EXPORT FINANCING BY MERCHANT BANKS IN NIGERIA: A CASE STUDY OF ICON LIMITED MERCHANT BANKERS)

BY

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DECLARATION

This project titled EXPORT FINANCING BY MERCHANT BANKS IN NIGERIA: A CASE STUDY OF ICON LIMITED (MERCHANT BANKERS) is my work through research. To the best of my knowledge it has not been presented before.

MISBAHUDDEEN UMAR YOLA

MR. A. AMEDU
THE SUPERVISOR

CERTIFICATION

This project titled EXPORT FINANCING BY MERCHANT BANKS IN NIGERIA; A CASE STUDY OF ICON LIMITED (MERCHANT BANKERS) by MISBAHUDDEEN UMAR YOLA, 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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DEDICATION

To

My Mother and the memory of my late Father.

ABSTRACT

This project chose to define what export financing is and how it is done. It studied how ICON Limited (Merchant Bankers' carries out export financing activities in Nigeria towards boosting the export drive in the country. The strategies employed by the bank and the problems encounted by the bank were analysed and evaluated.

Ar. attempt was made to define who the exporter is (and what exports are), the types of exporters, the risks of international trade, the types of export financing facilities available to exporters, the methods of trade payments and the role banks play in the field of export financing.

Based on the analysis of data, some conclusions were, drawn and recommendations put forward as to how to make the export financing activities of ICON Limited and indeed other banks in Nigeria more effective.

Scheme of Study:-

The work is divided into four chapters with the first chapter dealing with introduction of the problem, the study itself. its limitations and the research methodology-employed. Chapter two dealt with the literature review. Export financing at ICON Limited was treated in chapter three, while summary, conclusions and recommendations were put in chapter four.

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CHAPTER ONE

I N T R O D U C T I O N

1.1 General Introduction

Before the advent of oil, agriculture used to be the main stay of the Nigerian economy, providing about 80% of the country's export earnings in 1960. Then, the main exports were primary agricultural and other produce. Banks in Nigeria then, were mainly involved in promoting the exports of these goods through identifying and locating markets, financing and shipping.

Following the sharp rise of the price of oil from the early seventies, the ease with which the Petro-dollar flowed into government coffers and the magnitude of the foreign exchange derived from it, oil became the dominant figure in our export trade. Since then agriculture lost its dominance in our export trade. Consequently the export handling activity carried out by banks diminished significantly. Banks instead of being machines through which foreign exchange could be earned, became instruments of spending the petro-dollar. They became solely import financiers, helping Nigerians buy all sorts of foreign goods from heavy machinery and automobiles, to toothpicks and coca-cola!

Suddenly in 1982 the oil bubble burst. The price of oil tumbled from US $40 per barrel in 1980 to as low as US

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$15 per barrel, taking all sectors of the economy by surprise. In the words of Galti Liman (1987)

> It triggered a regime of economic travail throwing the economic off gear. The precariously balanced monoproduct base was rocked and the overall structure came collapsing like a pack of a cards.

Foreign exchange became extremely hard to come by and where available, was hardly enough to pay for spare parts and raw materials for industry. Foreign debts hitherto not an issue reached alarming proportion as Nigeria borrowed increasingly to settle her trade bills! This further aggravated the balance of payments position.

It is against this background that the drive for promoting exports from the non-oil sector began to be renewed and the banks began to take their positions as major financiers in international trade.

1.2 The Problem

An international business transaction may be as simple as the sale of sacks of groundnuts or as complex as the transfer of high technology. But at the heart of every foreign trade operation lies the same central concern: the supply of goods or services in one direction and the flow of money or counter service in the other. When the buyer and the seller are treated some distance apart and when the transaction involves the jurisdiction of different countries, as in exporting, documents representing the

goods, and the mechanism to guarantee and transfer payments play a crucial role in satisfactory completion of the transaction. This is where the financial institutions come into play. Several types of these institutions exist e.g. the export - import banks, the commercial and merchant banks and the Development Finance Corporations. The most important ones particularly in developing countries like Nigeria are the commercial and Merchant Banks.

Inspite of the well intentioned government export policy package of the last few years and the availability of various exportable commodities, the "magic" has failed to happen and bring about into fruition the much heralded boost in export in order to ease our balance of payments problems. Where the tempo has increased, it is in the primary, unprocessed or semi-processed goods. Even this has been possible because the companies are large semi-processing manufacturers and trading houses. They have been able to obtain unsecured financial assistance for their export purposes on the strength of their balance sheets, cash flows, reputation, experience and track of record performance. The result is hardly anything to be pleased with as the finished goods are later imported as exorbitant prices.

The small and medium sized manufactures and traders who should constitute Nigeria's core exporters, have unfortunately limited access to funds. They are expected to

pledge their properties, equipment, inventory etc. to secure financial assistance from banks. They are not able to produce tangible securities. The banks accuse them of not keeping proper books of accounts and of having organisational and management problems. Consequently they are denied assistance on the grounds that their performance is difficult to evaluate.

In the light of these, we have thus not been able to make much of the desired progress in exporting. The bulk of the potential exporters are locked away from financial assistance necessary in boosting the country's export trade.

1.3 The Role of Banks

The importance of banks in export finance stems from the realisation that they belong to those institutions which mobilise the vast financial and human resources required for successful financing and servicing of export business. Given such resources, banks have a dynamic role to play in export promotion in the context of the economic development of Nigeria.

The role of banks in financing exports is that of a committed broker. The banks provide the necessary financial facilities required by the exporter. Their impact tend to be felt more on the long and medium term.

The financing of export transactions require tremendous amount of capital in the form of various types of loans,

advances as well as other financial services like guarantees, bonds and letters of credit. Banks provide credit facilities to exporters for the purpose of carrrying out foreign market survey, purchasing, manufacturing, packaging, warehousing, etc. of goods meant for export.

Banks export finance activities are based principally on government declared export policies obtaining at a particular time. Where government economic policy is aimed at improving balance of payments positions, banks may be forced to relax their lending rules and terms, to accomodate all types of exporters. Often, to achieve national economic objectives, government may set financing guidelines for banks leaving them with little room for initiative policies.

More than any other institution, commercial banks seem to have been in the past, the most experienced in export financing. One major problem facing them however, is that their credit operations is highly concentrated at head office and they have lengthy communication network.

Merchant banks being highly skilled financial institutions are expected to play more innovative roles, particularly when their international contact is taken into consideration. Moreover, they do not have cumbersome branch networks. Being small organisations, merchant banks are easily adaptable to the challenges of financing the export economy.

1.4 ICON Limited (Merchant Bankers)

The bank is a lineal successor of the ersthwhile ICON Securities Limited which was incorporated on 30th June 1962 and wholly owned by the then Investment Company of Nigeria Limited which was later reconstituted as Nigerian Industrial Development Bank Limited ("NIDB").

In 1974, an agreement was reached between NIDB, National Insurance Corporation of Nigeria (NICON), Baring Brothers and Co. Ltd of London (Baring Brotehrs) and J.P. Morgan Overseas Capital Corporation of New York (J.P. Morgan) to reconstitute Icon Securities Limited as a Joint Venture that offer the full range of Merchant Banking services. Subsequently, the bank was incorporated on 14th October, 1974 under its present name and with the following shareholding structures:

	%
Nigerian Industrial Development Bank Limited	45
National Insurance Corporation of Nigeria	15
J.P. Morgan Overseas Capital Corporation	25
Baring Brothers & Co. Ltd.	15
T O T A L =	100

This shareholding structure was unaltered until 1986 when the two foreign shareholders decided to withdraw their equity investment in the Bank as part of the global restructuring of their activities. Subsequent to this

development, 5% of the equity earlier held by the foreign partners in being held jointly by the staff of the bank while the other 35% has been bought up by NIDB and NICON in proportion to their former holdings in the equity of the Bank. Therefore, as at the date of this Placement Memorandum, NIDB holds 71.25% while NICON holds 23.75% of the equity capital of the bank. However, there is an understanding by the Nigerian shareholders that NIDB and NICON will reduce their proportional holdings to the levels before the withdrawal of the former foreign shareholders and sell the difference (which is the proportion relinquished by Baring Brothers and J.P. Morgan less the 5% alrerady sold to the staff) to a new foreign shareholder (when identified) who in their opinion can contribute meaningfully to the future growth and business of the bank.

ICON offers a wide range of specialised services to meet the diverse needs of its numerous clients and is poised to continue the delivery of other innovative packages which are structued to respond to the challenges being posed by the country's developing economy.

Since it entered the merchant banking industry, the Bank has participated actively in providing financial support to all areas of the economy. In addition, it has brought together a very strong management team that has proved invaluable in the effeicient delivery of high quality services to the corporate and individual clients of ICON. In

its continous efforts to pioneer the challenges of merchant banking in Nigeria, the bank now has a new organisational structure which consists of three sectors and one division viz: Corporate Banking, Corporate Finance and Management services Sectors and Corporate Affairs Division.

(i) Corporate Banking Sector

In its lending operations, ICON has built a loan portfolio which includes many of the foremost corporate names in Nigeria and many joint ventures between major international companies and leading Nigerian shareholders. Over the last ten years, ICON has, through loan syndications, mobilised more than a quarter of a billion naira for project finance purposes.

As a leading force in the financing of international trade, the bank has developed a good reputation throughout its extensive worldwide banking connections which includes a network of almost one hundred correspondent banks.

ICON has, in the last four years, been working with the Nigerian Export Promotion Council and other Government Agencies to remove export bottlenecks. The bank also provides inputs to the Authorities in the development of effective export trade policies some of which have been incorporated in the Export Incentives Packages currently in force in the country.

(ii) Corporate Finance Sector

ICON has been playing a leading role in the capital market through the Issuing House activities of this sector. Since its inception, an important aspect of the business of the bank has been the managing and marketing of both public and private equity and debt issues and, through ICON Stockbrokers Limited, introducing companies for listing on the Nigerian Stock Exchange.

Of the seventy-eight conmpanies which complied with the indigenisation requirements through public offerings between April 1977 and December 1979, ICON acted as adviser and manager for twenty-six companies. This represents a third in the number of companies which offered their shares in the market. Also, of the twenty-five issues of long-term debt and fixed divided preference stock listed on the Nigerian Stock Exchange, ICON managed thirteen representing over 50% in value of the Securities.

(iii) Management Service Sector

This sector provides management support services like finance, administration, manpower development, research and electronic data processing. Essentially, the sector facilitates the effective performance of the duties of the two line sectors discussed above.

(iv) Corporate Affairs Division

In line with the provisions of the Banking Act and also the Companies Act, the Division maintains a system of legal and secretariat services which enables companies to achieve full compliance with statutory requirements on securing and documenting all banking transactions under the relevant Banking and Companies Acts. The division also acts as corporate trustee not only for conscrtium lending but also for pension, endowment, unit trust funds and for public and private debenture issues. The Division is also responsible for managing the corporate image of the bank and liaison between its numerous corporate clients all over the country. The division also provides protocol support services for the bank.

1.5 Justification of the Study

Nigeria's current economic travails stems from a wrong choice of economic policies adopted by successive governments over the years. All along our industrialisation policy and strategy was based on inward locking policies aimed at import substutiton which is characterised by over protection of home industry with resultant inefficiencies, misallocation of resources and distortion of price system. The oil boom turned us almost completely into a "consumer nation" and our balance of payments position deteriorated.

The oil bubble burst and the country is now restructuring its economy and revamping the hitherto neglected non-oil export base. There is now a switch in policy in favour of outward looking economy with emphasis on exportation. Being a catalyst to productivity and employment, export trade has in modern time, come to be regarded as a vital fiscal and monetary instrument world wide.

Financing is of vital necessity in exporting. It is the lifeblood of the trade. Without it there would be no international trade as known today. For a country that wants to boost export therefore, provision for financing must be made. Export financing and export financial services are among the key elements in an effective national trade in a developing country like Nigeria. Banks in the country therefore have an important part to play in the national trade expansion programmes.

