill of Lading known as a combined transport bill of lading will be issued by the freight forwarder to cover the entire route from the place of taking-in-charge to the place of delivery.

iii) **CHARTERED PARTY BILL OF LADING:**

When a company charters or hires a vessel from its

owner, there may be some spare cargo space on board. Another exporter might arrange with the hirer, to ship his goods on the chartered vessel using up some of this space. The contract of carriage is therefore between the exporter and the hirer of the vessel, and not the ship owner. The bill of lading issued for the journey will state "subject to charter party" and the contract of carriage is subject to the contract for the hirer of the vessel. A charter party Bill of lading will usually be un-acceptable to banks holding documentary credit.

Having explained Bill of lading, it is significant to a lending banker examining Bills of lading under a credit to take note of the following:-

i Its original must be signed by or on behalf of the ship master.

ii Date of shipment must be indicated and possible to forward documents to destination before arrival of the vessel.

iii Freight must be paid by the seller on cost and freight (C & F) or cost, insurance and freight (CIF) terms and bill of lading marked "Freight Paid".

iv A notify party seller's agent in the buyers country, where required, must be shown on the Bill of lading.

v On deck Bill of lading are generally unacceptable to Banks. So look for under deck before accepting the bill of lading.

3.3 FINANCIAL DOCUMENTS:

There are two financial documents which provide for payment by the buyer. These are the bill of exchange and the promissory note.

1 BILLS OF EXCHANGE

By legal definition bill of exchange is defined as " an unconditional order in writing, addressed by one person "(drawer) to another (drawee), signed by the person giving it (drawer), requiring the person to whom it is addressed (drawee) to pay on demand or at a fixed or future determinable time, a sum certain in money to or to the order of a specified person (payee) or to bearer".

The Bill might be either "sight bill" that is, drawee must pay at the sight of such bill or "usance bill" which gives the drawee period of time before payment.

Bills of exchange are widely used in international trade because they are convenient instruments to collect debts from traders aboard.

2 PROMISSORY NOTES

This is a "debt instrument in writing by one person (the maker) payable to or to the order of a specified person or a bearer, promising to pay a sum certain in money at sight or at a fixed or determinable future date".

Promissory notes can be viewed as an I.O.U. When

due, it is presented for payment by the holder, who may be the payee, or someone to whom the promissory note has been negotiated.

3.4 **COMMERCIAL DOCUMENTS**

The following is a summary of the main types of commercial documents:-

1 **PROFORMA INVOICE:** This is an invoice in quotation form to a potential buyer of the terms upon which business may be transacted. It is similar to a commercial invoice except that it contains the word "proforma. Normally, it shows the terms of trade and price so that once the buyer has accepted the order there is a firm contract to be settled as stipulated in the pro-forma invoice.

Pro-forma invoice are used where settlement is to be made:-

i In advance, that is pending cash payment of goods stated or before shipment.

ii On consignment, where goods are exported before a firm sale contract and place in the hands of an agent to whom the pro-forma Invoice will act as a guide to prices he should obtain; tender for a sale contract.

iii Subject to tender where pro-forma is used to support a tender for a sale contract.

iv After an invitation to tender has been accepted by the seller.

Pro-forma invoice may also be required to raise a

letter of credit or foreign permit where regulation requires it.

2 **COMMERCIAL INVOICE:-** The following information normally appear on commercial invoice used for international trade

i Names and addresses of buyer and seller,

ii Date of Invoice

iii Complete description of goods

iv Unit prices where applicable

v Final price against shipping terms

vi terms of settlement

vii Shipping marks and numbers

viii Quantity of goods and weight

ix Name of the vessel, if known.

Some customs authorities in the buyer country may require these additional information.

a Seller's signature

b Origin of the goods

c Ports of loading and discharge

d Details of freight and insurance charges. Specified separately, where applicable

e. Details of agents commission.

