AN EVALUATION OF THE CONTRIBUTION OF COMMERCIAL BANKS IN FINANCING AND FACILITATING FOREIGN TRADE

BY

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CERTIFICATION

This project entitled **"An Evaluation of The Contribution of Commercial Banks in Financing and Facilitating Foreign Trade"** by **Abdussalam Nafisa Lami** meets the regulations governing the award of the Degree of Master of Business Administration (M.B.A.) of Ahmadu Bello University Zaria, and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I declare that this project has been written by me, and that it is a record of my own research work.

To the best of my knowledge and belief, it has not been presented before for the award of degree.

All materials used are duly acknowledged.

N Salam
SIGNATURE

7/5/95
DATE

DEDICATION

I humbly dedicate this project work to my late father:

Mallam Abdussalam Yusuf.

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Thanks and praises are due to Almighty Allah the most merciful, for seeing me through the MBA programme without any hitch, and for making this project a success. May his peace and blessing be upon the Holy soul (SAW) for whose sake our prayers are answered and sins forgiven.

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ABSTRACT

This study is focussed on the evaluation of the contribution of commercial banks in the financing and facilitating of foreign trade. The aim was to determine the effectiveness or otherwise of the roles of commercial banks in foreign trade financing. This was to enable a critical assessment of the bank's operating system with a view to assessing the extent to which they have succeeded in satisfying their varying customers in international trade.

Existing literature on the subject was reviewed in an attempt to discuss the concept of foreign trade. The study also reviewed various opinions of scholars on the subject of forign trade financing by commercial banks and also dealt extensively on the various methods of settlements of debt in international trade and the various ways by which banks grant finance to exporters and importers.

The interview technique and observation methods were the basic instruments used to generate data for the study. Hence some commercial banks were selected for the interviewing purpose and a wide range of literature on bank publications, journals, magazines and newspapers were equally consulted.

The findings of this work showed that commercial banks play a very crucial role in the financing and facilitating of foreign trade in Nigeria. This is attributable to the support services given by banks to business investment spending the world over.

The study revealed that commercial banks in Nigeria have been efficient in their roles as facilitators of foreign trade but there is still room for improvement. These were highlighted as recommendations in the last chapter.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Over the last few years, Nigeria has been grappling with balance of payment crisis and acute external debt-servicing problems. Many questions have been asked as to how the predicament could have come about. In the early post independence years, the hey-days of surplus foreign reserves, external borrowing and debt servicing was a dormant issue in the Nigeria economy. The proceeds from agricultural produce, and later crude oil, earned Nigerian more than enough foreign reserves to finance imports of all Nigerians.

The bane of the Nigerian economy started in the early 1970s when the discovery and commercial exploration of crude petroleum transformed the economy from one largely dependent on agriculture's share in the Gross Domestic product (G.D.P) of the nation fell from about 40% in the 70s to about 20% in the 1980s. The oil sector also in the 1980 accounted for about 2% of the country's GDP, 81% of government revenue and 9.6% of export earnings.

The pattern of foreign exchange earning could not by itself have constituted the magnitude of nigeria's economic crisis of the 1980's. The oil `boom' of the mid 1970s brought about tremendous changes in the Nation's economy arising from sudden increase in government revenues. Between 1970 and 1980, the Federal Government revenue rose from N675.6million to N12.2 billion while the expenditures rose from N531.9million to N9.7 billion respectively with more than 66% of this amount going into capital projects. The import substituting inputs with low local value

- added were also proliferated during this period. What finally rendered the economy vulnerable to external shocks was its heavy dependence and unbridled reliance 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-utilisation of 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 effective policies of the past that the present Administration embarked on the Structural Adjustment Programme (SAP) in 1986 SAP according to government combined a variety of measure aimed at promoting economic efficiency and long term growth with stabilization policies designed to restore balance of payment equilibrium and price stability.

The diversification of Nigeria economic base and the promotion of new export policy with the aim of boosting non-oil exports became one of the cardinal principles and this forms the developmental strategy "adopted for balance development.

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

banking system. In tracing the developmental process of the establishment of Nigerian Export Credit Guarantee and Insurance Corporation (NEXIM) the role of banks and government-sponsored bodies in Export and 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 PROBLEM

Commercial banks in Nigeria have contributed immensely to economic development in Nigeria. They have also contributed to the growth and development of trade and commerce in Nigeria. This study shall look at how the commercial banks in Nigeria have aided commerce and trade in Nigeria.

It will also examine the role of commercial banks in financing and facilitation of international trade in Nigeria.

It will equally focus on the export financing in Nigeria. Here the methods of payment, methods of international settlement and import finance in Nigeria will be discussed.

1.3 AIMS AND OBJECTIVES

The primary objective of the study is considered as an attempt to evaluate the bank's practice and procedure with a view to determining the effectiveness or otherwise or role of the commercial banks in foreign trade financing.

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

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

Finally the study would then identify patterns of the banks and offer some suggestion on better ways of service delivery in conformity with the best acceptable practice within the legal framework in the banking industry. This is with a view to increasing the banks turnover and profit.

Other objectives of this study include highlighting 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.

1.4 SCOPE OF THE STUDY

This study shall focus on the foreign financing (exports and imports) by Nigerian commercial banks whose operations conform with the provisions of the Nigerian Banking Act, 1969.

It will also discuss the various means by which commercial banks provide financial assistance to their importing and exporting customers.

The study shall examine the methods of International settlement through banks. And the efforts made to facilitate foreign trade transactions.

1.5 SIGNIFICANCE OF THE STUDY

The significance of this study lies in the following.

i) It will help show the contribution of Nigerian Commercial banks towards commerce and International trade growth and development.

ii) It will provide information the mechanics and procedures involved in International trade.

iii) It will serve as a guide to potential and intending importers and exporters.

iv) It will show how the commercial banks can help their numerous customers in financing and facilitation of international trade.

v) It will provide a parameter for assessing and evaluating the role of Nigerian Commercial banks in financing and facilitating International trade.

vi) Through financing and facilitating international trade the role of commercial banks will be appreciated in improving standard of living of Nigerians for making it possible to have goods manufactured in foreign countries available in Nigeria.

1.6 LIMITATION OF THE STUDY

One major factor that would limit coverage of the study is the conservative posture of banks generally when it comes to proffering their records for academic analysis. Another constant is time. Accessibility to bank's records and operation became difficult as the banks' management considered it as secret.

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CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 HISTORY AND DEVELOPMENT OF BANKING INDUSTRY IN NIGERIA.

Banking in Nigeria was introduced during the colonial period with the setting up of the Bank of British West Africa in 1894 by same colonial trading companies, mainly, British and French. In addition to a number a number of new foreign banks, some 25 indigenous banks were also set up between 1928 and 1952. However, most of the early indigenous banks failed due to a number of unfavourable conditions prevailing at that time, including inadequate capital based and lack of managerial expertise, all of which pitted them unfairly against the more monopolistic foreign banks.

1952 the colonial administration was concerned about the health and soundness of many banks. As a result, it passed the 1952 Banking ordinance which introduce a system of bank licensing, stipulated minimum capital, reserve and liquidity requirements and bank supervision.

The failure of a number of indigenous banks and the repercussion to examine the prospects of the banking system in Nigeria. The recommendations of the commission resulted in the enactment of the Central Bank of Nigeria in 1959- a year before independence.

The enactment of the Banking Decree of 1969, ushered in a more conducive environment for the growth of banking industry. By 1960 13 commercial banks were operating in Nigeria and by 1962 the number increased to 17. The company Act of 1968 obliged all foreign banks operating in Nigeria to be incorporated in the country. At the same time, government acquired a controlling

share (60%) in a number of banks, including the "BIG THREE" foreign banks, namely, First Bank, Union Bank and United Bank for Africa.

The banking industry has grown tremendously in the last few years leading to an increase in the volume and complexity of banking supervision in Nigeria. From a total of 28 in 1980, the number of commercial and merchant banks in the country grew steadily to 40 in 1986 before stabilising at 49 in 1987. Beginning from 1988, the growth rate in the number of banks has been phenomenal such that by 1990, the number has risen to over 120. Out of 120, 6b are commercial banks, 54 merchant banks as at end of December 1992. Moreover, a part from the Upsurge in the number of licensed Banks which were under the direct regulation and supervision of the central Banks which were under the direct regulation and supervision of the central Bank of Nigeria, some specialised unit banks (e.g. the over 2,505 community banks and the 30 Peoples Bank of Nigeria) were also established (Oloyede: 1996:286)

2.2 DEFINITION OF COMMERCIAL BANK

Commercial banks are business enterprises set up to so banking business. A commercial bank is a deposit bank and sort of limited liability company. It is organized and established as a business concern to make a profit.