ICON Limited is one of the oldest merchant banks in Nigeria. With an asset base of over N1.2 Billion in 1986, it is one of the largest. The bank by establishing a commodities desk which has already done business in excess of N35 million took the first step in establishing the Nigeria commodities exchange market. Its profits have risen (after tax) from N6.6m in 1985 to N14.9m in 1986. It is said to be a leader in the export business and diversification of the country's export base.

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1.6 Objective and Scope of the Study

It is to promote awareness, among exporters and potential importers present and prospective workers in banks and business organisations that engage in export activities on the mechanisms of export financing.

Attempt shall be made to:-

(i) Describe clearly what export financing is all abnout, the types and methods of export finance, the types of exporters, the methods of receiving payments, the general risks associated with international trade and the role of banks in export financing.

(ii) Find out the strategies employed by ICON Limited in financing Nigerian exports.

(iii) Identify the problems encountered by the bank in ensuring effective financing of exports.

(iv) Find out the future prospects of export financing in Nigeria.

(v) Make suitable recommendations.

1.7 Research Methodology

The decision to undertake this study is that of interest and curiosity on the field of international trade and the financial mechanism involved. The choice of ICON Limited is because it is considered a leading export financier in the country and my acquaintance with some of the banks lower management. This obviously

eases the problem of data collection.

In this research, both primary and secondary data were made use of:-

Secondary Data

This was obtained from two sources:-

(i) ICON Limited documents: I was opportuned to have a look at several documents, lectures and articles published by the bank and its management on the export drive in Nigeria.

(ii) The Kashim Ibrahim and John F. Kennedy Libraries.

Most of the literature review was obtained from books and journals of these libraries and the scources of such information have been acknowledged.

Primary Data

This was obtained through interviews with some officers of the trade and correspondent Banking division at the bank's headquarters in Lagos and an officer at the bank's area office in Kaduna.

1.8 Limitations of the Study

A research of this nature cannot be without problems and limitations. Infact the research process in itself depends tremendously on the operational environment in which it is carried out. As Osaze, B.E (1982) rightly pointed out

> Very often though, the problem of conducting research assumes more complicated dimensions as one moves from the highly industrial world to the more culture bound developing

economies where various constraints of resources, equipment, computing facilities and absence of co-operant subject matter often frustrates the researcher.

Some of the limitations met include:-

(i) Due to data collection methodology, the accuracy of the final result will depend very much on the validity of the information gathered during the personal interviews and discussions.

(ii) It was difficult getting the view points of some of the exporters themselves.

(iii) Some of the data necessary were considered legal documents, thus prohibiting some information about the exporter to the researcher.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Exports

Exports are goods and services produced in one country and moved to another. The export business can be classified into four categories:

(a) Non-commercial Export

(b) Invisible Export

(c) Bunkering

(d) Commercial Export

Non-commercial export is the term used to describe those export transactions which do not earn any foreign exchange for the country they include the following:

(i) gifts and personal effects

(ii) trade samples and printed business matter

(iii) Machinery and equipment for repairs and return

(iv) Machinery and equipment for replacement

(v) Return of machinery and equipment used for the execution of specific contract.

(vi) Return of unclaimed imported goods.

(vii) Return of empty containers.

Invisible exports are services which generate foreign exchange earnings into the country e.g. shipping, air services, banking and insurance service, foreign investments, royalties by foreigners and tourism.

Bunkering is the exportation of crude oil by licensed exporters. In Nigeria this is strictly controlled by the Federal Government and the proceeds are paid into the Federal Government Reserve Account.

Commercial export represents the sale of products of one country to another. This form of export is the focus of this project. It covers a multitude of products which may range from agriculture to manufacturing.

Basically, two parties are involved in the export business. They are the seller and the buyer. It is they that agree on the sales contract on what (type) to buy, at what price and in what quantity. Goods move from exporter to importer while money moves in the reverse direction. These movements usually involve the participation of intermediaries mainly to facilitate transportation and payments while observing internationally accepted commercial regulations as contained in the International Chamber of Commerce Publication (350) - incoterms and (322) - uniform customs and practice for documentary collection.

2.2 Types of Exporters

The Nigerian Export Promotion Council defines the exporter as "any person or organisation that is engaged in selling goods of Nigerian origin in other countries". This may be regarded as the defination of a Nigerian exporter. In general however, the exporter is one who sells goods and

services outside their country of origin.

The exporter may not necessarily be the producer of the goods being exported. Thus two broad categories of exporter are available; the direct and indirect exporters.

Direct Export

A firm may directly export to foreign markets through its own organisation by establishing an export department within the firm, using its own sales force to sell its products to foreign buyers or distributors.

Indirect Exporter

Under this category, exporters can be classified into four sub-categories namely: domestic agents, foreign agents, domestic merchants and foreign merchants.

(A) Domestic Agents- they arrange for sales of the merchandise in a foreign country and work on a commission basis. They do not take to the goods. The most common types are (i) Export Management Companies (EMC's), (ii) the Broker, (iii) Manufacturer's Export Agents (MEAs), (iv) Buyers and (v) Cooperative groups.

(i) The EMCs - act as the export department of the exporting firm. They operate on a commission basis and can perform most marketing functions such as financing, promotion, credit arrangement and physical distribution. The EMC is a viable channel alternative to a small exporting firm or to other firms who do not wish to take substantial

financial or personal committement to export operation.

(ii) The Broker - is the exporter (who can simultaneously be an importer) whose responsibility is to bring buyers and sellers together. Brokers do not handle the goods physically nor do they work on a continuing basis with their principals. They simply negotiate a sale and leave it up to the seller and buyer to close up the deal. Most brokers operate in bulky goods of commodity lines and usually keep contact with major producers and buyers in several countries. As a result, brokers are often in a position to furnish the exporting firm with information regarding prices, products, trading regulation and general market conditions.

(iii) The MEA - is an agent commissioned by the exporting firm to sell part of all the firm's export goods in a few word markets. The MEA provides similar services to those of the EMC and usually represent several non-competing exporters of several related commodities. He may be most effectively used when the firm wants to sell a product relatively new to the foreign consumers.

(iv) The Buyer or Buying House - usually finds and purchases goods on behalf of the foreign principal. He does not usually become involved in a continuing relationship with the domestic exporting firm.

(v) The Cooperative Groups - consist of various producers or manufacturers attempting to sell their merchandise

abroad jointly. Among the various forms of this group are the Wbb Pomerance Associations (WPAs) and Piggy-back exporting. WPAs are unusual in that they allow otherwise competing firms to collaborate for export marking. The benefits of this are several because export marketing functions can be performed more effectively and at lower costs for each individual firm. This is the strategy used by the Japanese. Piggy back exporting occurs when one manufacturter (the carrier uses its oversea distribution facility to sell the products of another company (the rider), along with its own. Piggbacks operate either on a commission or buy-resell basis, with the latter more common.

(B) Foreign Agents

Similar to the domestic agents, they opererate on a commission basis. They do not take title to the goods. The most common types are brokers, factors, Manufacturer's Representatives (MRS) and Managing Agents (MAs).

(i) The Broker operates mainly in commodities and can provide adequate market coverate at low cost.

(ii) Factors not only perform all usual marking functions but also finance the transactions. They can advance funds to the manufacturer, this relieving the selling company of credit note.

(iii) The MR in a foreign country is similar to the one at home. He usually assumes responsibilities for selling the manufacturers product on a commission basis in restricted market. They however are not likely to take physical possession of the principals products or to the involved in arranging for shipping and handling.

(iv) The MA is a type of broker who contrasts with the principal to manage selling activities in one or more foreign countries. He has a more continuing relationship with the principal.

(C) Domestic Merchants

They take title to the goods and sell them in foreign countries for a profit.

(D) Foreign Merchants

Similar to the domestic merchant, only that they are in foreign countries.

For the purpose of export finance, banks classify exporters into three categories namely: short, medium and long term borrowers. Up to twelve months may be regarded as short, twelve months to three years as medium while over three years is considered as long term.

2.3 Export Financing

Export financing is the promotion of export drive through making financial support to the exporter. The expression "export credit" or "export finance" refers to the wide range of facilities available to an exporter to help him cover the risks of non - payment in his export business and to help him produce the export products. It is essentially an insurance concept. Since however, there will be no risks if cash is received from the buyer with each order, this insurance is required only when differed payment terms as offered to the buyer or when specific financing facilities are made available to him. Export credit is therefore a mixture of insurance and banking mechanism.

No two national credit systems are identical. Each has to evolve its own pattern and operate in its own political and cultural environment. The structure of the economy, nature of its major industries and their markets, sophistication of its banking and insurance industry, all play a part in determing the range of facilities available to the exporter in any country, and on how they work. However, exporters world wide have similar problems associated generally with deffered payments.

2.4 Types of Export Financing

The different types of credit facilities that the various financial institutions provide for the purpose of financing exports may be summarised as below:

(i) Long Term Investment Loans:

These are provided principally through development finance corporations but also increasingly by commercial and merchant banks to finance part (often the foreign exchange portion) of the capital requirements of projects that conform to government policy and priorities, among which export projects usually rank high. This strategy has been used successfully by the Japanese the South Koreans and Indian to boost their export trade.

(ii) Export Production Loans:

These are generally made by banks on a short term basis and in local currency to finance working capital needs of all kinds. They may be used to finance self liquidating transactions, to finance goods in the warehouse awaiting shipment or in transit to destination warehouse until finally sold. In some cases they are used to finance the exporter's raw material imports to fill specific orders.

Medium and long term facilities are usually repayable by instalments. They may be granted to export industrialists to finance importation of plants

and equipment, installation and production for export, expansion of production facilities to improve quality and packaging improvement of export infrastructure like warehoses and and transportation, mineral exploration, and exploitation and processsing to finished goods for export. It could also be used to finance medium and long term inventories and receiveables.

(iii) Export Credits

These are provided by the banking system or specialised export banks to finance goods from the time of sales until payment is received, a period which may range from a matter of days to several years depending on the nature of the goods and the international competitive situation.

(iv) Export Credit Guarantee/Insurance:

These usually do not involve funds in themselves, but rather are an undertaking by an agency (government, private or a combination) to protect not only the exporter but also the financing bank against losses on the transaction. The necessary financial resources are provided at low interest rates to export firms who meet the eligibility criteria. Such credit advantages are among the most powerful aids and incentives to export efforts.

In another perspective export financing is categorised into two types both of which are short term.

(A) Pre-shipment Financing:

This type is actually similar to export production loans. It is required to facilitate the exporter's production, processing or packaging of export goods up to a point at which they are put on board for shipment. This form of financing is of tremendous importance to small scale manufacturers or exporters who should form a core of Nigeria's exporters and who are usually handicapped by lack of sufficient financial resources.

(B) Post-shipment Financing

This is synomymous with the export credit earlier mentioned. It usually bridges the gap between actual shipment of export goods and the payment of proceeds.

2.5 Export Trade Payments

The conflicting problems in trading transaction between a buyer and seller are:

(a) the buyer is anxious to receive in good condition and before a stipulated date, the goods he has ordered and he would prefer not to pay for them until he receives them.

(b) the seller (exporter) wants to ensure the goods he is selling will be paid for and particularly that

he will receive payments before he parts with control of the goods. In certain circumstances he may even want all assurance of payment before he starts producing the goods that the buyer wants.

An intermediary is therefore necessary so that both parties may get what they want or at least to some extent. This is one area in export financing where the banks play an important part. More importantly they ensure that their client (the exporter) gets paid for the goods or services he has delivered. For the exporter, the banking system provides several methods of receiving payments and to the importer, several ways of making payment. Before any goods are shipped, the importer and exporter naturally agree upon the terms of transactions e.g. price, insurance, freight etc. Choice of method of payment lies between the following alternatives:

(1) Cash with order

(2) Open Account

(3) Bills of Exchange

(4) Documentary letters of credit

Cash with Order

There is no doubt that this is the most desirable system from point of view of the exporter. However, in international trade it is the most unusual as some sort of credit to the importer is normally given. If the seller

receives cash with order, this means that he has both the goods and the money.