3 **CONSULAR INVOICE:-** This is a commercial Invoice which is prepared on a form printed in the exporter's country by the consulate of the buyer's country. it is then signed by the consulate. The purpose of a consular invoice is to help the government of the buyer's country to control

imports into the country principally to prevent 'dumping' of goods. A Consular invoice will be used for exports to any country which requires their use.

Consular invoice also forms the basis for determining the import duty leveled by the importer's customs.

4 **LEGALIZED INVOICE:-** These are commercial invoices presented to the Embassy or consulate for stamping, in place of a consular invoice. It is also known as visaed invoice.

5 **CERTIFIED INVOICE:-** This is a signed commercial invoice that will contain a certification from seller to buyer. The certification may be in form of one of the following:-

i That the goods are in accordance with the agreement between the seller and the buyer, or

ii That the goods are or are not of a specific country of origin, or

iii Any statement required by the buyer from the seller.

It is also necessary to be familiar with the following:

a **WEIGHTED NOTE:** Document issued by the exporter declaring the weight of the goods in the consignment. This should tally with the weight declared on the transport document and shown on the invoice.

b **SUPPLIER QUANTITY AND QUALITY INSPECTION CERTIFICATE:-** This is a signed declaration by the exporter that the

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goods have been inspected before despatch and are of correct quantity and quality. Inspection is usually done by appointed independent inspectors to provide independent evidence to the buyer that the good have been shipped in good condition and according to specification.

c **PACKAGING LIST:-** This form shows detail of goods packed. it has become particularly appropriate with the growth in containerization and facilitate passage through custom.

d **ATTESTED INVOICE:-** This a vital document for custom clearance and remittance of proceeds of the imported goods.

3.5 **OFFICIAL DOCUMENTS**

Some documents in international trade are provided to satisfy the legal or procedural requirements of the government of the country of export or import or transit. The following list gives example and is not exhaustive as some documents might to required to meet local or domestic requirements.

1 **FORM NCDS (A)**

This form must be completed by all exporters and duly registered by an authorized dealer. With it the Central Bank monitors the value and volume of export and confirms receipt of export proceeds from authorized dealer who registers the form. This form together with the relative invoices must be forwarded to the customs at

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the time goods are pre-entered for export, for their registration to ensure repatriation. Approved form NCD (3) A are distributed as follows:

- Pages 1 and 2 to be held by the registering bank.
- Exporter collects pages 4, 5 and 6.
- Page 3 is sent to CBN by the registering bank.

On receipt of proceeds, authorized dealer confirms the receipt by completing original copy of form NCD (3) A.

2 **CERTIFICATE OF ORIGIN**

This document might be required by the importing country's authorities as evidence or country the goods originated from. It helps exporters who wishes to claim a preferential import duty.

3 **CERTIFICATE OF HEALTH.**

This certifies state of health of the goods imported to a country as required to be done by the authority.

4 **FORM EUR 1**

This is completed for export into EEC Countries if any exporter wishes to take advantage of duty concessions granted to exporters from countries in African, Caribbean and the pacific area under the some convention.

5 **GSP FORM**

This is similar to EUR 1 form meant to be completed for export to EEC countries, USA, Japan, Australia, Canada and other Western Countries to take advantage of

preferential tariff concessions granted to developing nations on non-reciprocal basis.

6 **FORM "M"**

This form risk completed by the importers and duly registered by an authorized dealer. With it the CBN monitors volume and value of imports.

7 **FORM C SERIES**

In Nigeria, according to National shipping policy, form C document are to be used to monitor importer at the time of registration of form 'M' and NCD 3 (A).

The series are:-

i Form C-1.1 for Non-oil government imports.

ii Form C-2.1 for non-oil product imports

iii Form C-3.1 for private sector non-oil imports

iv Form C-3.2 for exports.

Document required for the settlement of the import bill are:

i original Approved form "M"

ii Quintriplicate of Relevant form "C"

iii Attested Invoice.

iv Form C188A

v Evidence of payment of duty - payment schedule

vi Import Duty report (IDR)

vii Bill of Exchange

viii Bill of lading or Air Waybill

ix Certificate of Insurance

x Clean report of findings

xi Customs bill of Entry

xii Tally sheets

xiii Cable payment order

xiv bidding form.