Commercial banks are usually set up as joint-stock banks to under take all forms of banking business. The various services rendered by commercial banks to individuals and business men have made them more useful and popular than the other types of banks. Examples of commercial banks in Nigeria include First bank, Union Bank, Progress bank and Trade Bank

2.3 FUNCTIONS OF COMMERCIAL BANKS

Commercial Banks perform various functions among which are:

1) **Accepting Deposit**: Commercial Banks accept deposits from people. The Banks opens an account in the name of the depositor and any amount deposited to his account. The big traders and individuals who have no place to keep their money are thus given the opportunity of safe keeping. There are two different types of accounts - the current accounts, which are withdrawable on demand and the deposit account repayable on demand or after and agreed notice. By receiving deposits, banks act as `Cloack-room' for the money and valuables of their customers (Lawal; 1982)

ii) **The use of Cheques**: Banks make the use of cheques possible. it eradicates the problem of carrying about large sums of money. Cheques do not face the possible danger of being stolen as money. The inconveniences which the carrying about of money involves is thus removed.

iii) **Banks Act as agents of payments**: For instance, if a man has a bank, he can instruct the Bank to pay his creditors. Thus banks help to settle debts. In this way banks act as agents for their customers. They collect cheques, bills of exchange etc on behalf of their customers. (Lawal V 982 Ibid).

iv) **Lending Agents**: Commercial banks lend money to those who want it. Many traders had to consult Banks to obtain loans in order to organize their business well. Banks therefore act as a middlemen between owners of money who cannot use it themselves and traders who want to

use money for trading purposes, but cannot provide it on their own. In this way banks bring together money from different sources and give it out to those who will make a profitable use of it (Lawal: Ibid).

v) Banks provides management service to investors as they advise entrepreneurs on whether to invest in a project or not. They can help investors in the preparation of feasibility studies. They also provide financial advice to their customers (Lawal: 1982: III)

vi) Discounting bills of Exchange: Commercial banks help customers to discount bills of exchange. This helps traders to have cash before the goods are sold (Lawal, Ibid)

Foreign trade plays a crucial 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.

"Nigeria has derived great benefits from International trade in foreign goods, both capital and 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 In 1980, the share was about 50% but declined persistently thereafter to 29.4% in 1984 before moving up to 32.8% in 1985 (Ogbe: 1988). The foreign exchange position has also improved with a net inflow of N1,946.3m in 1986 compared to N5,391.6million in 1987 (CBN monthly Report, 1987).

The subject-matter of this study the evaluation of the contribution of commercial Banks in financing and facilitating foreign Trade is a very important issue. However, as crucial as it is, there have been relatively few writings on it especially by Nigerians compared with their foreign

counterparts. The few Nigerians based books we have are foreign in nature (i.e) they are patterned after what obtains in U.K. or in U.S.A).

A side from little disparities, most authors have similar approach to the subject of finance of international trade, starting from the concept of international trade through methods of international settlements by banks to the types of finance provided by banks to the exporters and importers.

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 buyers' cheque is not enough in itself and provision of a means of effecting settlements is required of banks as part of the finance of foreign trade."

Equally important, he said, is the provision of credit needed to carry on that trade. A credit - worthy borrower is still "a sine qua non, but now in addition the transaction itself has to be credit - worthy.

He concluded by saying that finance of international trade, both the making of payment and the provision of credit, becomes an exercise in bridge-building in which internally operating banks provide materials and under take the work.

He considered the 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 as an overdraft or a loan and the relative cost between a bill advance and acceptance credit. The terms of settlements, he also said, will be influenced by the level of trust subsisting between the importer and exporter, and the economic and financial stability of the countries.

Lunn (1965) in his own contribution, and concentration on the medium and long-term finance, 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 (1951-5) especially in those countries which were anxious to develop fastest. The 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 a specific transaction."

Long term export credit, according to him means "the provision of finance by a finance by a financial institution in the exporting country direct to an overseas buyer of heavy capital equipment, thus enabling the buyer to pay the supplier on a cash basis. The period of the loan is likely to exceed 10 years. In either case however, he said, it is the exporter who must find the source of funds required to finance the transactions.

Lunn (1965) further identified the problems of the exporters as those of shouldering the responsibility of providing additional finance for the importer and of assuming the risk involved in granting extended periods of credit. To the overseas buyers. These risks which according to him include political upheavals, exchange restrictions import restrictions, governmental interference, and war are those that "go far beyond the buyers credit worthiness and need serious consideration especially where huge sums are involved.

He, however, noted that many exporters are not ready to undertake such risks themselves and he recognized the effort of the British Government at treating export credit guarantee department (ELGD) which provides hedge against these risks. A part from providing cover for exporters. Risks, ECGD, according to Lunn (1965) provides finance and makes facilities

available to the bankers in the form of direct guarantee without which the banks would not have been able to participate to the extent they have in financing capital exports"

In considering the various payment arrangements, whiting (1976) said that the most satisfactory arrangement is to receive payment for the foods 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. He stated "spped, safety and convenience" as the three criteria for determining the suitability of any settlement arrangement.

Considering the various types of banks finance for the exporter, whiting (1976) like many other writers identified Bill finance with recourse, medium and long term finance guaranteed by ECGD, factoring which is advantageous to the exporter especially who is short of working capital; confirming and export houses, and international credit unions (through which it is possible for the exporter to arrange for the importer to receive credit and thus be able to pay cash for goods). Leasing and for faiting were completely left out.

David (Ox (1981) in his own little contribution also identified six sources of finance for export including Advance Against Shipping Document, but like Withings (1976) he gave no consideration to for faiting and leasing.

Ovwielefuoma (1988) also contributed to the subject of finance of foreign trade in his

own contribution, he considered the procedure and documentation requirements for import transaction, export transactions, and Domiciliary Account (where he wrote on export incentives, Nigerian Export Promotion Council, Export procedure and Domiciliary Accounts). In his consideration of various terms of payment, he pointed out that the difference between the Society for World Wide Inter-Bank Financial Telecommunication) SWIFT, and the Telegraphic Transfer is that SWIFT "is computerised", faster and very secured".

In considering the types of finance for export, he included leasing, factoring for faiting, and refinancing and rediscounting facility. He noted that, in the case of factoring, banks we selective in their choice of clients and of debts they would factor and that for faiting is a secured method of payment which is not yet practiced in Nigeria. As regards finance for imports, Ovwielefuoma

(1988) stated that importers could obtain credits from their banks in virtually the same way as the exporters.

Perry (1984) considering the types of financial facilities granted exporter by banks, stated that the problems that normally arise where the exporter by banks, stated that the problems that normally arise where the exporter is unwilling to part with his goods until he has been paid and the importer is willing to part with his goods until he has been paid and the importer is unwilling to make payment until he has had a chance to look at the documents to make sure that the description, cost and quantity of the goods are in compliance with the contract between him and the exporter, are solved by offering documentary credit.

He however, asserted that out of the varieties of documentary credits, "the main one used in international trade is confirmed irrevocable credit". However, most of the types of finance

provided for inputs and exports by banks are with recourse to the importer and exporter respectively. Also, some of these finance types are still new and, in the case of Nigeria, some are even non-existent.

Talking on for faiting as a type of export fiance, Phodri, Herris as quoted by the Banking World (1986) said "the ability to take risks (creit political transfer and foreign exchange risks) and the willingness to provide funds at fixed rates are the two requisite for forfaiting'

Another contributor to the subject of foreign trade financing is Sola Okegbenro (1988) who identified four major waps of setting international payments and suggested that terms of trade may be arranged to ensure that seller is at minimums risk when dealing with trading partners beset with balance of payment problems, especially those with poor records of repayment of international loan agreements. He, like Ovwielefuoma, recognised the presence or risks in international trade, but regretted the absence of an insurance organization in Nigeria which can provide cover for such risks. However export credit guarantee and Insurance Scheme alone, he said, "is a limiting factor in the amount of support banks are willing to extend to exports".

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 customer is acting in good faith and not over estimating his future ability to pay. The fundamental questions regarding credit worthiness, he said 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 5cs of credit (character, capacity, capital, conditions, coverage) as criteria for evaluating credit proposal, and in the alternative, the LAPP system Liquidity, Activity, profitability, potential).

A part from credit decision making. Benz wrote also on the terms of payment settlement and concluded by saying that though open account system is subject to delay by exchange problems, intentional delay by buyers and the absence of evidence of obligation in case of need, it is still "the most widely used tool and doubtless the most practical one provided the buyer merits the seller's confidence"/ He also said that open account system is restricted to:

1 countries that are economically and politically stable

2 Countries without exchange restrictions affecting such sales

3. Inter-company sales.

4. Customers who are well known to the seller as being credit worthy.

The last point agrees with the view of Adekanye (1983) who said that open account transaction or arrangement will only be available to the importer whose credit worthiness must not be doubtful and not to the importer who "is just developing trading relationship with an exporter."

Walton (1967) wrote on the importance of foreign trade which he said, is determined mainly by a country's need for imports which in turn depends on several factors such as

a) its possession or lack of the new raw materials used in manufacture

b) the density of its population and whether its people can be nowished on the produce of its own soil.

c) the extent to which it has become industrialised.

d) the standard of living attained by the people.

They however, stated that a country can exist without imports or exports provided it is self-supporting and contended with its mode of life.