Cash payment is not attractive to buyers since they bear the burden of financing the shipment. The buyer looses the use of funds for a considerable time before the goods are received, incurring a loss in the use of working capital as well as loss of interest. There may also be resentment of the view that the buyer is unworthy of credit. Furthermore, the buyer is dependent upon the honesty solvency and promptness of the exporter in the business deal. The buyer has to be sure that the seller's country for example, for political reasons, will not prohibit the export of the goods after payment, that the exchange control authorities in the buyer's country permit advance payments to be made, and that the buyer has adequate working capital to finance the transactions. From the buyer's point of view it is risky and only likely to occur if the buyer trusts the seller implicitly and feels that no changes in a country's foreign trade regulation including exchange control, are likely to occur. This is not so in practice.

Cash payments are used when the importer is of doubtful credit standing, when the exporter is financially weak, on orders requiring special construction, or when the exporter is not familar with the competative situation faced by manufacturers in other countries.

Open Account

This is the system whereby the importer and the exporter agree that the debt will be settled at a future pre-determined date. Meanwhile, the goods and shipping documents are sent direct to the buyer so that the buyer receives the goods and can then do what he wants with them. This method is therefore the opposite of cash with order. The open account system has serious risks and is subject to the same provision as cash with order. Since no documentary evidence of ownership or obligation exists the open account represent difficulties because of differences in the laws and customs of countries, which make it difficult to safeguard the interest of the exporter. The exporter looses control of the goods and if payment from the buyer is not coming, there is little the exporter can do about it.

Under open account, the burden of financing rest upon the exporter. Thus, the exporter needs more working capital than under under other systems. Trading under open account usually takes place where is a strong business relationship between the two parties and the exporter is satisfied as to the credit worthiness of the importer.

There are four basic ways of paying on open account.

(i) telegraphic transfer - this is an instruction from the importer's bank to the exporter's bank to transfer some of the balance in its account to the exporter. The importer pays his local bank the local currency

equivalent in order to pay the amount of the invoice. The bank sells him the appropriate amount of foreign currency. The importer's bank will cable the correspondent bank in the exporters country requesting that bank to effect settlement to the exporter. This is the fastest means of payment under the open account.

(ii) Mail transfer - This is the same process as the telegraphic accept that payment is by mail and therefore takes longer.

(iii) Banker's Draft - this is a cheque drawn by one bank on another. In this case, an importer pays by buying a banker's draft from his bank drawn on a correspondent bank in the exporter's currency. The exporter then on receiving this draft from the importer, pays it into his bank for collection.

(iv) Cheques - if exchange controls permit the importer draws a cheque on the exporter in the importer's currency.

Bills of Exchange

The bill of exchange is formally defined in the United Kingdom Bills of Exchange Act (1883) as:

> An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determined future time, a sum in money or to the order of, a specified person or to bearer.

There are certain relevant terminologies in the use of bills of exchange:

Correct terminology	Other terminology
The drawer	Exporter
The remitting bank	Exporter's bank
The collecting bank	Correspondent or agent
The drawee	Importer or buyer

Bills of exchange are drawn by sellers of products, calling upon buyers either to pay or to accept for payment, a designated sum of money at a determinable future time. Acceptance consists of an acknowledgement to this effect written accross the fact of the bill and signed by the drawee, obliging the drawee to provide payment of the amount stated within the period of time designated. When accepted, a draft becomes a trade acceptance. This method of payment provides documentary evidence of obligation. If the acceptor is highly respectable and the counting concerned possesses a bill market, the trade bill will be readily transferable.

In using the bill of exchange, the exporter (the drawer) despatches his goods and then sends the shipping documents to his bank. Exporters who want the proceeds of a sale collected from the overseas buyer will give instructions to their banks to undertake this for them. The exporter draws a bill on the buyer, attaches the bill to the

shipping documents and hands the collection to his banker for collection.

Bills of exchange can be of two main types:

(i) Clean Bills - where the exporter and importer know each other well, the exporter may be willing to send the documents of ownership direct to the importer and then pass a drawn "clean bill" to his bank for collection. Only if the exporter has complete trust on the importer will be use this method.

(ii) Documentary Bills - this is a bill accompanied by documents of ownership. The exporter sends his documents through his bank for delivery to the importer under acceptance of the accompanying bill of exchange or upon payment of the bill. If the bill is a sight or demand bill the documents will only be handed over against payment of the bill. If the bill is a usuance bill (i.e. some credit is given to the importer), the documents are handed over against the drawee's acceptance of the bill.

To illustrate how the bill of exchange operates Kahler and Kramer have given an example of a U.S exporter using a 60-day sight bill as drawn below:

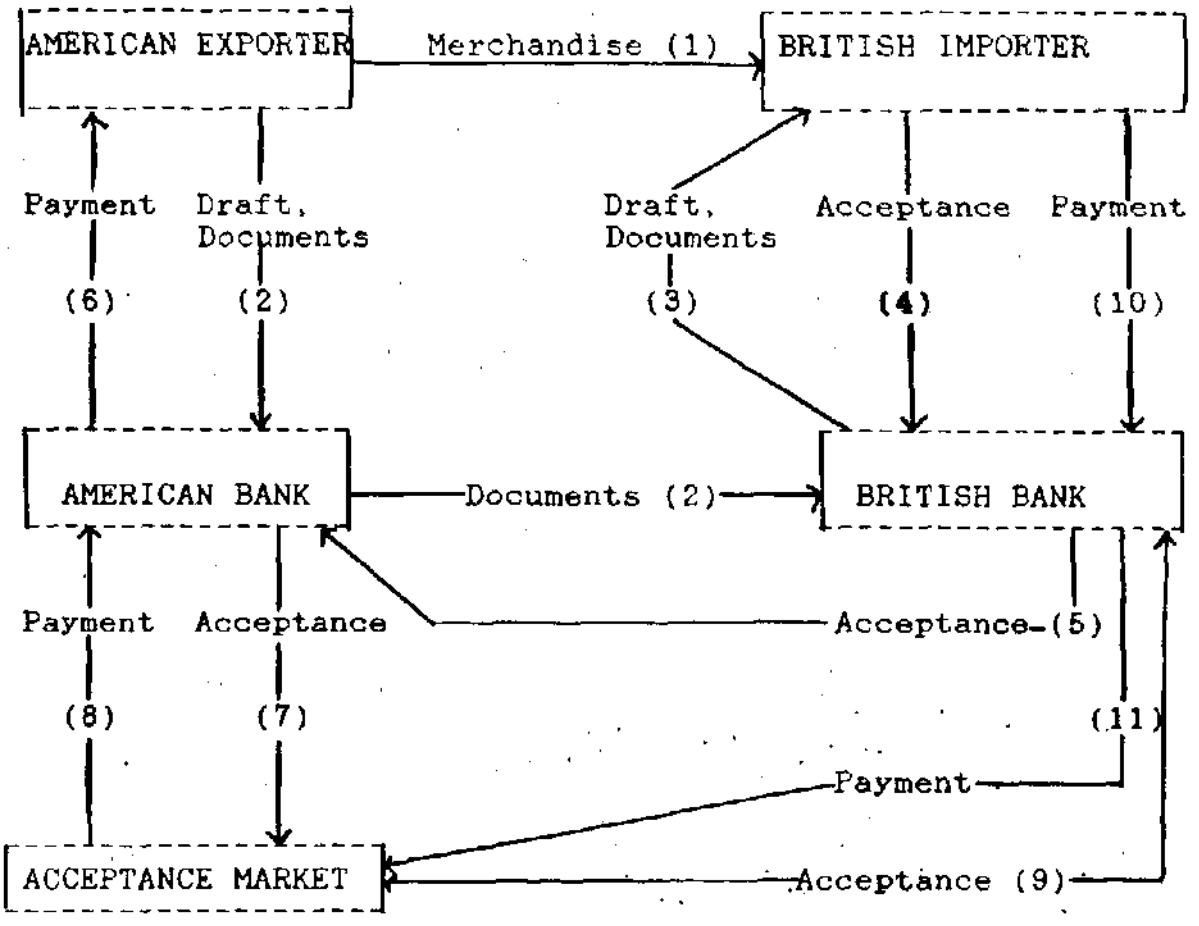


Figure 2.1

Bill of Exchange financing under a sixty-day sight-draft

Source: Kahler and Kramer "International Marketing" - South Western Publishing, 1977. Page 322

Position Event

(1) The American exporter makes shipment to a British importer with the billing made out to the name of the exporter.

(2) The exporter delivers the draft and shipping documents to the American bank which sends the draft and documents to the British bank.

(3) The British bank notifies the importer that the documents have arrived and present the draft to the importer for acceptance, payment in 60 (sixty) days.

(4) Upon accepting the bill of exchange (B of E) the shipping documents are surrendered to the to the importer and the shipment can now be claimed.

(5) The accepted B of E is returned to the American bank by the British bank.

(6) The exporter discounts the draft and gets advanced payment.

(7) The American bank in turn, disposes of the B of E in the acceptance market.

(8) Upon receiving such funds, the American bank is liquid again.

(9) When the 60 (sixty) - day maturity approaches, the B of E is sent to the British bank by whoever has purchased it from the American bank.

(10) The British bank presents the bill to the importer and receives payment in pounds sterling. It then converts this to dollars.

(11) The funds are transmitted to the present holder of the trade acceptance.

Stages 5 to 9 will mainly happen for business names of the highest quality. Mostly the accepted bill would be held by the collecting bank until maturity when it will be presented to the acceptor for payment and in the event of payment, the funds are then remitted back to the U.S.A.

Advantages of Bills of Exchange to the Exporter

(i) They are cheaper than documentary credits since the intermediary banks are taking no risks nor committments they are only offering collection services.

(ii) They open the way to several sources of finance: They are discounted by negotiation i.e. the bank buys its customers outward collection. This provides the exporter with working capital. A further source of finance is that the bank may give an advance against an outward collection.

(iii) Where title documents are to be released only against payment, the exporter's position is more secure than on open account terms.

Disadvantages of Bills of Exchange to the Exporter

(i) the exporter may not be paid until the money is received by his bank and if he cannot easily obtain finance from elsewhere, it may prove expensive.

(ii) Security of payment is not as good as that offered by cash in advance or letter of credit. The importer may refuse to pay for various reason e.g. he may have no money, there may be a sudden imposition of exchange controls or there may be a political uprising preventing payment. All these events prevent the importer making payment and involve the exporter in costs of storage legal fees, and perhaps involving the necessity of finding a new buyer.

Bills of exchange are an attempt to increase the degree of certainty of payment in international trade.

Documentary Letters of Credit

The conflict of interest between the exporter and importer, calls for a compromise in the form of payment against documents representing goods and from the point of view of both parties, the documentary credit is a satisfactory way of achieving this compromise.

The simplest way of describing a documentary credit may be that it is a conditional undertaking given by a bank at the request of a buyer, to effect settlement to a seller against the presentation of documents relating to goods as specified by the buyer. Armed with a documentary letter of credit, an exporter is able to receive payment for the goods in his own country, once shipment has taken place, with the buyer secure in the knowledge that the payment will not have been made unless the terms and conditions of the

credit have been complied with. With the security of the documentary credit, the exporter is able to produce the goods, knowing that he will receive payment promptly and the importer knows that he will receive the goods when they are required. Credits are probably the most widely used form of payment. In general they tend to favour the exporter.

As with bills of exchange, documentary letters of credit have a distructive teminology as below.