8 **LETTERS OF CREDIT: (WACH)**

For the letters of credit under the "West African clearing House, application for registration of form "M" is accompanied by the following documents:

i Duly completed for "M"

ii Tax Clearance Certificate

iii Custom's 3 year audited accounts

iv Confirmation that customer has the wherewithal to finance the value of the form "M" for which approval is sought.

v Original pro-forms invoice, currently dated and signed and in currency of the exporting country

vi Details of beneficiary's bankers.

Please note that only goods manufactured in any of the ECOWAS Countries are allowed to be imported through the West African Clearing House System

CHAPTER FOUR

4.0 The topic under discussion is "The role of Banks in International trade Financing and Facilitation: A case study of Afribank Nigeria PLC". In the previous chapters, especially chapters II and III, literature review and procedure of international trade were discussed. in this chapter, brief History and the specific role of Afribank Nigeria PLC (as a representative of banks in Nigeria) will be discussed in the light of hypothesis postulated in the opening chapter.

The main Null hypothesis together with its alternative hypothesis recalled here are:

Ho Banks in Nigeria are not actually carrying out any meaningful function nor are they meaningful instrument for promoting international trade in Nigeria.

Hi Banks in Nigeria are actually carrying out meaningful role and are a meaningful instrument for promoting international trade in Nigeria.

4.1 BRIEF HISTORY OF AFRIBANK NIGERIA PLC

Afribank received banking license on October 20, 1959, and opened the first branch in the city of Kano on January 4, 1960. It was then known as Banquet International pur L'Afrique occidental (BIAO) a French affiliate, also with subsidiaries established all over the french speaking West African countries.

On May 30, 1969, BIAO was incorporated in the country as a limited liability company under the name

'International Bank for West Africa (IBWA) - the English equivalent of BIAO. The bank changed its name to Afribank Nigeria limited with effect from January, 1990, and finally to AFRIBANK NIGERIA PLC from december. 1993 after the Federal Government gave up her equity share holding to become fully privatised.

4.2 ROLE OF AFRIBANK NIGERIA PLC IN INTERNATIONAL TRADE FINANCING AND FACILITATION IN NIGERIA.

Afribank began business in Nigeria mainly to help promote the export of commodities from Nigeria and today it provide one of the most reliable import/export financing and facilitation facilities in the country.

Over thee years, Afribank has grown into a group currently made up of:

- Afribank Nigeria Plc.
- Afrbank International limited (Merchant Bankers).
- Afribank Insurance Broker
- Afribank estates company limited, and
- IBWA Finance Company limited, Dublin (Offshore investment Company).

Afribank Nigeria Plc performs the role of a holding company for the Group in addition to its main activity as a commercial bank.

The Afribank Group, through its subsidiaries, offers services to its international and other customers in the following areas of their needs;

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1 Commercial banking

2 Merchaant banking

3 Insurance brokerage

4 Estate Agency

Off-shore financing.

These services span the entire financial sector of the economy, and even beyond, thus confirming Afribank's position as the financial supermarket in the economy.

Based on interaction/interviews with key staff of the international department of Afribank and some other Nigerian banks, the following services are offered generally to international traders in Nigeria:-

1 Purchase and sale of foreign exchange (foreign exchange function

2 Operate Domiciliary Accounts

3 Play role of an "Issuing Banker; Advising Banker; confirming Banker' Negotiating Banker; and Re-imbursing Banker to the importer or the exporter as the case may be.

4 Arrange international settlement of claims

5 Act as a counsel

6 Engage in letters of Credit facilitation

7 Processing of shipping documents

8 Eliminating exchange risk

9 Facilitate business travels

10 Serve to introduce customers to foreign banks, shipping

and forwarding agents.