Writing on the methods of payment, Walton (1967) said that open account, the tendency whereby an enormous volume of business is conducted on the simple basis is trust does not seem to be the norm in the modern world where the prevailing tendency seems to be "to take the cash and let the credit go". This view disagrees with that of Benz who as earlier stated, considered open account as" the most widely used tool". Walton also identified Guaranteed Mail Transfer (G.M.T) which according to him, "is a hybrid form of remittance combining some of the attributes of both the Mail and Telegraphic Transfers" as one of the methods by which a seller of goods can obtain payment for them after shipment.

Dyer (1986) in his own contribution stated that the bulk of finance for importing and exporting is by means of bank over drafts he also considered indemnities and guarantees as some of the ways of financing imports and exports.

2.4 FINANCE OF INTERNATIONAL TRADE

According to Aremu (1990) when an exporter sells goods to an overseas buyers and the buyer is allowed a period of credit before having to pay for the goods, the exporter might suffer a 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. **Export Finance.** Export Finance is a term used to

describe the various ways in which an exporter can obtain cash from a finance institution in advance of payment by the importers (Abiodun: 1991).

All major exporting countries have arrangements to protect exporters and the banks who provide them with funding supports, from the risks of exporting. Export finance or credit 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, however, there will be no risk if cash is 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 Credit is therefore, a mixture of insurance and banking mechanisms.

No national export credit systems are identical. Each has evolved in its own patterns, and each operates in its own political and commercial environment. The structure of each economy, the nature of its major countries and of their markets the sophistication of its banking sector and insurance industry, all play a part in determining, the set of facilities available to the exporter of that country and how they work.

The set of problem faced by exporters is, however, similar so it is not surprising that many systems attack each problem in recognisably similar ways and that common concepts apply to different systems. The greatest similarity is perhaps the universal involvement both of government through the export credit agency and of the banking in the working of the system. Common types of insurance policy and banking facility are generally available around the world.

According to Taiwo (1989) the fundamental risk covered is of non-payment. The even causing loss can be of either a commercial or political nature. Commercial loss arises through

the inability of the buyer to meet his obligations vis-a-vis the exporter because of his insolvency or bankruptcy or other severe deterioration in his financial position. Political loss arises through the occurrence of some events in the buyer's country which hinders or prevents him from making his obligations towards the supplier. Political events can cover the whole spectrum from war to an inability to pay caused by the non-availability of foreign exchange. Most credit insurance cover both pre and post-shipment risks.

Guarantees.

The provision by agencies of clean financial guarantees to the banking sector is of particular relevance to us in Nigeria where the system relies on the banking sector to provide funds for export finance facilities. Although most systems require the banks to be satisfied with

the credit risk, some other guarantees to the bank for the full or part of the amount of the exposure.

Finance:

Finance is required to support export credit business (Alagbe 1989). This is actually the second leg or a developed export credit system which is the mechanism under which finance is made available. Finance can be made available as supplier credit or buyer credit or by banks. it can be short-term or medium-term.

2.4.1 How Export Finance Is funded:

Export finance must be funded. According to Kehinde (1995) such funding can be provided by an export bank or by merchant and commercial banks and may come from the

domestic capital market of the buyer's/supplier's country or from international markets. The export credit agency may be structured as an export bank (e.g export-import bank of the United States) which also underwrites insurance risks or fashioned to be an insurer only as in the United Kingdom. some systems use elements of both solutions as in the Export credit Guarantee and Insurance Schemes.

The Role of Government:

Government plays a number of roles in support of export finance and insurance. They can be insurers of export risks, they can provide finance to exporters or to their customers, or they can intervene in the mode of providing finance i.e they can subsidise. In practice, in every country in the world today which has an export credit system, the government plays some part in the makings of that system. (Adekanye : 1989:2).

The Role of Banks:

A banker can have several different interest in an export finance transactions. It can be an adviser to the seller/buyer, the arranger of the credit or a lender or can combine several of these roles. Traditionally, the merchant banks seek advisory and arrangement roles for their fee-earning nature while the commercial banks seek lending roles. However, both banks have in recent times tended to be both enthusiastic lenders and advisers.

Export Credit Guarantee and Insurance Scheme:

The deregulation of produce exports resulting in the abolition of the Marketing Board, has made it possible for private enterprises to venture into this sector which was the exclusive preserve of government agencies. Export activity is expanding to include the export of semi-

manufactured and manufacture goods and a great deal of the exports are supported by Export Credit Guarantee an Insurance Scheme to protect exporters and financiers against the risk of non payment by foreign importers (Adekanye: 1990).

Under the Commodity Marketing Boards, NICON provided 100 percent insurance for the exports of these boards under the Export Credit Coordinated Committee (ECCC) scheme. Overseas sales of the produce was effected by the commodity Board Co-ordinated by the ECCC under the terms of the Cocoa Association of London Sales Contract which is acceptable to buyers Worldwide. However, NICON in order to maintain the type of cover acceptable to various overseas buyers, extensively reinsured its account aborad through Llyods Brokers. In the event of a claim, overseas brokers had the responsibility of arranging for surveys of damages, adjusting claims and setting agreed claims in foreign currencies on behalf of the client, insurers and re-insurers. The ECCS scheme made it possible for successful implementation of contracts on C.F basis.

With the liberalisation of export trade in 1986, the whole arrangement under which the ECCC operated has changed. The change led to the loss of the expertise hitherto offered by the ECCC. Many inexperienced exporters and export operators took over the export trade.

Contacts were signed and unfulfilled, letters of credit were opened for Nigerian suppliers and not honoured, serious quality problems ensued and Nigerians re-entered the world market with a bad reputation. The ease with which it was possible to place contracts on CIF basis had considerably been reduced. The Nigerian exporter become exposed to higher risks - the risk of discount arising from poor quality, late shipment, inadequate documentation,
lack of representation on arbitrations and sometimes outright refusal to pay by the importers.

In addition to these risks that are commercially insurable and covered by marine insurance, there are some political risks that face the exporters. This is usually handled through a government deliberate programme like the Export Credit Guarantee and Insurance Scheme (ECGIS). One can find such government/quasi-government agencies in different countries of the world like Exim Bank/FCIA in the USA, ECGD in Britain etc.

The Federal Government on 22nd April, 1988 promulgated Decree No. 15 establishing the Export Credit Guarantee and Insurance Scheme (ECGIS) as part of its comprehensive export incentives.

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

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

ii) 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.

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

iv) War, civil war or revolution which frustrates the contract.

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

vi) Confiscation of the exporter's assets by foreign government.

The ECGIS will, for a premium payment indemnify an exporter for financial loss occasioned by the failure of the overseas buyer to pay arising from any of the six broad

categories stated. Usually, the exporter has to bear a small proportion of the loss (about 10 per cent to 15 per cent).

In many instances, ECGIS cover may be an essential condition for the provision of export credit by a financial institution. Where the terms of payment require an exporter 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 will issue a variety of policies designed to meet the requirements of a diversity of sales contracts. With the help of a suitable policy (a guarantee that the price of the goods exported will be paid for as agreed in the sales contact), an exporter should be able to obtain the financial assistance he requires (to be paid immediately instead of waiting until the period of credit has run out) through the ordinary commercial banking channels.

Finance for up to say, three years by way of loan or overdraft is treated by banks broadly in the same way as short-term finance, but in view of the added risk involved, the ECGIS cover may be required even where the banks' customers enjoy first-class credit standing. Goods of a capital nature requiring longer credit terms even need more cover.

The Nigeria Export Credit Guarantee and Insurance Corporation (NECGIC) started business with an authorised share capital or N100 million divided into 100,000,000 shares of N1 each to be subscribed equally by the Central Bank of Nigeria and the federal military government. Provision is however, made for admission of other shareholders on the resolution of the Board of the Corporation.

The objectives of the corporation as set up in Decree No. 15 of 1988 are as follows.

a) to establish and carry on the business of export credit guarantee and export credit insurance;

b) to design and implement schemes for export credit guarantee to parties carrying on business in Nigeria in connection with the export, or manufacturer, 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.

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, contacts of insurance against risk of monetary loss or other monetary detriment attributable to circumstances outside the control of the person suffering the loss or 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;

d) to accept reinsurance of all kinds and to enter into reinsurance agreements with parties to guarantee payment in specified circumstances;

e) 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.

f) 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 and other bodies which have dealings with the corporation and to give

guarantee or become surety and give security for any such persons or companies;

g) subject to the provisions of any laws in force, to buy and sell foreign currency and exchange and to accept money for remittance to all countries.

With these broad and comprehensive objectives, it is believed that this scheme will offer the exporters and the banks the much needed support required to boost export trade in Nigeria.

2.4.2 Banks and Export 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 a few companies, notably the multinationals or foreign controlled companies had access to credit. The reason for this state of affairs is not difficult to find. Only such companies were in a position to meet the security and efficiency requirements of the banks. Since the abolition of the commodity Boards, however, many Nigerians who lack the required physical assets but are very versed in produce business have taken up the challenge to export. The problem is how do they gain access to credit for their export activities.

The purpose of this part of the study is to outline the types of export credit available to the nigerian exporter today the mode of dispensation of credit and terms of payment.