Correct terminology	Other terminology
The applicant (or accountee)	Importer
The issuing bank	Importer's bank
The advising bank	Issuing bank correspondent
The beneficiary	The exporter/seller

How the letter of credit works

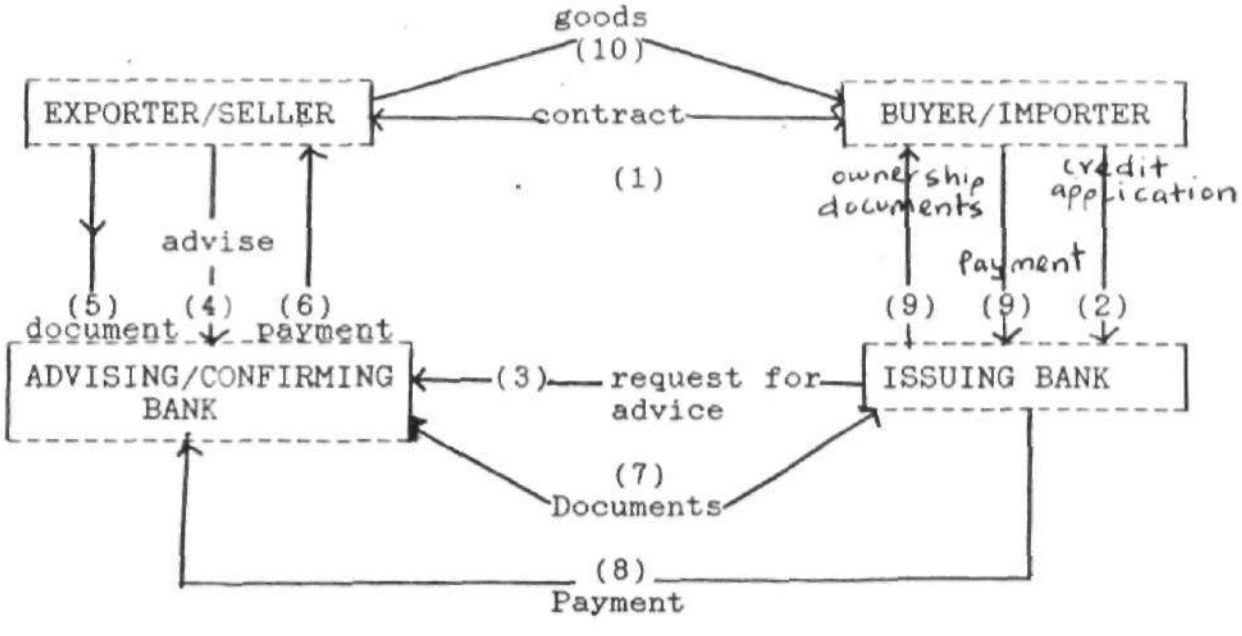


Figure 2.2:

Stage	Event
(1)	The first stage in an export transaction is the sale contract. All terms and conditions of sale are agreed upon by the exporter and the buyer and the contract is sealed.
(2)	The buyer instructs his banks to issue a credit in favour of the seller (the exporter). He will give his bank detailed instruction concerning the description of the goods, their quality, quantity, price, total value of the credit, the documents required, the latest (sometimes earliest) date on which documents may be presented for payment and any special provisions which may have been agreed between buyer and seller. All these term will be contained in the advice of issue sent to the beneficiary (the exporter or seller).
(3)	The issuing bank asks another bank in the exporter's country to confirm or advise the exporter that a credit has been received in his name. The advising bank may be a correspondent or branch of the issuing bank.
(4)	The advising bank advises the beneficiary. As a documentary credit is separate from the sale contract, the beneficiary checks the credit and ensures that the terms do not conflict with

those of the sale contract. If they are okay, stage 5 is assumed. Otherwise the beneficiary requests the buyer to instruct his banker to issue an ammendment to the credit to correct the discrepancies.

(5) Satisfied with the terms of the credit the exporter ships the goods to the importer and simultaneously give the documents of ownership to the advising bank.

(6) The issuing bank buys the exporter's documentary credit and settles him with money.

(7) The advising bank presents the documents of ownership and the documentary credit to the issuing bank for collection.

(8) The issuing bank settles the advising bank.

(9) The issuing bank delivers the ownership documents to the importer and receives reimbursement from him.

(10) The importer collects the goods using the ownership documents.

Letters of credit are of various types. The are however broadly divided into revocable, irrevocable or confirmed irrevocable.

A Revocable Credit - may be ammended or cancelled at any moment without prior notice to the beneficiary. However, the issuing bank is bound to reimburse the advising bank to

which such a credit has been transmitted and made available for payment, for any payments made by such a bank in compliance with the credit, prior to receipt by it of notice of amendments or cancellations.

An Irrevocable Credit - constitutes a definite undertaking of the issuing bank, provided that the terms and conditions of the credit are complied with, to honour the draft of the exporter, any cancellation by the buyer notwithstanding. In this event, the exporter's bank which will act as a correspondent for the importer's bank, merely plays the part of an advising agency. All it issues to the exporter is "advice of credit". The irrevocable letter of credit gives the exporter greater assurance of payment than the revocable but he remains dependent on the undertaking of a foreign bank.

A Confirmed Irrevocable Credit - the beneficiaries of a credit received from another end of the world may never have heard of the name of the issuing bank, let alone be sure of its standing. If the issuing bank becomes bankrupt after the beneficiary's bank has negotiated the credit, but before it has been reimbursed, his bank has recourse to him. As a safeguard, the beneficiary can ask his bank to confirm the credit for a fee. Once confirmed, the confirming bank has no recourse to the beneficiary after negotiation of the credit. This results in what is termed "confirmed

irrevocable credit". This form of credit gives the exporter double assurance of payment.

Special Credits:

(i) Revolving credit - this is where,under the terms and conditions thereof, the amount is renewed or reinstated without specific ammendment to the credit being needed. It can be revocable or irrevocable. It can revolve around time or value.

In case of credit that revolves around time e.g. which is available for up to $15,000 / month, during a fixed period of time e.g. six months, the credit is automatically available for $15,000 every month irrespective of whether any sum has been drawn during the previous month. It may be cumulative, in which case a fresh $15,000 is added to the balance of the previous month remaining or non-cumulative in which case the new fund made available are added up to the balance to make the $15,000.

In case of revolving around value, the amount of credit is reinstated upon utilisation within a given overall period of validity.

A credit for the full value of the goods to be shipped but requiring specific quantities to the shipped periodically and allowing part payments is not a revolving credit but a credit available by instalments.

(ii) Red Clause Credit - this authorises the advising bank to make advances to the beneficiary before presentation of the documents at the specific terms and request of the applicant. This kind of credit where the seller is a middle man and not the actual producer or where the orders are special. Funds are made available to the exporter even before shipment.

(iii) Transferable Credits - this involves the transfer of the credit from the first beneficiary to second beneficiary. This normally happens where the first beneficiary is not a supplier but a middle man who wishes to transfer part of all of his rights to the second beneficiary. Transfer is possible only once and is effected in terms of original credit.

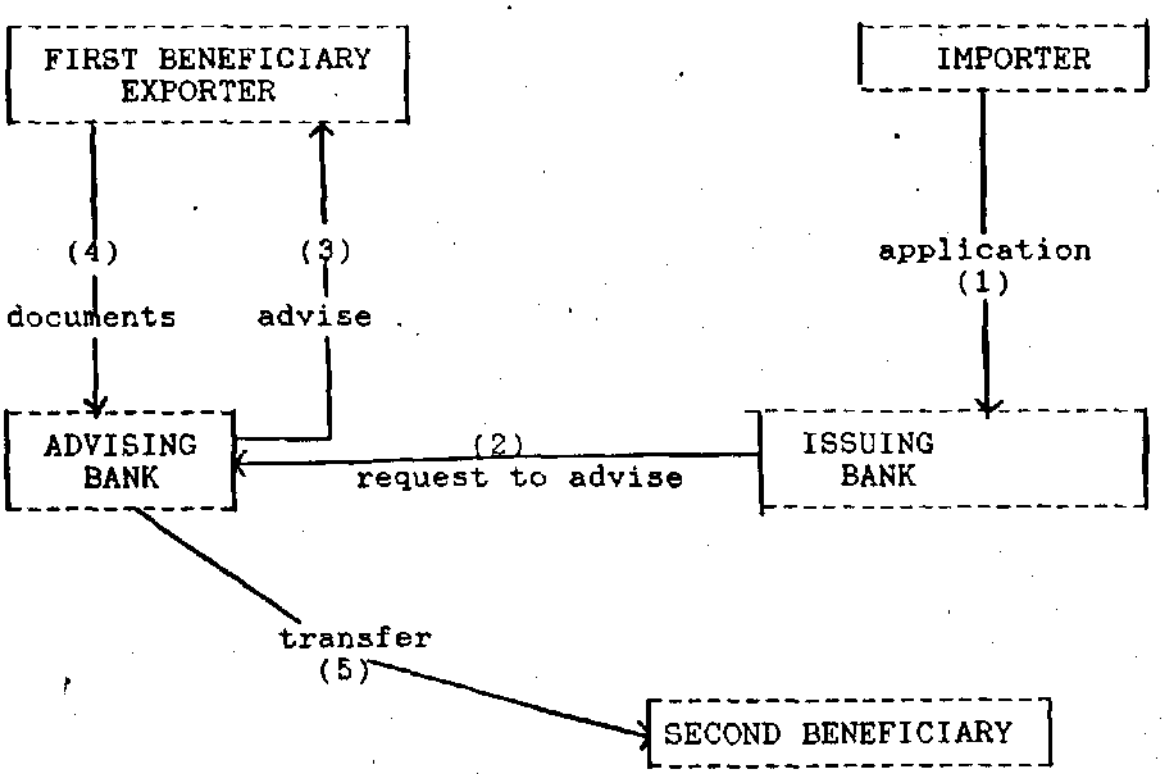


Figure 2.3

(iv) Back to Back Credit - Here also, the exporter is not a supplier but a middle man. He does not however transfer the credit to the supplier. Instead he applies to a second issuing bank for documentary credit to be issued to the supplier through a second advising bank.

(v) Counter Credit - same as back to back credit except that the second issuing bank is the first advising bank i.e. the exporter's advising bank becomes the issuing bank of the second credit.

Back - to - Back Credit

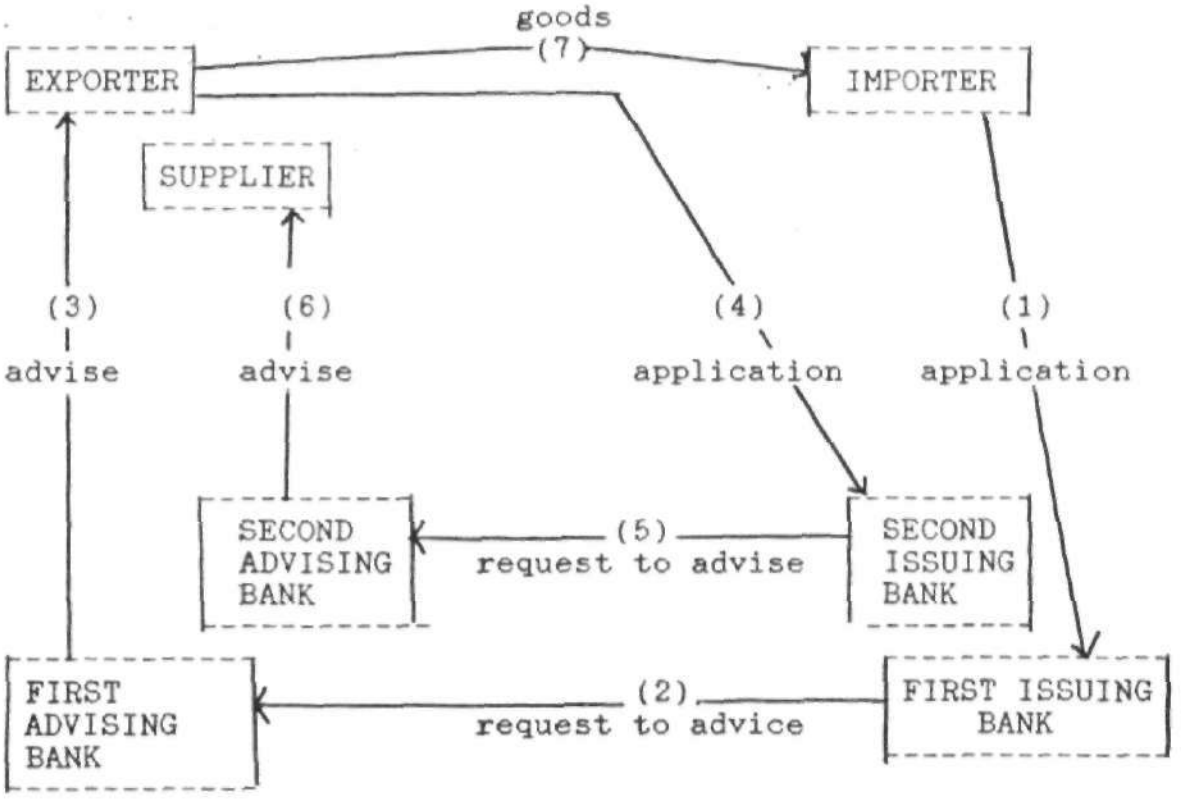


Figure 2.4

Advantages of documentary credits to the exporter

The greatest practical benefit to the exporter is protection against non-payment. Documentary credits are second only to cash with order in certainty of receiving payment particularly when they are confirmed. Letters of credit are most useful when the parties involved are relative strangers or when one of them is in a country where political developments increase the risk of non-payment.