Some of these functions and promotion activities are discussed in fair details under unified headings hereunder:-

A. FOREIGN EXCHANGE FUNCTIONS.

1 PURCHASE AND SALE OF FOREIGN EXCHANGE.

Afribank (Nig) Plc and indeed other banks in Nigeria engage in the purchase and sale of foreign exchange. Foreign exchange purchase may be done in one of the following ways or both:-

i Direct purchase of hard currency from CBN

ii Purchase of outstanding foreign exchange balance in a customer's account in a foreign country.

iii Direct purchase from individuals/bodies having foreign currencies to sell (i.e from autonomous sources).

Sale of foreign currency similarly may take the form of re-purchase by CBN; sale to customers upon successful bid from official foreign exchange market or from autonomous sources, including bureau de-change markets. Although purchase of foreign exchange is subjected to strict control, sale is strictly controlled.

iv Combination of the above.

The currencies which can be dealt in are listed in the manual of international foreign exchange markets. A major source of foreign exchange purchase in Nigeria remain the Central Bank of Nigeria and currencies usually

dealt in are U.S Dollar, Pound sterling, Deustschmark french franc and Japanese Yen. Afribank through its Foreign Exchange Market (FEM) department buys and sells foreign exchange on behalf of its customers in accordance with Central bank's regulations.

The guiding principles with regard to all foreign exchange transactions in Nigeria today are gathered from various guidelines namely:

a The new Comprehensive Import Supervision Scheme

b Foreign Currency (Domiciliary Accounts) Decree 1985

c Second tier Foreign Exchange market Decree 1986

d The annual and period central bank of Nigeria Foreign Exchange Policy guidelines.

The foreign exchange scene in Nigeria has undergone a lot of changes. The open General Import License and specific import license, in operation before 1984, gave way to the import license era which in turn gave way in 1986 to the Second Tier Foreign Exchange Market (SFEM) to the dtch action to the inter bank foreign change market (IFEM) to foreign Exchange Market (FEM) and to the current designation AFM (Autonomous Foreign Exchange market).

2. **DOMICILIARY ACCOUNTS**

The concept of Domiciliary accounts was introduced by the Babangida Administration in 1986. The then government A domiciliary account is a foreign currenty

denominated promozaled decree No. 23 of 1986 detailing the rules and regulation governing the procedure of domiciliary accounts.

A domiciliary account is a foreign Currency denominated account opened and maintained with a Bank in Nigeria. It should be noted that the introduction of the domiciliary account scheme formed part of governments efforts to encourage exports in Nigeria and equally monitor the flow of foreign exchange to the country from non-oil transactions, usually classified "non-oil export proceeds domiciliary account". Afribank provide this service to local and international traders.

Therefore, Afribank and indeed other banks in Nigeria are able to meet the foreign exchange needs of their international trader through processes enumerated in (A) above. Although trade of foreign currency in the black market is presently out-lawed in Nigeria, customers and even many banks in Nigeria substantially utilize this market to meet up foreign exchange requirements of their international traders, as a result of scarcity of this commodity from formal sources and high demand for its use.

B. **LETTERS OF CREDIT (L/C)**

Next to the foreign exchange function discussed above is the letters of credit functions. This function is the most effective medium of effecting settlement

between operators of international trade.

A letter of credit is a written undertaking to pay money. This payment is generally conditioned upon presentation of a bill of exchange also known in banking circle simply as draft or other written demand for payment, together with other specified documents. If the letter require other documents beside draft, usually it is referred to as "Documentary-Letter of Credit".

In Afribank, and indeed many other banks, all letters of credit are documentary, since it is rare to find a "clean letter of credit" which does not require other documents than draft. Documentary letters of credit which relate to the sale of goods are referred as "Commercial documentary letter of Credit".

Commercial letters of credit therefore, are means of paying for goods purchased mostly in international trade transactions. Since sale of goods and services to foreign buyers entail more varied and greater risks than those encountered in domestic markets, International transactions thus necessitate letters of credit to forestall the risk to which the parties will otherwise have been exposed.