2.4.3 Types of Export 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.

Definition of short, medium and long term credits, differs from country to country. In many countries, short term could mean credit up to three years. Medium term credit covers credit due between one and five years. Long term credits are for periods longer than five years, sometimes up to 10 years but occasionally, even up to 15 years. The Nigerian experience in export finance has however, tilted heavily towards short term financing which will be addressed.

Short term Export Credit: Most of non-oil exports 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 note transactions which are for a fixed duration, maturing on a specified date, are self liquidating and easy to monitor and to fund. Promissory note 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 letters of credit, bankers acceptance and revolving credit and overdraft, are used to finance and refinance exports on short term basis.

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

a) **Pre-shipment Finance:**

Essentially this is a pre-procurement financing arrangement whereby banks extend secured advances to exporters to buy produce for exports. Where the exporter lacks necessary collateral, he is still assisted by the financing bank through the use of a domestic letter of credit

or escrow of funds to a bank near that point of procurement. Once the exporter complies with the terms of the credit or escrow he or his suppliers is paid. The advances made under this plan are self-liquidating and generally extinguished on receipt of export proceeds or negotiation of shipping documents.

b) **Point-shipment Finance**

Often referred to as stock - refinancing goods are received in a secured warehouse operated by internationally recognised 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.

Post-Shipment Finance:

This method is basically a bridging finance where advances are made against shipping documents. Usually the exporter uses his own funds to finance the procurement and shipping of goods and resorts to the bank for bridging finance to be liquidated when shipping documents are negotiated and export proceeds are received and sold in foreign exchange market.

Medium and Long Term Export Credit.

This category of credit includes term loans or leases which are extended over a period ranging from 3 to 10 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 packaging lines to increase the volume and quality of their products and make them competitive in the export markets.

The facility could also be used to set up plantations which in the long term will supply raw materials for production of goods for export or it could be used to improve export infrastructures like warehouse, etc. As export activity is presently largely on seasonal agricultural commodities, not much medium and long-term credit is being advanced. These term lending will be expected to

rise as a export trade develops into the export of finished manufactured goods.

2.5 METHOD OF PAYMENT:

An exporter (seller) in signing an agreement with a foreign buyer is primarily interested in two things:-

1) To ensure he/she receives settlement as soon as possible

2) To protect himself/herself against losses. In the light of these two considerations he/she must consider any of the following; Four main methods of settling export transactions:

a) Cash with order

b) Open Account

c) Documentary Bill for Collection

d) Documentary Letters of Credit

Cash with Order:- This is the most secured method of payment for the exporter as he receives payment in advance of shipping goods. It is not attractive to the buyer as he has to pay for the goods before he receives and checks them.

Open Account:- Involves the shipment of goods by the exporter, who then waits for the importer to pay when he receives the goods. Thus methods offers no security to the exporter (seller) as he cannot ensure payments. It requires familiarity and trust between them.

Open Account and Cash with Order are two of the older methods of payments in international trade. These two methods of payments are unsuitable for international trading because of the lack of familiarity, trust and confidence between the trading partners. More effective methods of payments include documentary collection and letter of credit.

Documentary Collection:- Involves the exporter asking his bank to arrange the collection of the payment of handling the shipping documents, bill of exchange and other documents as agreed in the sales contract. 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 exporters requirements.

2.5.1 **Types of Collections:**

There are two types of collection:

a) A clean collection - This is a collection of financial documents. In order words with a clean collection, bank handles a bill of exchange, promissory note for cheque etc for payment but they do not have to handle the invoice bill of lading or way bill etc.

b) A documentary collection - This is a collection involving commercial - documents, i.e either.

i) Financial documents and commercial documents together

ii) Commercial documents only i.e not accompanied by bill of exchange of promissory note.

As two or more banks will be involved in a single collection, the instruction given to a bank might come from:

- The Exporter himself
- Another bank acting on behalf of the exporter.

c) 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 (L/C) can be either a documentary letter or credit or a non-documentary (clean) letter of credit.

Under a documentary letter of credit the condition get by the buyer (Applicant) requires the seller (Beneficiary) to present certain documents to the buyer's bank (the issuing bank) within a stipulated period of time, the importance of attention to the requirement of a letter of credit cannot be over-emphasised.

The bank can refuse payment to the seller if the documents are not presented and in order. If the documents are in order payment will be made by the bank to the seller.

The seller will be paid immediately if it is a sight credit or at a specified future date with an acceptance credit. With a documentary letter of credit the bank deals in documents only and not in goods.

2.5.2 Basic Type Of Letters Of Credit

1) Revocable - A revocable letter of credit can be amended or canceled at any time by the issuing bank without prior notice to the exporter. it serves as a means of agreeing payment rather than guaranteeing payment. It is a little more than an expression of intent. They are not commonly used because they lack security for the exporter. In legal terms credits are always deemed revocable unless the word irrevocable appears clearly on the documents.

KASHIM IBRAHIM LIBRARY

2) Irrevocable - It cannot be amended or canceled without the consent of all the parties especially the exporter. The exporter is therefore assured of payment, provided the prescribed documents are presented and in order. Because amendments must be accepted by the exporter, the majority of changes made to a letter of credit tend to favour the exporter e.g. extension of the shipment date or an increase in the amount due to the exporter. Next to cash with order, irrevocable letters of credit offer the greatest security of payment to the exporter.

3) irrevocable confirm L/C - An irrevocable confirmed letter of credit occurs when a letter of credit issued by one bank is confirmed by another. In this case both banks guarantee payments to the exporter if the conditions stipulated in the letter of credit are fulfilled. In contrast an unconfirmed letter of credit is the obligation of the issuing bank ONLY.

If an exporter can get a letter of credit confirmed by a bank in his own country he is certain of payment once the documents are presented and in order because the confirming bank assumes responsibility for collecting payments for the goods. The exporters is paid by the confirming bank according to the terms of the credit confirming is important if the exporters is concerned with the ability of the foreign bank (that is the buyers bank) to pay. If the exporter is not sure about the financial standing of the foreign bank or if political or economic circumstances in the buyer's country are unstable the exporter could suffer major losses if the letter of credit was unconfirmed. Confirmed letters of credit are often sought by exporter.

Letters of credit can be either sight or acceptance credit.

Sight Credit - These are payable immediately on presentation of the documents

required provided all the terms of the credit are complied with.

4. Acceptance Credit:- These stipulate that payment will be made to the exporter at a later date than the date on which the exporter presents the documents. The payment date is a specific date in future for example 30 to 60 days after receipt of the documents or 30 days after the invoice/shipping date. According to the latest CBN guidelines on 1991 Budget, acceptance should not exceed 90 days. Essentially an acceptance credit offers the importer extended credit.

5. INNOVATIVE TYPES OF LETTERS OF CREDIT

The growth and development on international trade has led to innovative types of letter of credit which protect. The Interest of the four parties involved in letters of credit. Below are few of such innovations.

Transferable Credit:

With a transferable letter of credit, the original exporter/beneficiary can transfer to a second exporter his right to have the credit honoured on presentation. Thus always happened where middlemen are involved. Once the middle man has found a buyer and a seller he requests settlement from the buyer in the form of a transferable letter of credit. He request the bank to transfer the credit to the exporter of the goods usually for a lower amount.

b) **Back to Back Credit:**

A back to back credit involves two separate letters of credit. The first is opened in favour of a beneficiary who does not have access to or is unable to supply the goods. This beneficiary asks the bank to open another credit. It is most difficult and rare.

c) **Counter Credit:**

This is similar to back to back credit except that the bank issuing the second credit does not take the first credit as security for the second one. Instead the bank debits the applicant's (first beneficiary) account with any payment made under the second credit. This first credit is seen as a potential source of funds. That is a credit to the applicant's account.

d) **Revolving Credits:**

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 or irrevocable confirmed or unconfirmed. It may revolve with respect tot he value of the credit or time period involved. A credit that revolves with respect to amount is extremely rare. This is so because it would allow the credit to be reviewed regardless of the number of time or size the withdrawal is made. If the amount of withdrawal is limited to an amount, the credit would no longer be a revolving credit with respect to amount. A credit that revolves with respect to time is much more common. This time revolving credit can be cumulative or non-cumulative.

e) **Red Clause Credit.**

A red clause credit is a credit containing a clause (originally written in red) which authorities the advising/confirming back to make advances to the beneficiary before the presents the required documents. The clause is inserted at the request of the buyer/importer. Red clause credits are in fact a source of pre-shipment finance because the exporter is paid for the goods before they are shipped. This type of credit is used particularly in the trading of commodities, where exporters need the finance to buy the goods for shipment. . In a sense the buyer is prepared to pay for the goods before shipment in order to obtain access to these goods.

It is the decision of the applicant or buyer to decide whether to what extent and under what circumstances to issue Red clause credits. All the credits or just a certain percentage of the total amount may be advanced to the supplier. The red clause will specify how much security the exporter must give the advising or confirming bank.

The required amount will depend on the buyers relationship with the exporter, but it is always understood that the advising/confirming bank will recoup its advances plus interest when the shipping documents are presented. If the documents are not presented and in order the advising/confirming bank has the right to claim reimbursement from the issuing bank. Advance should be made to exporter in local currency of his country.

f) **Stand-by Credit:**

This is a conditional guarantees of payment, made by an issuing to the beneficiary of the credit.