Disadvantages

The use of documentary credits is less popular where the transaction is between multinational companies, subsidiaries and associates of the same company and long - established trading partners. In virtually all these cases risk of non-payment is so greatly reduced that trading an open account is considered quite statisfactory.

2.6 Risks of Export Trade

The risks of foreign operations differ both in degree and kind from the risks of domestic activity. The differential rates of inflation abroad may have severe impact on goods manufactured abroad and sold in a number of other foreign countries. Changes in foreign exchange rates and devaluation may also have an effect. Exchange controls also have their impact. Expropriation risks are also greater than at home.

In international operations firm's may be exposed to three types of risks thus: commercial, political and foreign exchange risks. The table below indicates the judgement of J.F Waston and B.W. Sorge of the relative magnitude of risks in different types of foreign operations:

	Types of Risks		
	Commercial	Political	Exchange
Exporting	10	2	5
Portfolio investment	7	4	10
Direct Investment	2	10	8

Scale: 10 - high, 5 - medium, 1 - low.

Commercial Risks

These risks are encountered when sales are made to foreign buyers on credit basis since it is difficult to repossess goods that are all ready in a foreign country. Losses can occur due to protracted delay in payment on the part of the buyer, the failure of or refusal by the buyer to accept and pay for goods or services when not due to a failure or fault on the part of the seller, and the insolvency of the buyer.

Political Risks

All foreign business action are affected by political risks. Losses from this risk may be due to governmental action which interferes with the completion of contractual obligation between parties of two countries. The enactment of new laws, decrees, order or regulation putting into effect quotas, embargoes or disciminatory increases in tarriffs can also interfere with normal businesses, cancellation of import licenses already issued or only partial renewal of these licenses can cause financial losses. Expropriation, or confiscation of property by foreign government, or the occurrence of war, or hostile warlike action can also cause losses.

Exchange Risks

Whenever there is foreign exchange to be received or paid in the future, because of a trade transaction, there is a risk that the relative value of the currencies will change in the intervening time. Losses consequently occur whenever the value of the national currency of one party, changes unfavourably in relation to the value of the national currency the other party. Exchange risks affect selling transactions where such sales are made in terms of a foreign currency. Until payment is made and converted into the home currency, the seller is never certain of the value of the receipts.

It is evident that the most important risk to the exporter is the commercial or credit risk. This is followed by the risk of foreign exchange loss. The political risk is not very affective on the exporter.

Exporters attempt to minimise this commercial risk by using the banks to receive their payments. Banks in turn need protection for any form of export financing credit or loan they give to the exporter. They need an assurance or guarantee backing up the exporter before they could finance him.

2.7 Export Credit Guarantee/Insurance

In order to sell their products abroad in competitive markets, exporters try to

(a) produce goods of high quality

(b) meet strict delivery dates

(c) quote firm, reasonable and competitive prices.

(d) if requested, provide buyers with time in which to pay i.e. grant them credit.

Competitors will often be able to match (a), (b) and (c) above, and if that happened, the contract would probably go to the supplier who could provide the buyer with the largest deffered payment. Credit thus becomes a powerful tool in obtaining or boosting sales. Granting credit however, is not without problems:

(i) the longer the credit period granted, the greater the

risk of something happening which may result in the seller not being paid because of default by the buyer, and economic or political risks prohibiting the transfer of funds to the exporter.

(ii) the exporter runs the risk of over trading by over extending credit to debtors.

(iii) if the exporter can grant credit and still able to finance himself, he will be under utilising his own resources.

(iv) if the exporter can get finance from elsewhere he may not be able to pass the costs to the buyer and still be competitive.

(v) from the national point of view, the longer the credit period, the longer the exporters country is denied reflection, in its balance of payments, of the results of the export.

(vi) from the banker's point of view it is too risky to offer finance to all exporter who has granted foreign credit, without any form of guarantee of payment to rely upon.

It is in order to eliminate these problems that the concept of export credit insurance and quarantee has come about. Credit insurance has traditionally existed wherever a seller found someone willing to accept the risks for a fee. Its application was largely limited to domestic trade until World War 1 when growing competition for world markets dictated the need for an extension of courage. Facilities

were limited and rates were higher than most sellers were willing to pay. The non - recourse financier remained the chief source of credit protection although he himself could rarely pass on to another, the most unforseable risks (the political). The turning point in the provision for export credit facilities came with increased trade in heavy capital equipment requiring a longer term pay out, but too high a risk for an individual company to bear and too attractive a deal to be passed up.

Export credit insurance facilities are readily available in principal trading nations. While the extent of coverage may differ in each country, all have one purpose in common: to facilitate an expansion of export trade and to make a nation's products more competitive abroad, through stimulation of increase in non-recourse financing by banks and private institutions. Each national export credit insurance system has its own peculiarities. All are however guided by the same principles:

(i) the exporter must participate to some extent in the export credit risk. Otherwise credits may be granted too freely. At least the margin of the non insurable part of the export credit should equal the profit margin.

(ii) the importer ought to be a sufficiently good risk. There must be evidence of his credit worthness.

(iii) Risks are divided into commercial, credit, or financial, and political. Insurance courage may then be for both categories of risks i.e. comprehensive or for only one specific category.

The administration of existing export credit insurance programs takes various forms. For example in Belgium, Japan and United Kingdom, the plans are sponsored and administered solely by the government agencies. In other major exporting nations like France, West Germany and Italy, the programs are operated either with joint public - private participation or by private insurers in cooperation with government departments. In the United States participation is by government and private insurers. Regardless however, of the degree of private participation, it is always a government body that insures all non-commerical (political) risks.

The United States Export Credit Insurance System

Two organisations are available for export credit insurance in the United States. These are, the Export - Import (Exim) Bank and the Foreign Credit Insurance Association (FCIA).

Exim Bank

This has been, for a long time the insurer of non-commercial risks involved in short term transactions of less than one year. The programme was and still is an important tool for exporting to politically risky areas. However,

insistence on an all or nothing approach meant that a firm had to pay the insurance preminium for all its turnover of exports, including those to areas where there was little risk. An American exporter who specialised in sales to Canada for example, with only occasional shipments to politically risky areas, found the Exim bank insurance too expensive to make use of. But when exports to politically risky areas where heavy, the Exim bank programme became particularly appealing. Nevertheless the programme attracted only a small number of policy holders.

FCIA

In order to eliminate the short comings of the Exim bank plan and to broaden it to encompass a full coverage of export risks as feasiable within the bounds of reasonable costs, the FCIA was established in 1962 to protect American exporters against the harzards of commercial credit and political risk. The FCIA is a cooperation between the Exim bank and private insurance companies in America. In addition to the Exim bank's short - term cover, the FCIA offers medium term insurance too.

The FCIA has benefitted the American exporter in two ways:

(a) the exporter is in a better position to extend credit to overseas customers because of his insurance cover.

(b) financing is more readily available to exporters from banks and other financial institutions, when the exporters foreign account receivables are insured.

In addition the banks found the FCIA programme an important stimulant for new business since proceeds of the policies are assignable to them.

Exim bank underwrites 100% of the political risk coverage while the insurance companies assure the entire credit risk with Exim bank providing reinsurance to the syndicate over certain limits of liability.

The short term policy

This is for exporters or manufacturers doing business in the United States. Merchandise must be shipped from the United States to friendly countries and sold for U.S dollars. The policy is designed primarily to protect exporters who ship consumer goods and commodities abroad on terms of up to 180 days or for special circumstances over year. In practice however, almost any product is eligible for insurance. Short term policy is normally on a blanket basis. The rates for the insurance is determined by the credit terms extended and the country which the goods are being shipped. Liberal credit terms and highly unstable countries imply higher rates.

The medium - term policy

Basically, this policy of 181 days to 5 (five) years is the same as the short term in so far as insurance coverage is concerned. However, in addition to the longer period of credit that is insurable under the medium term, there are some essential differences between the two policies. One major dissimilarity is that, unlike the short - term policy, where there is a flat whole - turn over requirement, medium term insurance is available on a case by case basis. This policy is designed to cover capital equipment or other durable goods.

The British Programme:

The British export credit insurance system is perhaps the most extensive of all national trade insurance schemes, apparently because foreign trade is vital to its economic health.

The system is operated through the Export Credit Guarantee Department, a government department under the jursidiction of the President of the Board of Trade. It began operating in 1919. The department issues insurance policies to provide guarantees against the major trading risks, for both capital and consumer goods.

Terms and Coverage

The types of guarantees written by the ECGD fall essentially into four categories.

(i) comprehensive guarantees - issued on a whole turnover basis to cover short-term credits for periods up to five years. Policies may be written for coverage from date of contract or date of shipment, at the option of the insured. For terms of longer periods consideration may be given to cover the entire risk or the first 5 years thereof.

(ii) specific guarantees - to cover capital goods export on terms of up to 5 (five) years.

(iii) guarantees issued directly to banks to support finance of post acceptance credits on capital goods with supplier credit periods of at least 2 (two) years.

(iv) small exporter guarantees - for short term exports on whole turn over basis, valid for 2 (two) years or until the firm's export business renders a value of U.S dollars 50,000 (fifty thousand).

Participants in the risk

The exporter participates in the risk and assumes 5% to 10% of the loss. The department covers up to 90% of a loss due to insolvency of the buyer or his failure to pay within six months and 95% of a loss due to political risk.

Cost

Rates vary according to the market for which the goods are destined, the terms of payment and the trade or class of business concerned. They can be as low as 0.2% for cash on delivery and up to 2% for 180 days. However under the

comprehensive guarranty, the average ratio is 0.3%. Small exporter guarantees are available at a flat global rate of 0.65% while the cost for medium term credits may run from 1.5% to 4.5%.

Basis of cover

Generally, total turnover of an exporter is insured but "selected markets" cover can be arranged to apply only to certain markets provided that a fair spread of potential and bad risks are offered to the insurer. Maximum terms insured are generally up to 5 (five years except in case of aircraft where coverage for a seven - year period may be granted. Occasionally, competitive demands will permit a longer guaranty to be issued.

Other national systems including Nigeria's

The system of export credit insurance in other countries are operated similarly to those described above. Many however have not yet reached as advanced a stage of development. Each country with an export credit insurance system has developed special arrangements by which insured transactions may be financed at low rates by banking institutions. The effectiveness of each arrangement however, varies and is often dependent upon the political and economic needs of the nations concerned.

The Nigerian Export Credit Guarantee Fund was set up in 1983 with an initial capital of N1 million to provide financial guarantees to banks and insurers to exporters to

cover exports from the country. The scheme is intended to cover both commercial and non-commercial risk. The Central Bank is to be in change of the day to day administration of the fund while a Board of Directors will oversea the management of the scheme. The board comprises representatives of:

(i) the Federal Ministry of Finance

(ii) the Federal Ministry of Trade

(iii) the Central Bank of Nigeria

(iv) the Nigerian Export Promotion Council

(v) the National Insurance Corporation of Nigeria and

(vi) the Nigeria Reinsurance Corporation.