Various types of letters of credit had been discussed in previous chapters, however, it is mentioned here that Afribank and indeed many other banks pay greater emphasis to "Irrevocable confirmed credits" which

authorise or specifically ask its correspondent or another bank to confirm its irrevocable credit is the toast of all exporters because of the double assurance it affords them.

The current Nigerian situation however because of previous abuses suffered demand that letters of credit be opened on cash and carry basis, as such not all customers qualify for confirmed letters of credit by virtue of the credit ratings of such customers.

Afribank (Nig) Plc involves in the following underlisted stages in settlement of commercial indebtedness between international traders:

1 **AS ISSUING BANK**

The bank which issues the letter of credit is known as the issuing bank. As an issuing bank, Afribank opens letters of credit for foreign imports into Nigeria. Usually the customer requires Afribank to open a letter of credit in favour of his/her beneficiary (the exporter) having struck a deal.

Afribank (Nig) Plc, by issuing its letter of credit, is guaranteeing payment to the beneficiary provided that he complies with certain terms and conditions. in doing this Afribank lends its name to the credit worthiness of Nigeria Importer.

2 **AS AN ADVISING BANK**

Afribank (Nig) Plc not only act as issuing but also

act as advising bank to the beneficiary (exporter). Usually the advising bank agrees to handle the credit, on the terms with the issuing bank, but does not make any commitment itself to guarantee payment to the exporter.

Afribank (Nig) Plc as advising bank provide the following information to the exporter.

i Name of the Nigerian Importer

ii Amount of the Credit

iii Tenor and mode of operation of the credit

iv Requirement of certain documents

v Whether part-shipment is allowed or not.

vi Other necessary information that will reduce or eliminate the risk of the exporter.

Afribank (Nig) Plc is unique in this service because of the dual role it can play. The bank can act as an advising bank to a foreign exporter trough its subsidiary, IBWA Finance Company Limited in Dublin and at the same time advising bank to Nigerian exporters through its various branches.

3 **AS A CONFIRMING BANK.**

In addition to issuing and advising bank functions, Afribank also acts as a confirming bank. This function is usually in conjunction with advising function. IBWA Finance company Limited, Dublin might in addition to advising the exporter be required to also confirm the credit. By so doing Afribank also acts as a confirming

the bank in which the draft is authorized to be drawn. The advising bank may be as well be designated as the paying bank authorized to pay to the beneficiary (exporter) upon presentation of proper documents. The paying bank can be held liable if payment was made incorrectly or not in accordance to the terms of the credit.

6 **AS A RE-IMBURSING BANK.**

Afribank can also be named as re-imbursing bank by a Nigerian exporter. here Afribank becomes an intermediary bank to which a paying or negotiating bank looks for reimbursement of payment effected under a letter of credit.

According to the Uniform customs and Practice for Documentary credit. 1988 Revision Article 21, a paying bank seeking re-imbursement from a reimbursing bank has no obligation to confirm that it has complied with the terms of the credit before paying.

This provision lays very heavy responsibility on the Reimbursing bank to obtain the full requirement and their compliance from the issuing bank.

It should be mentioned here that besides the aforementioned financing and facilitation services provided to Nigeria importers and exporters by Afribank and most other Nigerian banks other bank facilities are also available to support them. These includes:

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bank. A confirming letter of credit is almost risk free since it contains double assurance of payment by two banks, usually one in the exporter's country (the confirming bank) and one in the buyer's country (the issuing bank)

4 **AS A NEGOTIATING BANK**

The beneficiary, usually Nigerian exporter, who receives the letter of credit may decide to present his draft and bill of exchange to Afribank as a local bank willing to negotiate the draft, that is, buying the draft with or without recourse to the beneficiary, when Afribank buys this type of draft, by giving value it becomes a negotiating bank.

The negotiation of cheque, draft and bills of exchange may therefore be defined as a banking arrangement to provide immediate fund available to improve a customer's cashflow.

Upon negotiation Afribank forwards the documents and draft to the issuing or paying bank for re-imbursement. To accept this responsibility on behalf of a customer Afribank are double sure that accompanying documents conform with the terms of the credit and if not, the issuing bank may refuse payment.