2.5.3 Export Documentation:

The Need: There are many documents which are used for one purpose or another in export 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 aspects of the actual procedures involved in getting goods from factory/farm gate to the consignee. It is therefore important to know the documents needed. For full export documents under five headings:

- Official Documentation
- Transport Documents
- Commercial Documents

- Financial Documents
- Insurance Documents

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 comprehensive as some of these documents might be local or domestic requirements.

a) **Form NCD 3 (A)**

Form NCD 3(A) must be completed by all exporters and be fully registered by an authorized dealer. It is a means by which Central Bank Monitors the Value and Volume of Export and confirms receipt of export proceeds from authorised dealer who registers the form.

The form must be handled together with relative invoices by the slupper (forwarding agent) to the customs at the time the goods are pre-entered to export. In effect, the purpose of this registration is to ensure repatriation.

Distribution:

Approved form NCD (3)A are distributed as follows:

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

On receipt of proceeds, authorised dealer confirms the receipt by completing original copy of form NCD (3A). Where amount received is less than total value expected with more than 5% variance, the exporter should explain the reason for the variance backed up with documentation justifying the variance. Failure to repatriate funds attract sanction from CBN.

b) **Form C.3.2**

Recently the federal Government introduced form C service of which form C.3.2. must be completed along with form NCD 3(A). All Exporters are mandated to complete this form.

Certificate of Origin:

This document might be required by the importing country's authorities as evidence of the country from which the goods originated. This may be necessary for example if an exporter wishes to claim a preferential import duty.

Certificate of Health:

This certificate might also be required by the importing country's authority.

c) **Form EURI**

This form should be completed for export into EEC countries if any exporter wishes to take advantage of duty concessions granted to exporters from countries in Africa, Caribbean and the Pacific areas under the Lome Convention.

d) **GSP Form**

This is similar to EURI meant to be completed for export to EEC countries, USA, Japan, Australia, Canada and other Western Countries if an exporter wishes to take advantage of preferential tariff concessions granted by these developed countries to the developing nations on non-reciprocal basis.

2.5.3.1 **Transport Document**

e) 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 several copies is issued. Let us examine different kinds of transport documents.

f) **Bill of Lading:**

A marine bill of lading is transport document for goods shipped by sea. In spite of the considerable growth of container transport the marine bill of lading is still the most common transport document, particularly when payments by oversees buyer for goods delivered is arranged through the banking system.

A bill of lading has three separate functions thus:-

1) It serves as an evidence of a contract between the shipping company and either the exporter or the foreign buyer to transport the goods by sea. It is a receipt for goods taken on board ship and provides some details about the condition of the goods received.

i) A clean bill of lading is one which does not heave any statement by the shipping company, that there is some defect in the goods or their packaging.

ii) A foul or dirty bill of lading is one which may carry a statement that the gods received or their packaging is damaged.

iii) A receipt for shipment bill of lading merely confirms the shipping company has the goods in its custody for shipment. This type of bill of lading is commonly used for goods packed into containers at the exporters factory or at an inland depot and then driven on board a ship.

g) A marine bill of lading once signed by the exporter is also a document of title, which means that the company named on the bill of lading has the right to possess the goods. Indeed the goods will only be released by the shipping company at the port of destination to someone who presents a signed original of the bill of lading.

The document of title aspect of lading is also very important for the payments i.e the procedures whereby the buyer pays the exporters for the goods. A bill of lading is usually made out in sets of two or three originals, all signed and any one of them giving the holder title to the goods. When a bank handles a bill of lading, it must therefore be sure to check that it has full set of the signed originals, because only a full set ensures complete control over the right to possess the goods.

Title to the goods can be transferred by the sender using a bill of lading in the following ways:

i) Issuing the bill of lading to order and endorsing them in blank. The title to the goods can be obtained by any one presenting a signed original copy of the bill of lading.

ii) Issuing the bill of lading to the order of the named buyer but arranging for the bill of lading to be presented to the buyer through the international banking system.

h) **Airway Bill:**

This is a way bill for goods transported by air. Like a sea way bill it is a contract of carriage and a receipt by the air line for goods received into custody and it is not a document of title. The Airline will hand the goods to the consignee at the airport of destination without the consignee having to present an original copy of the way bill.

Goods can be despatched by air very quickly and this raises a problem for an exporter who wishes to obtain payment before giving control of the goods to the foreign buyer. To get round this problem an exporter (or his bank) might consign the goods to a correspondent bank (or to order of his bank) in the country of destination, subject to that bank's consent. The correspondent bank would then only release the goods or documents as instructed.

Road Consignment Note:

A truck receipt or road consignment note is a receipt issued by a carrier for goods that are to be transported by road. The note also specified the name and address of the sender and the consignee, the place of delivery and the place and a date of taking in charge by the carrier. The note acts as both a receipt and a delivery note.

COMBINED TRANSPORT BILL OF LADING

Increasingly, nowadays with the widespread use of containerized transport, goods are 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 container lorry might take a container of goods by road to a seaport where the unopened 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 unopened to a place of delivery inland. The goods although carriage and a carrier of 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.

CHARTERED PARTY BILL OF LADING

When a company or person charters or hires a vessel from its owner, there may be some spare cargo plane on board. Another exporter might arrange with the hirer, to ship his goods on the chartered vessel using up some of this spare. 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 unacceptable to banks holding documentary credit.

5.3.2 **Commercial Documents**

The following is a summary of the main types of commercial documents.

i) **Proforma Invoice**:- This is usually in form of quotation 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". It may be required to raise a better of credit or a foreign exchange permit where the regulation requires it.

ii) **Commercial Invoice**:- Details, names, and address of buyer and seller, the type and amount of goods, unit and other costs, shipping terms and market and settlement term e.g. 90 days from the date of shipment.

iii) **Certified Invoice**:- This is a signed commercial invoice that will contain a certification from seller to buyer for example, "we hereby certify that goods xy2 are supplied in accordance with the term agreed between ourselves".

iv) **Attested Invoice**:- This is a vital documents for custom clearance and remittance of proceeds of the goods imported, it also describes goods being shipped. It carries no title to the goods and it is not a negotiable documents.

Packaging List:- The form shows detail to goods packed. Where there is specification it also show unit price. This document has become particularly it also show unit price. This document has become particularly appropriate with the growth in containerisation and facilitate passage through custom.

vi) **Consular Invoice**:- It is a commercial invoice which is prepared on a form printed in the exporter'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.

Other commercial documents to take note are:

a) `A weighted Note' - This is a document issued by the exporter or a third party declaring the weight of the goods. In the consignment. This declared weight with tally with the weight declared on the transport document and shown on the invoice.

A supplier's quantity and quality inspection certificate-This is a signed declaration by the exporter that the goods have been inspected before despatch and are of a quality in accordance with the contract sales. There are independent inspectors e.g. SGS who inspects and issues certificate on behalf of the exporter. This can also be in form of an independent party that might be of particular value to the buyer because it provides independent evidence to the buyer that the goods have been shipped by the supplier in good condition and according to specification. The buyer might insist on such a certificate being provided as a pre-condition for payment.

2.5.3.3 **Finance Documents**

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

Bill of Exchange: - A bill of exchange is defined by the bill of exchange Act 1882 as an unconditional order in writing addressed by one person (the drawer) to another (the drawee)

signed by the person giving it (the drawer) requiring the person to whom it is addressed (the drawee) to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer.

Promissory Notes:- A promissory note is a debt instrument in writing by one person (the maker) payable to or to the order of a specified person or to bearer, promissory to pay a sum certain in money it sight or at a fixed or determinable future date.

2.5.3.4 INSURANCE DOCUMENTS

Insurance cover is often requested in international trade to cover all risks of loss or demand to the subject matter insured.

There are three basic types of insurance documents.

1) A letter of insurance or cover note - This is issued by an insurance broker to provide notice that steps are being taken to issue an insurance policy or certificate.

2) A certificate of insurance - This document shows the value and details of the shipment and the risks covered. It is signed by the exporter and the insurance company. Only a certificate of insurance is required when the insurance policy of the exporting company provides "open cover" for the whole of its export trade.

2.6 METHOD OF INTERNATIONAL SETTLEMENT

Both documentary collection and the letter of credit give rise to credits that must eventually be cleared by actual remittance of funds as with payment in advance.

Several types of remittance in use differ mainly in:

i) the speed with which they can be converted into cash by the exporters, and

ii) the risks to which the importer who sends the remittance is exposed.

CHEQUE

This method of settlement is very slow because of the need to send the cheque through the drawee's banker to the drawer's bank for payment. This certainly would take a considerable length of time.

If a Nigerian exporter receives a cheque denominated in a foreign currency he is free to pay such cheque into his foreign currency domiciliary Account with his banker in Nigeria. Alternatively the exporter could sell the foreign currency to his banker and credit his resident account with the proceed.

Advantages for use of cheques.

Since the cost of clearing the cheques and that of waiting while in clearing are borne by the buyer, there are singular advantage of cheque for payment.

Disadvantage:

The cheque could be lost in the post

The cheque may not be paid for lack of fund.