Since the set up of the fund, very little effort has been made to get it really working. It is existing pratically only on paper.

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CHAPTER THREE

EXPORT FINANCING AT ICON LTD (MERCHANT BANKERS)

3.1 History and Organisation

At ICON Limited, as in other merchant banks in Nigeria, export - financing is a relatively new phenomenon, being traditionally the domain of commercial banks.

Up till 1982, there was relatively almost no such service at the bank. Rather, there was mostly trade promotion activities other than finance. The aim then was to make potential exporters aware of the existence of the non-oil business. Since with the impending oil glut and shortage of foreign exchange, there was the need to intensify revenue earning activities from the non-oil sector of the economy. Export service offered by the bank then, include:

(i) identification of export products through contacts with local producers and suppliers, finding foreign markets for such products, as well as matching Nigerian exporters with reputable over seas buyers.

(ii) guiding exporters on local and external documentation and regulating requirement and arranging bulk shipping to minimise freight costs.

(iii) providing consultancy services to exporters entering new markets e.g. guiding exporters through design, quality, packaging, promotional and presentation requirements in foreign marekts.

(iv) providing facilities at local and international trade fairs for products and market research by participating in export oriented exhibition during these fairs.

(v) maintaining close contact with over 200 (two hundred) correspondents world wide and international organisations in order to facilitate trade information flow.

(vi) providing brokage or agency services for local commodities traders through the bank's commodities exchange debt. This is a floor where commodities papers e.g. warehouse warrants, bills of lading, certificates of quality and quantity are traded.

By 1982, with the increased awareness of the business, financing per se took off at the bank to:

(i) provide short, medium and long term financing and develop new trade financing and collateral instruments to ease credit flow.

(ii) advised and/or confirm export letters of credit issued by the bank's correspondents, and

(iii) collect export proceeds promptly, manage the exporters' foreign Currency Domiciliary Account for the exporter.

Export - finance is not a unit or subunit on its own at ICON Limited. It is with a group of other trade promotion activities, which make up the trade promotion unit

of the bank, supervised by Assistant or Deputy Managers as the organisation structure shows. This unit, together with the corresponding banking unit make up the Trade and Corresponding Bank Division. The two units work in close assocation with the operations department of the bank, to offer full and complete export financing services. Within the trade promotion unit are offciers, each with his or her clients to service from initiation to end of transaction.

3.2 Product and Clients Types

As in the pre-oil era, exportation of raw agricultural commodities such as cocoa and palm - produce, continue to be dominant among the list of non-oil exports, the unstable domestic and external prices of such raw commodities notwithstanding. This is understandble when viewed from the fact that Nigeria has been a consumer, rather than producer nation. Thus, export of manufactured goods are quite uncompetitive in the international markets considering their quality in particular and their price. Although with the introduction of the Foreign Exchange Market, the products could be price - competitive. Furthermore, the policy at home has been that of import - substitution rather than export promotion. Perhaps the only exportable "manufactured" goods are the local handicarft. The new found strategy now is to improve value added by processing the raw agricultural produce into intermediate products

before exporting them.

Export finance of services is completely absent at ICON largely because of the unorganised and low level of development of the services sector of the economy.

Unlike in the past when the export of agricultural produce was done by big trading companies like SCOA, GB Olivant, John Holt etc., most of the bank's clients are now rural traders and small scale industrialists and merchants without the resources or wherewithal to successfully carry out export transactions. The big houses have gone mostly into manufacturing. Besides, for whatever they want to export and when they want, to they have resources both here in Nigeria and overseas, because of the size of their business and the fact that most of them are subsidiaries of giant international organisations with resources all over the world.

3.3 Preliminary Conditions

Before any form of financing facility is extended to all exporter, he or she must

(i) be registered with the Nigerian Export Promotion Council; requirements for this registration are:

a) the exporter must be a company registered under the Companies Act 1968 i.e. a limited liability Company. Individuals are not deal with.

b) a photocopy of each of the certificate of incoporation, mermorandum and articles of assocation must be provided.

c) the company must either be a manufacturing firm, producer or export merchant etc. He must show evidence of ability to secure regular supply of the product.

d) the company must show evidence of contacts made abroad e.g. inquiries received, reaction to these inquiries etc.

e) if the company is a manufacturing one, the goods so manufactured must have 40% local raw material content or 35% value added.

e) a copy of the company's tax clearance certificate must be provided.

(ii) show evidence that a contract agreement has been signed between him and the potential importer. The bank checks on the guinueness of the contract and credit worthiness of the importer through its correspondent banks abroad. The letter of credit is most preferred here.

(iii) open a foreign currency domicilary account with the bank. The minimum amount is N100.00 (one hundred naira) equivalent of the U.S dollar, British pound, French Francs Denstche marks or Swiss Francs. For trade within West Africa the CFA currency is allowed.

It may however be sold for equivalent of the other mentioned currencies to finance imports from outside West Africa.

All proceeds from exports are credited to this account and could only be used for eligible (export) transactions. The account is designated as "Domiciliary Account - Export proceeds, for the purpose of maintaining its special status and monitoring it. The exporter is allowed reasonable foreign exchange facilities chargeable to the domicilliary account for export promotion activities (like travelling) which shall not exceed ten percent of actual proceeds of export of manufactured goods or 5% of primary or semi - processed products.

The exporter is free to sell part or all of his export proceeds to the holding bank (in this case ICON Limited) or any other authorised dealer at the prevailing Foreign Exchange Market rate.

Once these three conditions are satisfied, the type of finance required by the exporter is then determined based upon the exporters resource strength.

3.4 Credit Facilities Available

ICON Limited offers two major types of credit facilities to exporters.

(i) short term credit

(ii) medium and long term credit.

Short term

This forms the bulk of the bank's export financing. It is further sub-divided into three: pre-shipment (or pre-warehouse), point shipment and past - shipment finance.

Pre - shipment finance is basically pre-procurement financing. The advances made to the exporter at this stage are essentially self-liquidating and generally extinguished on receipt of export proceeds or negotiation of shipping documents.

Point - shippment finance is also referred to as stock re-financing. Goods received in secured warehouses operated by internationally recognised agencies, are weighed and tallied by such agencies who then issue warehouse warrants to the exporter the bank in turn refinances the warrants to enable the exporter draw funds to pay the local supplier.

Post - shipment finance is basically a bridging finance where advances are made post shipping documents. Usually, the exporter uses his own funds to finance procurement and shipping of the goods. The bank provides finance up front (based on shipping documents submitted for negotiation). The aim is to make the exporter liquid pending receipt of export proceeds.

Whatever the type of finance given to the exporter, the Central Bank of Nigeria refinances the bank to the tune of 75% of the credit.

Medium and ~~Short~~ Long Term

At ICON this is not seen as export finance per se but something that requires traditional credit procedure. As such it is not carried out by the Trade and Correspondent bank division, but refered to the credit and marketing division for normal credit appraisal.

3.5 Procedure

Since most of the clients are small merchants and manufacturers with no tangible asset to pledge to support the credit and since their suppliers are often rural dwellers where there is inadequate infrastructure for extending and disbursing credit from the bank, a special system has been introduced by the bank.

In this system, warehouse, quality control insurance and transport companies, as well as commercial banks (with greater spread), constitute the credit control agents that facilitate the innovative documentary trade finance method now employed by the bank. Under this arrangement, the commercial banks constitute the lenders on behalf of ICON Limited, warehouse keepers as collateral custodians, quality control companies as quality surveyors and insurance companies as risk berarers. The system offers the bank an incentive to rely on warrants, quality and weight contracts as primary and secondary financing and collaterial instruments, except in the case of the pre-shipment finance.

To move funds to the beneficiaries in rural areas where the bank has no representation, ICON has introduced an agency agreement with commercial banks in these areas. This relationship has facilitated the use of the domestic letter of credit accompanied by an attached escrow draft in the name of the advising bank for the purpose of creating an escrow account in support of the documentary transaction).

For each type of the short term finances there is a procedure for applying the system mentioned above.

Pre-warehouse finance requring in most cases that the exporter provides tangible assets as collateral. With the collateral in hand, the bank issues credit to the exporter. When the exporter delivers the goods to the warehouse and inssued, the exporter collects the warehouse warrants (which stipulate the article and amount), the insurance certificate and the quality certificates (which confirm the quality of the goods). The documents are submitted to the bank who in confirmation with the exporter, arranges for the necessary export documentation. The goods are then shipped and proceeds are collected by the bank. The proceeds are deposited in the exporters already opened domicilliary account. The account is debited by the amount the bank has advanced to the exporter and by any other costs and charges. The transaction liquidates. The exporter may dispose of the balance in the domicillary account in the laid down way or kept it for future use.

In rare cases where domestic letter of credit is accepted by the supplier, the exporter is relieved of the problem of providing tangible collateral.

At point shipment the exporter already has some goods in the warehouse but needs more funds to acquire more of the goods. In this case the bank disburses funds to the exporter, by way of opening an escrow account in another bank in the supplier's name. The letter stipulates that the funds are not released to the supplier until he surrenders the signed commercial invoice, warehouse warrant and quality certificate to the bank. This ensures that the supplier is not paid until he has actually delivered the goods to the warehouse. The correspondent bank then hands over the documents to ICON Limited as security. The process revolves as long as the orders continue or until the required amount of products for the contract is reached. The documentation shipping and collecting procedure follows as in the pre-shipment finance. Most of the bank's finance is of this nature.

For post-shipment finance, the exporter surrenders the shipping documents to the bank against the required credit until the proceeds are received.

3.6 Documentation and Collection

As a financing bank, ICON Limited is involved in documentation of the export products (in conjuction with the

exporter), before the goods are finally ready for shipment.

The bank is required to help the exporter complete form NCD3(A) for the purpose of satisfying the department of custom and excise that:

(i) payment will be made in the approved manner to the exporter within three months from date of exportation.

(ii) that payment represents a satisfaction return for the goods that are to be exported.

The completed form is then stamped and endorsed by the bank as the negotiator and collector. The bank retains the original and duplicate the triplicate and sextriplicate are sent to the Central Bank of Nigeria, the quadriplicate together with the relevant certified invoices are submitted by the bank to the Customs and Excise department atthe time the goods are entered for export. The exporter retains the fifth copy. Separate firms are used for each item and shipment.

On receipt of the export proceeds (mostly through the letter of credit) the bank certifies and returns the original copy to the Central Bank while retaining the duplicate copy for record purposes where there is a short fall of more than 5% between the declared value of the exports and the value received, an explanation must be furnished to the Central Bank, by the bank with documentary evidence to support the case.

A Nigerian Maritime Authority form is also filled.

3.7 Problems

A lot of problems hamper greater development of the export finance business at ICON Limited. These problems can be categorised into two: those faced by the export - finance industry in general and those faced by merchant banks in particular.

General problems

(i) Even with the existence of the Nigerian export promotion council and dissolution of the commodities board, Nigerian exporters are still grappling with the important issue of how to properly organise themselves in order to properly identify genuine exporters and ensure high quality products and proper conduct in transacting their export business. The result has been embarassment suffered by some commodities especially cocoa in recent times. This has not failed to rub on the financing institutions directly or indirectly.

(ii) Because most of the export products are commodities undue delays and improper storage facilities often result in damages on the produce. The result has been that the credits become difficult to recover. In adequate warehousing facilities are therefore a great problem.

(iii) Nigerian ports and shipping industry operations are characterised by high level pilferage and other

malpractices. As a result, insurance coverage of the export - import trade attracts a relatively disproportionate high charges compared to most other countries. This has increased the cost of financing international trade in the country with a direct consequence upon the costs which exporters must have to pay the bank.

(iv) The absence of a fully operational export credit guarantee and insurance system to protect banks, has greatly hampered their inclination to lend to exporters.