5 **AS A PAYING BANK.**

A letter of credit opened in favour of a Nigerian Exporter may appoint Afribank as a paying bank. That is

- Bank overdrafts
- Bank loans
- Bank Bonds and Guarantees

Bank overdrafts are short-term facilities granted to business customers to serve as a form of reserve for unforeseen expenses affecting their daily transactions. Afribank international business customers utilize this effectively especially in their pre-import/export activities and travels such as in the purchase of Business travel Allowances (BTA).

Bank loans which could be in form of short-term advance, medium term or long term loan are usually obtained by this group of customers either as a bridging finance or for pre-export purchase of export goods (export financing) and to importers pending sales of goods imported, as in import financing.

It could be in form of Agricultural lending to support say the production of cash crops produced principally for exports promote the export of commodities from Nigeria through the provision of trade financing facilities that assist customers by making their international transactions faster and easier.

Afribank (Nig) Plc also provides a financing scheme to facilitate trade at intra-regional level in the West african sub-region known as "West African trade Financing Scheme". This is made possible by its

affiliation to all banks within the BIAO Group, most of whom are located in west African Countries.

Bank bonds, Guarantees and Indemnities are non-cash facilities known as "contingent facilities" which are commitments entered into by Banks directly with customers locally or on behalf of the local customers of their foreign correspondents guaranteeing performance. Such facilities may be connected with Government contracts such as "Bid or Tender bonds", Advance on payment Guarantee and Performance Bonds. Those of General nature include, Customs bonds, Excise bonds, Railway siding bonds, Re-exportation bonds, Bills of Lading Indemnities etc.

(C) **AS A COUNSELLOR & INFORMATION PROVIDER**

Afribank (Nig) Plc provides multi-farious roles as a counsellor and information provider for the Nigerian exporter and importer alike, both real and potential. The bank provides information on the availability of market in overseas or home market to prospective exporters and importers. Rules and regulations governing the exchange control, tariffs and quota are carefully explained to them .

This enable them to minimize the risk involved International trade. Guidance are equally provided in the area of methods and risks of selling abroad, health regulation and other information of importance to

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businessmen travelling or living abroad.

Other services also provided to international trade customers are:-

(i) Eliminating exchange risk.

(ii) Obtaining travel facilities for travellers.

(iii) Introduce exporters to foreign banks, shipping forwarding agents, and

(iv) Arranging settlement between importers and exporters.

Afribank is a partner in progress with Nigeria Export Promotion Council and government agent for export Credit Guarantee Scheme (ECGS) all in the interest of international trade.

TRADE ADMINISTRATION & CORRESPONDENT BANKING

Afribank International Traders can initiate and conclude transactions from any of its over 120 branches in virtually all the states of the federation. This way the bank is able to reach all her customers with ease.

To speed transactions of her esteemed (Corporate) Customers the bank can process applications for exports and imports requirements via the "EXPRESS" DESK at her international division at the end office and approvals communicated to the respective branches on behalf of the customer. This service endears Afribank to many of her customers, because letters of credit are opened faster and Bills negostiation made easier.

To further assist International traderas faster, a

foreign branch is opened at the Head office. The responsibility of this branch is to attend to customer's trade/travel needs and offer specialist advice on their transactions.

Correspondent Banking is also made easy. This is in view of Afribank's affiliation with defunct BIAO banking group with world wide correspondent banking network. other correspondents are, the Union Bank of Switzerland; Banco de Brazil and Compaignic Internationale Africaina de banquet Holding S.A. Luxembourg. Specifically the following selected correspondents are used to service Afribank International traders for major currencies.

1 French American Banking Corporation for US Dollars

2 Banquet national de Paris for francs.

3 Banquet national de paris for Pounds staring.

4 Deutsche Bank AG for DM.

IBWA Finance company, Dublin which is a full-fledged off-shore finance company set up by Afribank (Nig) Plc use its advantageous location in Europe to handle the group's international transactions and this assist in making customers feel at home wherever they may be.