The cheque may contravene exchange control regulations of the exporter/importer's country.

Bankers Draft

A banker draft is a cheque drawn by a bank on one of its own bank accounts, e.g a draft might be issued by commercial bank i.e Trade Bank in Nigeria instructing a U.K. bank to pay out of its account.

Procedure

On the instruction of a customer who wishes to pay out dollars the bank would buy dollar spot in the Foreign Exchange Market and debit the customer's account with cost plus commission.

The draft would then be handed over to the customer for onward transmission to the beneficiary. If the customer has a FOREX domiciliary Account, the account be debited while the draft is issued out in same currency. The draft would be drawn on the correspondent banker of the Nigerian bank. The foreign payee of the draft would present the draft to the correspondent back in his country who would effect payment and debit the Nigeria bank.

A banker's draft is reputed as a guarantee of payment so bankers don't accept a "stop order" or countermand or payment of draft. The bankers draft is as slow as cheque as a settlement method but it is comparable surer and more acceptable.

Mail Transfer (Mail Payment Orders)

a) An M.T. is a payment order in writing

b) Sent by one bank to another bank (overseas)

c) Which can be authenticated as having been authorized by a proper official in the sending bank;

d) and which instructs the other bank to pay a certain sum of money.

e) to a specified beneficiary, on an application by a specified beneficiary.

The payment order is sent from the instructing bank to the overseas bank by airmail.

Like bankers draft the correspondent bank overseas debit the account of the Nigerian banker.

The M.T. instruction would be authenticated by the overseas bank while it checks the availability of fund the Nigerian bank's account with it before making payments. The M.T. instruction may also be lost in transit and even though faster than draft is still slow.

Telegraphic Transfer (T.T) or cable Telex Payment Order.

T.T. are similar to M.T. except that the instructions are sent by cable or telex which makes

this method more costly to the paying customer. it is speedier than M.T. or draft T.T. could not be lost in transit and can also be authenticated by code word not by signature.

SWIFT (society for the Worldwide Inter-bank financial Telecommunication) or IMT (International Money Transfer) is a cooperative society of member banks registered in Brussels with computerised international communication network.

SWIFT is similar to M.T. and urgent SWIFT to T.T. between two member banks it is the fastest mode of money transfer.

International Money Order (I.M.O)

For a small payment where credit to a new buyer would not be justifiable an international money order would be used. I.M.O. is a means of transferring small sum of money from one country to another through the post office.

The West African Clearing House (WACH)

This is the first multilateral clearing arrangement in Africa, established clearing with the secretariat in Sierra Leone. It provides a specified mechanism of settlement for intra-regional transaction through its nine member central banks.

Objectives

i) To promote the use of the currencies of the members for sub-regional trade and other transactions.

ii) To bring about economics in the use of the foreign exchange reserves of the members.

iii) To encourage the members to liberalise trades among themselves.

iv) To promote monetary cooperation and consultation among the members.

PROCEDURE FOR T.T., AND M.T, ETC.

A Nigerian Commercial Bank effecting a customer's payment order in favour of a payee in another country in West African delivers the order to CBN who notifies the clearing House Secretariat and the Central Bank of the beneficiary's country by use of Cable or Telex. The Secretariat Credits the beneficiary central bank and debits the appropriate commercial bank in his country who sub-sequently pays the person named on the transfer order.

Information For A Payment/Transfer Order

i) Name and address of the customer making the order

ii) Amount in Naira, WAUA and or in the National Currency of the country where the beneficiary resides.

iii) Name and address of the beneficiary, his bank and branch at which he is to be paid;

iy) Nature of payment e.g. transfer of goods and services, financial transfer and capital.

The Unit of account is West African Unit of Account (WAUA) and is equal in value to one Special Drawing Right (SDR) of I.M.F. The rate or exchange of currency to WAUA is calculated by the Secretariat twice monthly and is valid for one and a half of month.

PROCEDURE FOR PAYMENT

Letters of Credit:- The beneficiary (exporter) is paid immediately he submits to his bank all the documents required under the letters of credit. The bank then claims reimbursement from CBN who would pay promptly if it is satisfied that the payment is in order. The CBN will then advise the Secretariat and the importer's central bank and demand that balance be credited with the amount involved.

The Exporter's commercial bank sends the relevant shipping documents to the importer's commercial bank.

T.T. and M.T. ETC.

Advantages

Payment through West African Clearing House (WACH) has the following advantages.

i) It has solved the problems of currency convertibility between countries of the sub-region by denominating the national currencies in West African Unit of Account (WAUA) expressed as so much units of a country's currency to one Special Drawing Right (SDR) a reserve asset of the International Monetary Fund (IMF).

ii) By effecting settlement of exchange obligation by means of clearing, the need to use foreign exchange is eliminated and external reserve conserved;

iii) Settlement of exchange obligations between residents of member clearing house not to delay remittances since there credit facilities available to member countries.

Special Drawing Rights (SDR)

The CBN effects foreign payment through SDR. SDR is a device for increasing international liquidity and it is normally issued by the I.M.F. SDR's are not to be regarded as

borrowing from the fund but are intended to supplement good, convertible currencies and 50, form part of each member reserve. SDRs are used in transactions only between central banks and the IMF.

2.7 FINANCE FOR IMPORTS

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

Loan and Overdrafts

Application for loan or overdraft will be considered against the normal condition of lending, just as in the case of domestic trade and may require a standard form of security, for instance, Land and Building. It may even be unsecured.

However, where a bank insists on taking security from its customer (importer) who has no property other than the imports, the bank may grant loan or overdraft facility to the importer to cover a proportion of the cost of the imports. Thus type of advance is called produce loan (or Advance Against Inward Collection).

Under this arrangement, the bank makes the advance (debiting the customer's current account) in order that the customers may settle under an inward collection and retains the negotiable instruments which shall be issued to order and endorsed in blank.

This is to maintain control or 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 an Air Way bill, the goods should be consigned to the bank.

On the arrival of the goods, they are warehoused in the bank's name and the warehouse receipt will be retained by the bank. The goods should be insured at the customer's expense and the policy should be held by the bank. Notice must, however, be given to the insurance company, of the bank's interest.

To enable the customer take possession of the goods for sales purposes, the bank requires that the customer signs a Trust better or Trust Receipt by which he (the customer) undertakes to warehouse the goods in bank's name (if appropriate) and to account to the bank for delivery of warehouse receipts and the proceeds of sale of the goods and to hod 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 off-set the principal advance plus interest. The difference stands to the credit of the customer.

In granting produce advance, the following considerations apply.

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

ii) There must be ready access to reliable and established market. The commodities must be of a suitable nature i.e not speculative or highly perishable.

iii) 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 be obtained on the warehouse - keepers, exporters and any shipping or forwarding agents that may be involved.

iv) The bank, normally, will not lend 100 per cent of the invoice value of the goods.

It will normally lend a proportion of the cost, perhaps up to 80 per cent depending on the credits worthiness of the customer among other factors.

Additional security aside from the goods may be taken.

OPEN ACCOUNT PAYMENT METHOD - FINANCE FACILITY

Under open Account, the documents and good are consigned directly to the importer who arranges to pay for the goods at a time as agreed between him and the exporter. The importer is being financed by the exporter in that the importer has the opportunity of selling the goods before paying for them.

DOCUMENTARY CREDIT AGAINST TERM BILL OF EXCHANGE:

ACCEPTANCE CREDIT.

Where the exporter requires the importer to open a documentary credit in his favour as a condition to grant a period of credit, the importer will do so by requesting his bank, to do so.

Under the credit, the issuing bank under takes to pay the exporter against term bill of exchange and instructs its correspondent bank to accept or confirm such a bill of exchange.

Where the documents presented agree with the terms of the credit, the correspondent bank will give its acceptance. The exporter may be able to discount or negotiate such bill at a fine rate since it carries the acceptance of a bank.

In granting this credit to the customer, the latter's credit worthiness in an essential pre-requisite.

KAFUM IBRAHIM LIBRARY

Even if the documentary credit opened does not provide for banker's acceptance, the importer will accept the Bill and collects the 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 term bill, the exporter is indirectly providing finance for the importer. The importer may be able to find buyers for the goods before the Credit period given by the exporter expires.

DOCUMENTARY CREDIT: SIGHT DRAFT USED FOR GRANTING PRODUCE LOAN.

On exporter's request, the importer will open a documentary credit sight in the favour of the exporter. The importer may however, use this documentary sight credit to obtain Loan. For the customer to enjoy this facility, he much be of sound integrity.

If the bank agrees, the customer can draw a issuance or accommodation bill on the bank. the bank will accept the bill and after acceptance, the bill could be discounted and the proceeds used to meet the sight inward collection.

The period of the accommodation bill must be such that by the time it has to be paid by the bank, importer will have sold his goods and paid in the proceeds of sale.