(v) The exporters who should constitute the bank or core of the business are small and medium sized merchants and manufacturers. They are more often than not, not in a position to produce tangiable or valuable securities and worse still they tend to have organisational and management problems. Neither do they keep proper records. Naturally therefore, banks have difficulties evaluating their performance. Although a system of using warehouse documents as collaterals was been introduced, the system has not yet been perfected. It requires to be satisfactorily defined, stream hired and coded by the regulatory authority as an official trade finance system. Moreover, for pre-shipment finance, the problem of finding a means to addressing borrowers without

tangible assets is still to be found.

(vi) The inefficient cheque clearance procedure common to the Nigerian banking system poses a major problem. A situation where cheques take up to three weeks to get cleared, leaves much to be desired. It causes undue delay in disbursing funds to exporters and suppliers. This increases costs and where commodities are concerned, price fluctuations (fall) may cause the exporter a lot of hovoc and consequently his bank is affected.

(vii) More often than not, becuase of inadequate funds in a bank due to high demand, exporters get only a fraction of what they want from a bank. Consequently they try to get credit from as may banks as possible to meet their requirements. The result has been inefficiencies in costs and sometimes bad debts.

Merchant Bank Problems

The fundamental problem here arises from the fact that merchant banks are city banks with few city branches and no rural ones. They are banks with a lot of centrialisation at head office too. On the other hand the exporters most are often either rural or even if urban, not in cities where the banks are. Furthermore, the suppliers are mostly rural farmers in areas where the infrastructure is just not there. This has lead to difficulties in disbursing funds to and supervising the clients. The earlier mentioned cheque clearance problems compounds the problem.

Although the merchant banks have tried to go into some form of agency or correspondent banking relationship with strategically located branches of major commercial banks, the system has not been perfected. Besides the commercial banks do not seem to be highly interested because of the competition syndrome (they might as well take over the clients for themselves).

3.8 Prospects

The prospects for bigger export financing at not only ICON but other banks in the country is tied directly to the prospects for increased export business in the country.

The economy has been brought back to its senses by the oil glut. People are increasingly becoming aware of the non-oil export business as a means of earning good foreign exchange. More and more businesses are expected to join the export trade wagon. This shall also be enhanced by the export incentives approved by the Federal Government, ranging from abolition of commodity boards, abolition of export lisence, abolition of mandatory surrender of all export earnings to the establishment of the export. Grant funds and export subsidies. When fully implemented export business should be a very lucreative thing in the country.

Better quality financing is also not far away. The refinancing and rediscounting facilities introduced by the Central Bank shall in no small way strengthen the banks in providing finance to exporters.

When fully implemented, the Export Credit Insurance and Guarantee system should offer better security to banks in giving credit.

The innovative efforts of banks in developing the use of documentary collaterals and local correspondent banking is just the beginning. There is room for more innovations.

The gradual deregulation and structural adjustment of the economy shall in the long run usher in a new, entirely structurally and functionally removed financial system on which banks and borrowers could build mutual confidence.

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CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 Summary

It is not difficult to see how Nigeria's current economic travails came about. With the oil boom of the 1970's, all other sectors of the export economy were abandoned. An almost complete dependence on oil exports as the major source of foreign exchange set in. However, this was short lived. The crash of the oil market in the early 1980s, set the economy in disarray. A severe shortage of foreign exchange needed to feed the import economy set in. It is against this background that a renewed effort to revive the non-oil export sector has begun and banks naturally, have taken the positions as financiers of the new move.

Banks have an important role to play in the export finance business, from the realisation that they belong to those institutions which mobilise the vast financial and human resources necessary for servicing exports. Their role is that of a committed broker. In the past, commercial banks have been the most experienced in financing export. Merchant banks are expected to play more innovative roles in this business, being highly skilled financial institutions. They have operating advantages over commercial bank because they are smaller, more easily manageable and not saddled with the administrative problems of commercial banks.

Icon limited (Merchant Bankers) is one of the oldest merchant banks in the country. It is a lineal successor to the erstwhile ICON Securities. Set up in 1974 in an agreement between Nigerian Industrial Development Bank, National Insurance Corporation of Nigeria, the Baring Brothers of London and J.P. Morgan of New York, it became fully indigenous in 1986 with the two Nigerian partners as the major shareholders. Total Assets in 1987 stood at over N1.7 billion.

Four types of exports are available. These include commercial, invisible, bunkering and non-commercial. Commercial exports is the sale of goods from one country to another. Invisible exports are services which generate foreign exchange e.g. shipping, banking etc. Bunkering is the sale of petroleum, while non commercial exports are things like gifts and personal effects which do not earn any foreign exchange for the country. Exporters may not necessarily be producers. They may be agents of merchants.

Exporters require financing to carry out export orders. This financing is essentially a banking and insurance mechanism. It is available in four categories: long term investments (to finance capital requirements), export production loans (to provide working capital), export credit (to provide procurement and bridging finance) and export credit guarantee and insurance.

The banking system provides several methods for the exporter to receive payment and for the importer to make payments. These include cash with order, open account, bills of exchange and documentary letters of credit. Cash with order is very rare, either the seller does not trust the buyer one bit, or the buyer trusts the seller so much. Open accounts provide for payment to be made later, either by telegraphic or mail transfer, or by checks or bank drafts. The open account is a sign of the trust the seller has on the buyer. Bills of exchange may be clean if the exporter trusts the buyer, or documentary, if otherwise. Bills are cheap, discountable and more secure for the exporter than open account. Documentary letters of credit are perhaps the best compromise between the buyer and seller, second only to cash with order. Various types of this letter are available. They include revocable, irrevocable, confirmed irrevocable and special (revolving, red clause, transferable, back to back or counter) credits.

The export rade is full of risks quite different from those of domestic trade. Risks include commercial, political and exchange. Commercial risk is the risk that losses may occur due to protracted delay in receiving payment, or failure or refusal of the buyer to pay. Political risk is the risk that losses might occur due to foreign governments action that prevents the buyer from fullfilling his contractual obligation. Exchange risk is

the risk of loss due to unfavourable change of value of one currency in relation to another. Of all these risks the most important to the exporter is the commercial risk.

Commercial risks occur naturally when sale is on credit terms in order to meet comptition and boost sales. To reduce this risk or eliminate it, the export credit guarantee and insurance system was developed. This system gives protection to both the seller and to his financier, the bank. In its absence, from the banker's point of view it would be too risky to offer finance to an exporter who grants foreign credit. Perhaps the most developed export insurance systems are the American and the British. The American system is operated by the Exim bank (government owned) and the Foreign Credit Insurance Association (owned by Exim bank and private insurers). The British system operates through the government's Export Credit Guarantee Department. Other national systems operate similar to these two but have not reached the same advanced stage of development. The Nigerian system is yet to take off.

At ICON Limited, export financing is a relatively new business. Their clients are small merchants and traders exporting mainly agricultural produce. Certain conditions must be met by an exporter before he or she is eligible for financing these conditions are: the exporter must be registered with the Nigerian Export Promotion Council; he/she must show evidence of contract agreement with a

buyer; he/she must open a Foreign Currency Domiciliary Account with the bank. Only short term facilities are offered by the bank in the form of pre-shipment, point-shipment or post-shipment finance. A system of using warehouse warrants, quality control and insurance certificates as collateral, is employed by the bank to grant credit to those who have no tangible assets to put up. Escrow accounts and domestic letters of credit are also used, in conjunction with commercial banks with good branch networks, to reach these clients.

A lot of problems hamper the development of export financing, at ICON limited. These problems are of two types: those faced by the industry in general and those faced by merchant banks in particular. General problems include lack of proper organisation and conduct of the exporters, high cost of insurance perishable value of the export products, undeveloped export credit insurance and general inefficiency in the cheque clearance procedure of the Nigerian banking system. The merchant banking problem is by nature, their small and highly urbanised spread.

However, with all the inherent problems, the export finance business at Icon Limited has a good future to look forward to. More and more individuals and organisations are likely to join the export trade in order to earn foreign exchange. The government is also providing more and more incentives to make the business more profitable. The

gradual deregulation and restructuring of the economy shall ensure in the not too distant future, a better system on which banks and borrowers could build mutual confidence.

4.2 Conclusion

Financing in an important tool in boosting the export business in Nigeria. Without it, no nation can hope to be viable export economy.

Although Icon Limited is a relatively new comer to the export business when compared with commercial banks, nevertheless, it has been quite innovative and is doing well in the area. Perhaps it would have been able to do much more if not for its peculiar nature as a city bank with a small network.

A lot of work needs to be done to improve the situation.

4.3 Recommendations

To improve the situation, ICON Limited must

(i) improve its culture and concept by more decentralisation of its operations and decision - making process. This could be done by upgrading the level of management at the branch or area offices rather than concentrating them at head office. Required here is a systematic and well thought out training programme that will create the managerial and technical skills needed to manage an autonomous system with more functional results.

(ii) make commercial banks more willing to compliment its services in conduiting finance to the rural clients. It can ensure this by giving the commercial banks a better deal. For example by going into full scale paternerships.

(iii) maintain data bank and computerised information system, in order to adequately and speedily provide the necessary information on business and financial conditions as well as government laws and regulations of both Nigerian and the foreign markets.

(iv) be more involved in the warehousing system and strive to make them more efficient.

(v) in conjunction with the appropriate authorities, define, codify and legalise the use of such new finance instruments as the domestic letter of credit, escrow accounts letters, warehouse warrants etc. and any ones that may be developed in future.

On its own part, government as the prime mover of the economy and the force behind the banking system must,

(i) derregulate the entire system, review it constantly and make changes where and when necessary, promptly. It must also remove any bottlenecks to implementing the changes.

(ii) harmonise the operations of banks in general, to avoid waste and duplication of efforts.

(iii) though its banker the Central Bank, ensure that monetary policy provides for adequate allocation of funds to the non-oil sector.

(iv) treat the development of the Export Credit Guarantee Fund, with top priority.

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Appendix A

CENTRAL BANK OF NIGERIA

EXCHANGE CONTROL ACT 1962 *Original*

AS AMENDED BY THE SFEM DECREE 1986

FORM N. C. D. 3(A) TE/A № 031147

COMMERCIAL EXPORTS

1.	Exporter's Name and Address	NEPC Rg. No.	
		Date of Shipment	
		FOB Price Per Unit	
2.	Consignee's Name and Address	Collecting Negotiating **Bank** in Nigeria	
3.	Description of Goods	Marks & Numbers	
		Quantity	
		Grade	
		Total Value in F. Currency	
4.	Method of Payment (To be declared by exporter) Payment of the amount mentioned as per contract has been will be made by means of (a) ☐ Letter of Credit..... (b) ☐ Bill for Collection..... (c) ☐ Any other mode of payment (To be specified). ..... I We certify that the foreign currency received will be deposited in my our Export Proceeds Domiciliary account in Nigeria within (3) months after shipment and that the proceeds will be applied in keeping with the approved guidelines.	Due date of Payment	
		Exporter's Official Stamp Signature and Date	
5.	Department of Customs & Excise Certification is required in respect of all particulars stated above. The certifying officer must ensure that all portions of this form are completed by the exporter Bill of Lading No. and Date..... Quantity Shipped..... ..... *Signature & Name of Certifying Officer* ..... *Customs Endorsement Stamp and Date*		
6.	**CERTIFICATION BY AUTHORISED DEALER IN NIGERIA IN RESPECT OF THE PROCEEDS OF THE SHIPMENT**		
	Amount and Designation of Foreign Currency	Amount credited to Domiciliary Account of Exporter	
	We confirm that the amount of Foreign Currency specified above was received by us on.....19.....and credited as stated ..... *Authorised Dealer's Stamp* ..... *Signature of Authorised Official*		

NOTES

EXPORTERS ARE ADVISED TO READ THE GUIDELINES FOR COMMERCIAL EXPORTS FROM NIGERIA OBTAINABLE FROM ANY BANK OR DEPARTMENT OF CUSTOMS AND EXCISE OR THE NIGERIAN EXPORT PROMOTION COUNCIL, AS WELL AS THE FOLLOWING NOTES BEFORE FILLING THE FORM NCD(A)E—

1. **Mandatory Repatriation of Export Proceeds**

The attention of all exporters is drawn to the Exchange Control Act 1962 as modified by the NEM Decree of 1988 Sections 20 and 21 which, inter alia provides that proceeds of exports from Nigeria shall be repatriated within 3 months from the date of export and credited to exporters Foreign Currency Domiciliary Accounts in Nigeria. It is an offence to fail to repatriate export proceeds within the stipulated period or to utilise the proceeds in a manner other than that prescribed in the NEM Decree and the Guidelines for Commercial Exports.