Afribank Insurance brokerage company provide invaluable services to her international traders in areas of their insurance needs and this facilitate their transactions in these ways:-

a Customers and prospective customers alike are better

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advised on all insurance matters commented with their business.

b Best covers with competitive rates are negotiated on behalf of customers with reputable insurance companies.

c Negotiation of claims are made faster and customers get maximum compensation possible under any claim.

d Customers are saved from numerous administrative problems, and costs since they do not incur extra charge for the insurance services rendered to them.

Based on all the aforementioned functions and roles Afribank (Nig) Plc plays in the financing and facilitation of International trade in Nigeria, the present researcher rejects the NULL hypothesis which says banks in Nigeria are not actually carrying out any meaningful function nor are they meaningful instrument for promoting international trade for Nigeria and therefore accept the alternative hypothesis which says that "Bank in Nigeria are actually carrying out a meaningful function/role and at the same time a meaningful instrument for promoting international trade for Nigeria".

In affirming this, the researcher believes that other banks in Nigeria are equally performing at least some of the functions Afribank is performing in the scene of international trade

It should be noted that Nigerian Banks are the main actors in the economic activities and international trade is no exception.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 SUMMARY.

The topic under research is "The Role of Banks in International trade financing and facilitation: A case study of Afribank Nigeria Plc". There are five chapters in all.

Under chapter one, the general background to the study was discussed under the concept of foreign trade, the meaning of finance and the working definition of "finance of International trade: Still in chapter one, the statement of the problem, purpose of the study and the main hypothesis was discussed. The study seeks to confirm or refute the postulated hypothesis which state that:-

Ho: Banks in Nigeria are not actually carrying out any meaningful function nor are they meaningful instrument for promoting international trade for Nigeria.

Hi: banks in Nigeria are actually carrying out meaningful role and at the same time meaningful instrument for promoting international trade for Nigeria.

As a conclusion to chapter one, definition of terms were explained as used in this research.

In chapter two, the relevant literature on the subject were reviewed. The present researcher noticed that most of the research on international trade financing and facilitation were written by scholars abroad and the few written by Nigerian.

Chapter three dealt with the various documents which are issued for one purpose or another in international trade. These documents were treated under the following headings:

i Insurance documents

ii Transport documents

iii Official documents

iv Finance documents and

v Commercial documents

In chapter four, the specific role of Afribank (Nig) Plc (as a model of Nigerian Banks) in international trade financing and facilitation were discussed in details and in the light of aforementioned hypothesis, the researcher tried to prove that indeed Nigerian banks play meaningful role in the financing and facilitation of international trade in Nigeria.

Finally, in chapter five, the summary and conclusion of the whole research are made and some recommendation proffered.

5.2 CONCLUSION

In the light of the research finding the present researcher concluded that banks play crucial and inevitable role in financing international trade. Through their lending, bank play an important positive role in the following connections.

Banks are important channels of credit for Nigerian and foreign Multinational Corporations. Bank credits, money transfer services and other facilities provided by major banks

in the world have facilitated the growing activities of multi-national corporations.

Banks, according to LEES (1977), have assisted in financing a general economic expansion in world business foreign loans by banks have supported business investment spending in many parts, of the globe where financial market facilities and banking services are scarce and where alternative sources of capital funds would have been lacking or available at a far higher cost.

Through their acceptance credits and other loans and advances, banks have contributed to the healthy growth in exports.

Stabilization credits and other loans made to a number of less developed countries have contributed to the stability of the international monetary system.

International financial institutions are assisting exporters by injecting new funds into the export sector.

A package of export stimulation loans was granted and made available to Nigerian exporters by the African Development Bank (ADP). Indeed, the role banks plays in international trade financing and facilitation are enormous.

Despite all these aforementioned achievements by the banks, the following problems still bedevil (bank financing and facilitation of international trade in Nigeria.