Pending the sale, the bank may insist on holding the shipping documents sent to them as evidence of insurance cover, the bank also requires a letter of hypothecation or pledge from the importer and other king of security it chooses. A letter of hypothecation gives the bank the right of sale without the need to call up the debt. While a letter of pledge gives the bank the right to hold the goods until the debt is discharged, ownership of the goods remaining with the person signing the pledge form (i.e pledgor). The bank may only sell the goods if repayment has been demanded and refused. If the importer is allowed to take possession of the goods for the purpose

of sale, he will be required to sign a trust receipt thus constituting himself as agent and trustee of the bank in dealing with the goods. In the event of bankruptcy of the importer, the bank must be able to prove that importer was only holding the goods in trust.

REFINANCE CREDITS

These arrangements are similar to that of sight letter 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 customer (importer) makes a formal application to his bank (issuing bank) requesting it to open the credit. As thus time, the importer submits to the bank which advises the credit to the exporter and retains the bills. In safe custody.

The exporter will then tender his documents and when he is paid, the advising bank completes the inchoate bill by inserting the safe and the amount paid.

The advising bank 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 and a time when the advising bank has to meet its a liability on the accommodation bill.

ECGD - Backed Finance for Imports.

This can take any of the following forms

Buyers Credit Guarantee

i) This is a medium or long-term guaranteed loan by a 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.

ii) The Guarantees are limited to financing large contact in million are issued without recourse to buyer. The ECGD guarantees the loan as to 100% of capital and interest. The lending bank charges a 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 the currency finance.

Lines of Credit

This takes the form of loans by banks based overseas to importers in Nigeria to purchase capital goods. It could be project Line of Credit e.g the supply of oil or natural gas equipment for government or Government Agencies, or General Purpose of Line of Credit to Finance a number of different contracts for capital goods 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 will normally be 80-85%.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

Given the objectives of the study this report will basically be narrative. It will lean heavily on sources of data as personal observation.

3.1 DATA COLLECTION PROCEDURE:

This research work employed both the primary and secondary sources for data collection. For the primary source, effort would be made to interact with, observe and interview the employees and officials of some selected commercial banks on how the banks have been able to fiance and facilitate foreign trades.

The secondary source include a wide range of literature on the Bank Publications, Journals, magazines and Newspapers. The researcher approached the management for permission to have access into the records especially on the ones bothering on foreign trade. A Sizeable number of the banks' magazines were made available.

The collection of data was based on two principal variables.

a) The data or information on foreign trade transactions.

b) The way the banks have been helped or useful in facilitating foreign trade transactions.

3.2 RESEARCH INSTRUMENT:

The research instrument employed in this study is interview technique and observation method.

3.3 DATA ANALYSIS AND INTERPRETATION

The Data/information obtained from these banks are used to know the extent of commitment of these banks to foreign trade transactions comparative study is made to know or determine the level of commitment or involvement of each of these banks in financing and facilitation of foreign trade.

CHAPTER FOUR

4.0 ISSUES IN INTERNATIONAL TRADE AND BANKS INVOLVEMENT

4.1 SERVICES FOR INTERNATIONAL TRADERS

Commercial banks, for instance, Trade bank Plc like all other banks after several services to their international traders. Among which are the following:

4.1.1 Providing information and advice on:

* Markets overseas (general economic reports and possibly undertaking or arranging market research).
* Exchange Control (Overseas)
* Tariffs and quotas
* Methods and risks of selling overseas
* Documentation and shipping
* Appointing agents or establishing an overseas subsidiary
* Names of Overseas buyers and agents status report
* Export Credit Guarantee Scheme (ECGS)
* Foreign exchange and interest rate trends
* Health regulations and other information of importance to businessmen travelling or living abroad.
* Local regulations, documentation and procedures, maintenance of export proceed on Domiciliary Accounts.

* Export promotion through domestic branch network.

* Rates of Taxation.

4.1.2 Arranging Settlement: This is done via branch network/correspondence abroad, banks will collect clean/documentary bills; pay, negotiate or accept under documentary credits; give indemnities covering discrepancies; exchange currency for Naira; maintain foreign currency Domiciliary Accounts; and provide international cash management.

4.1.3 Eliminating Exchange Risk: through sport or forward cover or foreign currency loan.

4.1.4 Obtaining marine insurance cover.

4.1.5 Travel facilities and obtaining passports

4.1.6 Introductions to banks abroad, shipping and forwarding agents, other sources of funds in Nigeria e.g NERFUND, factoring and other relevant organisations.

In this report, however, we intend to dwell on the following to assist our assessment of how much Trade Bank for instance fares in its role of financing and facilitating international trade in Nigeria.

- Levels of Banks' i.e (Trade Bank) Involvement in letters of credit.
- Purchase of Foreign Exchange for Customers.
- Sales of Foreign Exchange
- Operations of Foreign Currency Domiciliary Accounts.

4.2 LEVELS OF COMMERCIAL BANKS' (I.E TRADE BANK) INVOLVEMENT IN LETTER OF CREDIT (L/C).

Letters of credit, as exemplified earlier is the most important medium of effecting settlement between operators of international trade in their role as a commercial banks, they are involved in the settlement of commercial indebtedness between international traders.

4.2.1 Issuing Bank

As an issuing bank the commercial bank opens letters of credit for foreign imports into Nigeria. This service is of prime importance and is usually offered to customers of undoubted integrity. The Nigerian importer having struck a bargain with his foreign supplier would usually approach commercial bank like Trade Bank Plc. to open an L/C for the benefit of the importer.

Depending on the value of the deal and the integrity of the nigerian importer. Commercial bank may demand a deposit of the total value of the transaction involved. Invariably the importer is expected to deposit a proportion of this amount. By opening letter of credit the commercial banks i.e Trade bank Plc lend their name to the credit worthiness of the Nigerian importer. The banks is in effect guaranteeing the payment of the foreign exporters bill so long as the exporter satisfies all the conditions stipulated in the contract of sales between the exporter and importer.

Since no statistics of the volume of the transactions is available with particular reference to commercial bank, we estimate that more than half of the operations of the bank's international department is made up of this service.

Because of the volume and frequency of this operation the procedures have been perfected in line with the legal requirements as well as the "Uniform customs and practice for documentary credits"

4.2.2 **Advising Bank**

In its capacity as issuing banks, commercial banks have also the responsibility for notifying the beneficiary of a letter of credit it has issued of the following information.

- Name of the Nigerian Importer
- Amount of the Credit
- Tenor and mode of operation of the credit
- Requirements of certain Documents
- Whether part-shipment is allowed etc.

4.2.3 **Confirming Bank**

This service is rendered to Nigerian exporters at the request of the foreign importers. The importer approaches a commercial bank in his country to open a letter of credit for the benefit of the Nigerian exporter who usually demands a confirmed letter of credit.

The commercial bank would be requested to confirm the letter of credit on behalf of the foreign importer. By this confirmation commercial banks themselves to negotiate drafts issued by the beneficiary Nigerian Exporter without recourse or to pay such drafts.

Our observations on the provision of these services are that banks have often meddled too far into the affairs of the Nigerian exporter who are not their customers. This is because the

banks have failed to realize that its liability in this regards is secondary to that of the issuing bank overseas. It is believed that a request to be a confirming bank in respect of a credit of Nigerian exporter who is not a customer should be seen as an opportunity to market the bank services and win the exporter as a customer to the bank. Although, we are not saying that no enquiry be made of the local beneficiary of credit to be confirmed but it must be realised the foreign importer and the opening banks must have satisfied themselves beyond reasonable doubt before embarking on the project. for example, the Banks before wanting to know the level of financial commitment of the exporter to its existing bank(s) is to say the least superfluous.

4.2.4 **Negotiating Bank**

The beneficiary (Nigerian Exporter) who receives the letter of credit may choose to present his draft and documents to Trade Bank as a Local bank willing to negotiate the draft, i.e willing to buy the draft with or without recourse to the beneficiary when commercial banks buy this type of draft by giving value, it becomes a `negotiating bank'. Commercial banks will then forward the documents and draft to the issuing or paying bank for reimbursement. The issuing bank may refuse payment if the commercial bank as a negotiating bank accepts from exporter and presents documents which do not conform to the terms of the credit.

It is observed that there have been some problems arising from accepting drafts from Nigerian exporters. This is so because of the fraudulent tendencies of Nigerians generally. It is also believed that the risk would be obviated or at least minimised if bank staff who handle the documents usually accompanying these drafts are trained in the rudiments of the underlying commercial transactions. By this we mean that if the exporting is that of local produce, say

cocoa, the bank staff must be trained on the general characteristics of cocoa production and trading.

This is to include transporting, warehousing and dealing in cocoa generally. Although the "uniform customs and practice for documentary credits" regards banks dealing in credits as dealing in documents without necessarily caring about the underlying commercial transaction the same document stated in Article 7 that "Banks must examine all documents with reasonable care to ascertain that they appear on their face to be in accordance with the terms and conditions of the credit."

4.2.5 **Paying Bank**

A letter of credit opened in favour of a nigerian exporter may appoint a particular commercial bank, say, Trade Bank as a paying bank. That is the banks in which the draft is authorised to be drawn. The advising bank may as well be designated as the paying bank, authorised to pay the beneficiary exporter upon presentation of the proper documents. The paying bank can be held liable after paying if payment was made incorrectly according to the terms of the credit. This service is similar to that offered as a negotiating bank and all our comment under negotiating bank apply.

4.2.6 **Reimbursing Bank**

Just as any commercial Bank, say, Trade Bank is sometimes named as a paying bank in a letter of credit it may also be named by the Nigerian exporter as reimbursing bank. By this nomination, Trade Bank, for instance, becomes and 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 credits 1983 Revision

article 21, a paying bank seeking reimbursement from a reimbursing 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 requirements and their compliance from the issuing bank.

Our observation is that commercial bank does everything to protect itself from the risk of reimbursing contrary to the provision of the credit.

4.3 PURCHASE OF FOREIGN EXCHANGE.

Another important role of the Trade bank is the purchase and sale of foreign exchange. Foreign Exchange Purchase may take the form of hard currency purchase or the purchase of a balance of foreign currency outstanding on a seller account in a foreign country. The currencies which can be dealt with in this way include certain restricted currencies which are handled by international foreign exchange markets. These include the American dollar, the British Pound Sterling etc. Besides the foreign exchange provided by the central bank of Nigeria in the Foreign Exchange for the settlement of country's international commercial indebtedness.

Commercial Banks attach a lot of importance to this function for the following reasons'.

- It provides means of settlement of importation by the banks' customers.
- It provides a size-able proportion of the banks' incomes by way of fees, interests, and charges.

This purchase service and the sales service is undertaken by the international Department of the bank which earns some 60 percent of the bank's income while its running costs accounts

for a little over 25 per cent of the bank's total expenditure. Hence the pride of place accorded to the international Department.

Our observations on the operation of this department include the following.

- Because of the high income yielding nature of the foreign operation the control over costs of the department is by the non-standard methods of raising charges on customers, it is difficult for the uninitiated to strictly relate the charges to the approved bankers' Tariff adopted by the bankers committee. This state of affairs, which is same in other banks is unwholesome as it informs some bank's staff attitudes to praying on the banks income.
- With the difficulty of setting checks and balances in the operation of banks' forex, the Central Bank is left with the only alternative of recruiting a large arm (Staff) of on-the-sport checkers called bank supervision and examiners who are only human and cannot be expected to detect all untoward ingenuity.
- Experts believe that we cannot as a country continue to rely so heavily only on government sourced forex to settle our insatiable hunger for foreign goods hence the larger we can expand this "free sources' of currency the better for the county.

It is pertinent to correct the unfortunate misconception even from otherwise highly respected quarters that the foreign exchange market of the exchange value of the Naira.

Foreign Exchange market means a market where buyers and sellers of foreign exchange strike their deals. This does not have to be a designated geographical location particularly in these modern times and with the advent of good communication system which makes the whole world a single market.

4.4 SALES OF FOREIGN EXCHANGE

Like the purchases, sales are effected for both hard currencies or balance of accounts in foreign banks worldwide. Unlike the sales of foreign exchange sourced through the Central Bank, the sales of autonomous sourced forex is less controlled.

Our observation is that this state of affairs encourages the use of foreign exchange in the less priority areas of the national economy e.g. fleeting pleasure seeking trips overseas.

4.5 FOREIGN CURRENCY DOMICILIARY ACCOUNT (FCDA)

The concept of domiciliary accounts was introduced by the promulgation of Decree No. 23 of 1986. A domiciliary account is a foreign currency denominated account opened and maintained with a bank in Nigeria.

The introduction of the domiciliary account scheme formed part of government's efforts to encourage exports in Nigeria and also to monitor the flow of foreign exchange to the country from non-oil transactions. Domiciliary accounts are classified either as export or non-export proceeds.

Incomes from the operation of the foreign currency domiciliary Accounts makes up recognisable chunk of Trade Banks total receipts of the International Department.

The operation of these accounts particularly those relating to export proceeds is being strictly controlled by the central bank which has laid down wide-ranging guidelines in addition to the provision of the enabling decree.

Our observation is that the operations of the foreign currency domiciliary Accounts (FCDA) has more than met the expectation of the Federal government of Nigeria for introducing the scheme.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY:

The theme of this study s the Role of Commercial Banks in Financing and Facilitating foreign Trade

The Study gave a general background to the study where we discussed the concept of foreign trade, meaning of finance, commercial bank definition and its function as well as the definition of finance of foreign Trade.

The study also made a review of scholars/writers' opinions on the subject of foreign trade financing by commercial banks. This was made under the heading, General Review" of literature.

The study also dealt with the various methods of settlements through banks in International trade i.e the terms of payment (Documentary credit, Documentary Bill for collection, Payment in Advance and open Account) and the means of transferring funds, as between the exporter and the importer.

Various ways by which banks grant finance to their exporting customers were dealt with. This basically covers insurance covers and Direct Guarantee, Loans and overdrafts, factoring, leasing forfeiting and Refinancing and Rediscounting Facility. Finance for importers which are similar to those for exporters were also considered. Thus, while an exporter can obtain finance under Documentary credit, ECGIS, Loans, and overdrafts, the importer can also do the same. It is the modes of operations that differ.

5.2 CONCLUSION

Conclusively therefore, Commercial banks can be said to play crucial and vital role in financing foreign trade. Through their lending, banks play an important positive role in the following connections:

1) 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 only at a far higher cost.

2) Through their acceptance of credits and other loans and advances, banks have contributed to the healthy growth in exports, originating from all parts of the globe.

3) Banks have become important channels of credits 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 multinational corporations

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

5) International Financing 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. Other institutions like the World

Bank, Commercial Banks Merchant Bank are supporting Nigeria's effort in reshaping her economy through structural Adjustment programme.

5.3 RECOMMENDATIONS

Though the Government has made some efforts at seeing that the Nigerian foreign trade sane improves, there are still areas for further improvement.

To ensure efficient foreign trade strategy, commercial banks should embark on effective and gradual decentralisation of their credit decision making procedures to the extent that their rural offices can enjoy some degree of lending autonomy. Such a programme must take into consideration the timing of export credit availability as pre-requisite to successful trade operation.

For any impact to be felt in the areas of manufactured exports, commercial banks, other banks as well as financial institutions must finance product development. Apart from generation of employment, value-added advantage will accrue by channelling financial resources into the development of processed exports.

Further, to be effective, export financing must be supported by a wide range of promotional and marketing services initiated by banks. Since Nigerian Commercial banks are not yet sufficiently represented in the international markets and our commercial attaches are not yet fully marketing - oriented, banks must maintain close relationships with international banks as part of their over-all marketing strategy. Through correspondent banks, Nigeria banks especially commercial banks can improve their intermediation roles between Nigerian exporters and their oversees counterparts.

Also, banks must assist in developing export infrastructure and education and in promoting modern trade concepts and marketing strategies. One of the major marketing infrastructures to be promoted by banks and other financial institutions is Nigerian Commodities Exchange Market. A Committee consisting of banks, warehousing agencies, export merchants, farmers association and other trade facilitating agencies have already been set up to examine the possibility of establishing a commodities Exchange Market as a strategy to penetrate the World Market and guaranteeing equitable prices for our produce.

Considering the fact that export financing services can form a major component of Nigeria's sources of foreign exchange, the regulatory authorities have encouraged banks to establish branches, subsidiaries, affiliates and representatives offices within and outside Africa. But the Central Bank has to design implementation programme for the banks and assist them achieve their targets.

By penetrating World Market, banks will be better positioned to generate foreign currency deposit with which they could finance off-shore trade and investment. The key advantage to the economy of Nigerian off-share enterprises on the long-run, according to Udoh (1988) is to promote geographical diversification of Nigerian trading and investment activities, thereby eliminating the risk of putting all the eggs in one basket as it is now the case. It will also give Nigerians some technical and management exposures and, at the same time, create off-share Job opportunities for Nigerians.

Moreover, there is the need for the public institutions assistance in supplementing private export credit. The establishment of Export Credit Insurance and Direct Guarantee Department is a more in the right direction.

Its existence would facilitate the growth of our export trade as Nigerian exporters can effectively compete with exporters from other countries with similar schemes. The risks that importers might default in Payment, that there might be sudden friendly relationship between the exporter's country and importer's country and other political and commercial risks can discourage potential exporter. However, the setting up of ECGIS would activate the financing of international trade transactions and thereby boost export trade.

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, the Government, must set up a committee, Export-incentive monitoring committee, with the sole objective of examining how efficiently and effectively 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. Exporters should have the right to protest to the committee who will critically examine the case, and if found to be authentic, such Government Agency should be called to question and the exporter's application approved.

Presently, there are certain financing facilities which the Nigerian banks are not yet extending to their customers. If need be, specialized banks, such as Export-import credit Bank, as obtained in some advanced countries should be established to undertake them.

If the Export-Import Credit Bank can be set up to support the Export Credit Guarantee and Insurance Scheme with the Nigerian Export Promotion Council researching into new markets for our export products, the Export Monitoring Committee acting as "Watch-dog' to ensure that exporters who comply with the terms and conditions for obtaining any of the

approved export incentives schemes obtain the facilities without delay, export of non-crude oil in Nigeria would receive unprecedented growth and provide more foreign exchange required for the Nigerian Foreign Exchange Market.

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