Bank Management of international activities such as foreign exchange allocation to customers, approvals of

credits, forms M, NCD3 etc are usually centralised at the bank's head offices in Nigeria, thereby causing un-necessary delays in their processing.

Marketing activities in the area of international trade by banks is not common in Nigeria.

Many of the Nigerian banks are not sufficiently represented in the international markets and our Commercial attaches are not yet fully marketing oriented.

Some banks in Nigeria are relatively new with few branches concentrated in Lagos and therefore cannot effectively reach out to the greater majority of international traders un-country. In the case of bigger banks with wider network coverage officials of some branches are not properly trained and therefore does not possess adequate knowledge about events, rules and regulations necessary to facilitate international trading.

Too frequent changes in government policies regarding foreign trade also affect banks in carrying out their role of international trade financing and facilitation.

An important problem in Nigeria is the scarcity of foreign exchange in the market inhibiting import activities.

Fraudulent activities by banks, traders themselves and the regulatory and control bodies is common place in Nigeria..

From experience, multinational corporations with stronger parents abroad are more favoured in the allocation of foreign

exchange and faster service delivery by banks in Nigeria.

The central bank of Nigeria has not put in place foul-proof monitoring apparatus to check activities of banks and ensure necessary remittance of export proceeds.

Government share of foreign exchange accruing especially from crude oil sales is too high and this coupled with its improper management inhibit seriously the extent to which banks can go to promote international trading in Nigeria.

5.3 RECOMMENDATIONS

This research has pinpointed some of the efforts and problems Nigeria banks make or face in their bid to promote international trade in Nigeria. The following recommendations are proffered to improve these efforts and ameneorate some of the problems observed in the course of this research as spel above.

There is the need to decentralize bank management especially as regards credit and foreign exchange allocation decisions for wider, faster and even coverage of all international traders in Nigeria.

Effective marketing tools should be put in place, supported by a wide range of promotional and marketing services initiated by banks themselves, to ensure effective international financing and promotion.

Banks must maintain close relationship with international banks as part of their overall marketing strategy. Through correspondent banks Nigerian Banks can improve their

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international roles between Nigerian exporters and their overseas counterparts.

Since export financing services can form a major component of Nigeria's sources of foreign exchange, the regulating authorities should encourage banks to establish branches, outsiders, affiliates and representative offices within and outside Africa. To achieve this, CBN has to design implementation programme for the banks and assist them achieve their targets.

Banks found engaging in fraudulent foreign exchange/trade malpracticed should be banned completely from rendering foreign trade services. Only banks with proper wider representation within and outside Nigeria are to be licensed to engage in foreign trade activities. To also check the bad image already created about Nigeria International traders.

Training of the staff of international department of banks must be on continuing basis to update their knowledge about the rules, regulations and changes in international activities.

Government policies concerning foreign exchange control and trade must be made as stable as possible.

To ensure availability of foreign exchange to finance indigenous traders multi-national companies must be made to source their foreign exchange outside the Autonomous foreign exchange. Government should commit greater share of oil proceeds to the Autonomous foreign exchange market, while

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multi-national oil exploring companies are to be made to commit a share of their oil proceeds to financing and promoting international trade in Nigeria.

Finally, by penetrating world market, banks will be better positioned to generate foreign currency deposit with which they could finance offshore trade and investment. The key advantage to the economy of Nigeria off-shore enterprises in the long run is to promote geographical diversification of Nigeria trading and investment activities thereby eliminating the risk of putting all the eggs in one basket. It will also give Nigerians some technical and management exposures and, at the same time, create off-shore job opportunities for Nigerians.

Various export incentive schemes have been introduced by the government under the export incentive and Miscellaneous provisions Decree No. 18 of 1986. For exporters to be able to take advantage of these incentives fully, the government must set-up a committee, export-incentive monitoring committee, with the sole objective of examining how efficiently and effective the approved export incentive schemes are being executed.

To be effective this monitoring committee must be independent of any Government Agencies that are responsible for implementing the export incentive schemes.

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