2. **Distribution of Completed Form NCD(A)E**

When the form, after completion, will be disposed of as follows:

The exporter or his agent should first take the set of completed form NCD(A)E to the collecting/negotiating bank for their stamping and endorsement. The bank will retain the original and duplicate copies and despatch the triplicate copy to the Central Bank of Nigeria while returning the quadruplicate and quintuplicate copies to the exporter. The exporter will take the quadruplicate copy along with relevant certified invoices to the Department of Customs & Excise at the time the goods are cleared for export while retaining the quintuplicate or fifth copy. On the receipt of the export proceeds, the collecting/negotiating bank will promptly certify and return the original form NCD(A)E to the Central Bank.

3. **Extended Payment Period:**

For outstanding shipments for which payment cannot be made within 90 days, the form must be forwarded to the Central Bank of Nigeria before lodgement with Department of Customs & Excise. Such forms must be supported with a letter of explanation stating the period of extension required and the reasons for such extension. Any extension authorised will be endorsed by the Central Bank of Nigeria on the reverse of the NCD(A)E Form.

4. **Actions by Collecting/Negotiating Bank and Department of Customs & Excise**

A complete set of the form will be forwarded along with the invoices and other documents by the exporter to the collecting/negotiating bank for stamping and endorsement before the form is handed to the Customs & Excise for processing of goods for export. The Department of Customs & Excise shall certify the particulars stated in Sections I — 4 of the NCD(A)E Form and return the quadruplicate copy to the Central Bank of Nigeria within 3 days after exportation.

5. **Invoices and Statements**

In respect of the NCD(A)E forms which are lodged with the Bank for collection, the original Customs invoices attached to the export documents and statements showing how the amount declared in Section 4 of the form was arrived at.

The invoices and statements must be endorsed with the following particulars and must clearly show that they were issued in connection with the certified NCD(A)E Form of the Central Bank:

(a) The serial number of Form NCD(A)E

(b) The quantities and description of exports.

In circumstances where there is a shortfall of more than 5% between the invoiced value and the actual proceeds received, sufficient reconciliation statement, supported by appropriate documentary evidence explaining the shortfall, must be furnished with the relevant form NCD(A)E.

It should be noted that these invoices and statements are not returnable.

6. **Identification of Payments:**

The exporter is responsible for advising his bank of the number of form NCD(A)E against which each payment received is to be marked off.

7. **Change of Facts As Declared:**

Any change in the circumstances affecting the facts declared in the form NCD(A)E that have been lodged with the Department of Customs & Excise should be notified by the exporter to the Export Office, Exchange Control Department, Central Bank of Nigeria, Lagos indicating the serial number of the relevant form NCD(A)E.

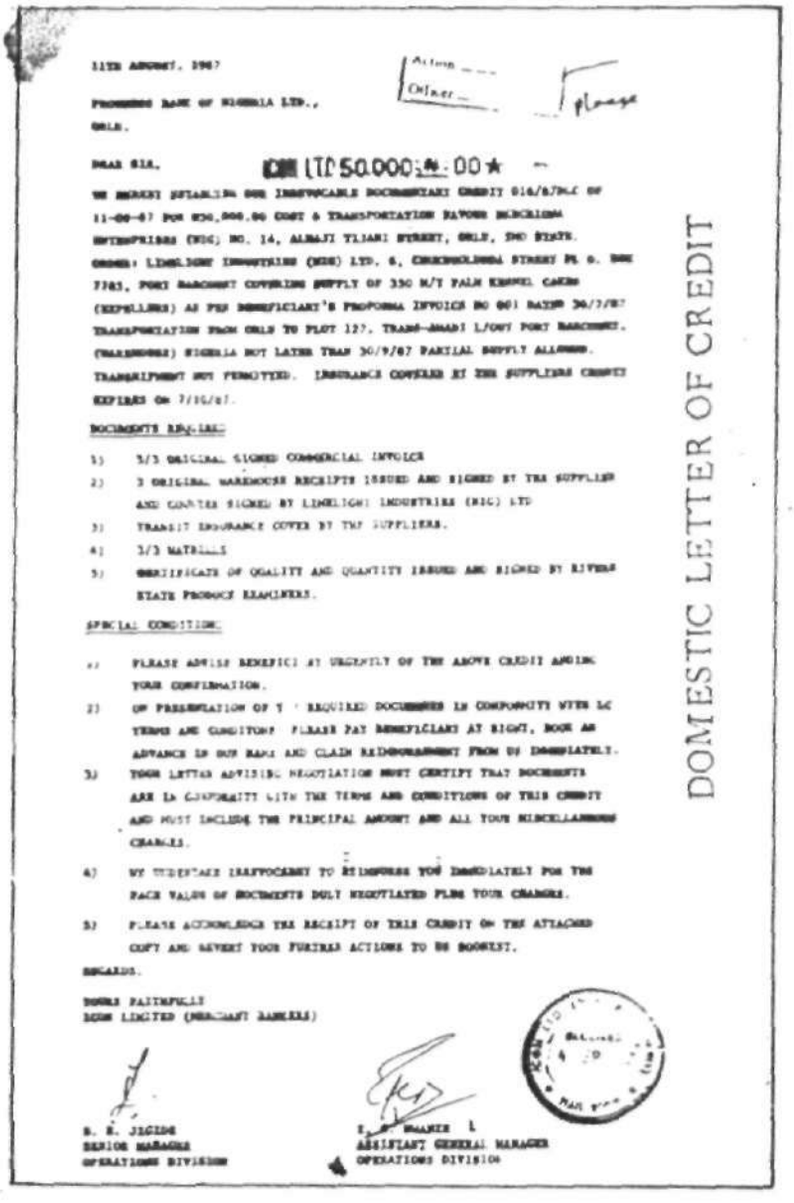
8. **Caution on False Statements**

All persons are warned that tampering with any part of this form after signature or making false statements will attract appropriate penalties.

CENTRAL BANK OF NIGERIA,
TINUBU SQUARE,
LAGOS.

JULY, 1987

Appendix B



11TH AUGUST, 1987

Action ___
Other ___
Please

PROMISED BANK OF NIGERIA LTD.,
ORLU.

DEAR SIR,

IRREVOCABLE DOCUMENTARY CREDIT N16/8/DLC LTD 50,000.00 ★

WE HEREBY ESTABLISH OUR IRREVOCABLE DOCUMENTARY CREDIT N16/8/DLC OF 11-08-87 FOR N50,000.00 COST & TRANSPORTATION FAVOUR MERCHISM ENTERPRISES (NIG) NO. 14, ALHAJI TIJANI STREET, ORLU, IMO STATE.

ORDER: LINKLIGHT INDUSTRIES (NIG) LTD. 6, CHUKWUKUMMA STREET PH 6. BOX 7765, PORT HARCOURT COVERING SUPPLY OF 350 M/T PALM KERNEL CAKES (EXPELLERS) AS PER BENEFICIARY'S PROFORMA INVOICE NO 001 DATED 30/7/87 TRANSPORTATION FROM ORLU TO PLOT 127, TRANS-AMADI L/OUT PORT HARCOURT. (TRANSHORE) NIGERIA NOT LATER THAN 30/9/87 PARTIAL SUPPLY ALLOWED. TRANSHIPMENT NOT PERMITTED. INSURANCE COVERED BY THE SUPPLIERS CREDIT EXPIRES ON 7/10/87.

DOCUMENTS REQUIRED:

1) 5/5 ORIGINAL SIGNED COMMERCIAL INVOICE
2) 3 ORIGINAL WAREHOUSE RECEIPTS ISSUED AND SIGNED BY THE SUPPLIER AND COUNTER SIGNED BY LINKLIGHT INDUSTRIES (NIG) LTD
3) TRANSIT INSURANCE COVER BY THE SUPPLIERS.
4) 3/3 MATERIALS
5) CERTIFICATE OF QUALITY AND QUANTITY ISSUED AND SIGNED BY RIVERS STATE PRODUCE EXAMINERS.

SPECIAL CONDITION:

1) PLEASE ADVISE BENEFICIARY URGENTLY OF THE ABOVE CREDIT AND/OR YOUR CONFIRMATION.
2) ON PRESENTATION OF THE REQUIRED DOCUMENTS IN CONFORMITY WITH LC TERMS AND CONDITIONS PLEASE PAY BENEFICIARY AT SIGHT, BOOK AN ADVANCE IN OUR BANK AND CLAIM REIMBURSEMENT FROM US IMMEDIATELY.
3) YOUR LETTER ADVISING NEGOTIATION MUST CERTIFY THAT DOCUMENTS ARE IN CONFORMITY WITH THE TERMS AND CONDITIONS OF THIS CREDIT AND MUST INCLUDE THE PRINCIPAL AMOUNT AND ALL YOUR MISCELLANEOUS CHARGES.
4) WE UNDERTAKE (EXPLICITLY) TO REIMBURSE YOU IMMEDIATELY FOR THE FACE VALUE OF DOCUMENTS DULY NEGOTIATED PLUS YOUR CHARGES.
5) PLEASE ACKNOWLEDGE THE RECEIPT OF THIS CREDIT ON THE ATTACHED COPY AND ADVISE YOUR FURTHER ACTIONS TO BE BOOKED.

REGARDS.

YOURS FAITHFULLY
DOMESTIC LETTER OF CREDIT

B. E. JIGIDE
SENIOR MANAGER
OPERATIONS DIVISION

ASSISTANT GENERAL MANAGER
OPERATIONS DIVISION

Appendix C

ESCROW LETTER

Dear Sir,

PAYMENT FOR ..... METRIC TONS OF GOOD FERMENTED MAIN CROP GRADE I NIGERIAN COCOA BEANS.

We understand that your customer, Messrs..... ..... has agreed to sell ..... metric tons of good fermented Main Crop Grade I Nigerian Cocoa Beans to our client,..... at ..... per metric ton x.w.... .....

The condition of sale is that an Escrow Account domiciled at your branch must be established as guarantee of payment to the sellers - .....

Attached,..... cheque No..... dated ..... for ..... made payable to ..... to be credited to the Escrow Account which expires.....

You are hereby authorised to pay the sum of N..... to ..... on presentation of the following documents:

1) 3/3 signed Commercial Invoice

2) 3/3 Warehouse Warrant issued and signed by Elder Dempster warehouse, Apapa and countersinged by.....Ltd.

3) Certificate of Quality Analysis issued by.....

Please acknowledge receipt of this letter on the attached copy and revert your further actions to us soonest.

Yours faithfully,
Icon Limited (Merchant Bankers)

Authorised Signatory

Authorised Signatory

Appendix D

WAREHOUSE WARRANT

Nigerian General Superintendence Co. Ltd.

HEAD OFFICE
6, Creek Rd.
(8th Floor)
Apapa, Nigeria
P.O. Box 315
Tel. 875558, 875639
Telex 22332

WAREHOUSE-WARRANT
No 000057

Our Ref ASRIDIV-APAPA   Date JANUARY 16, 1988

This is to certify that we, the undersigned

NIGERIAN GENERAL SUPERINTENDENCE CO. LTD.

are holding at the disposal of ICON LIMITED

for account of

BAGS = 25,003 KOS GROSS 25,000 KOS NET

IN WORDS: TWENTY FIVE THOUSAND KILOS NET

ARTICLE: NIGERIAN COCOA BEANS

MARKS: IISA

INSURANCE: COVERED BY IISA

WAREHOUSE: HATCRI, LAGOS

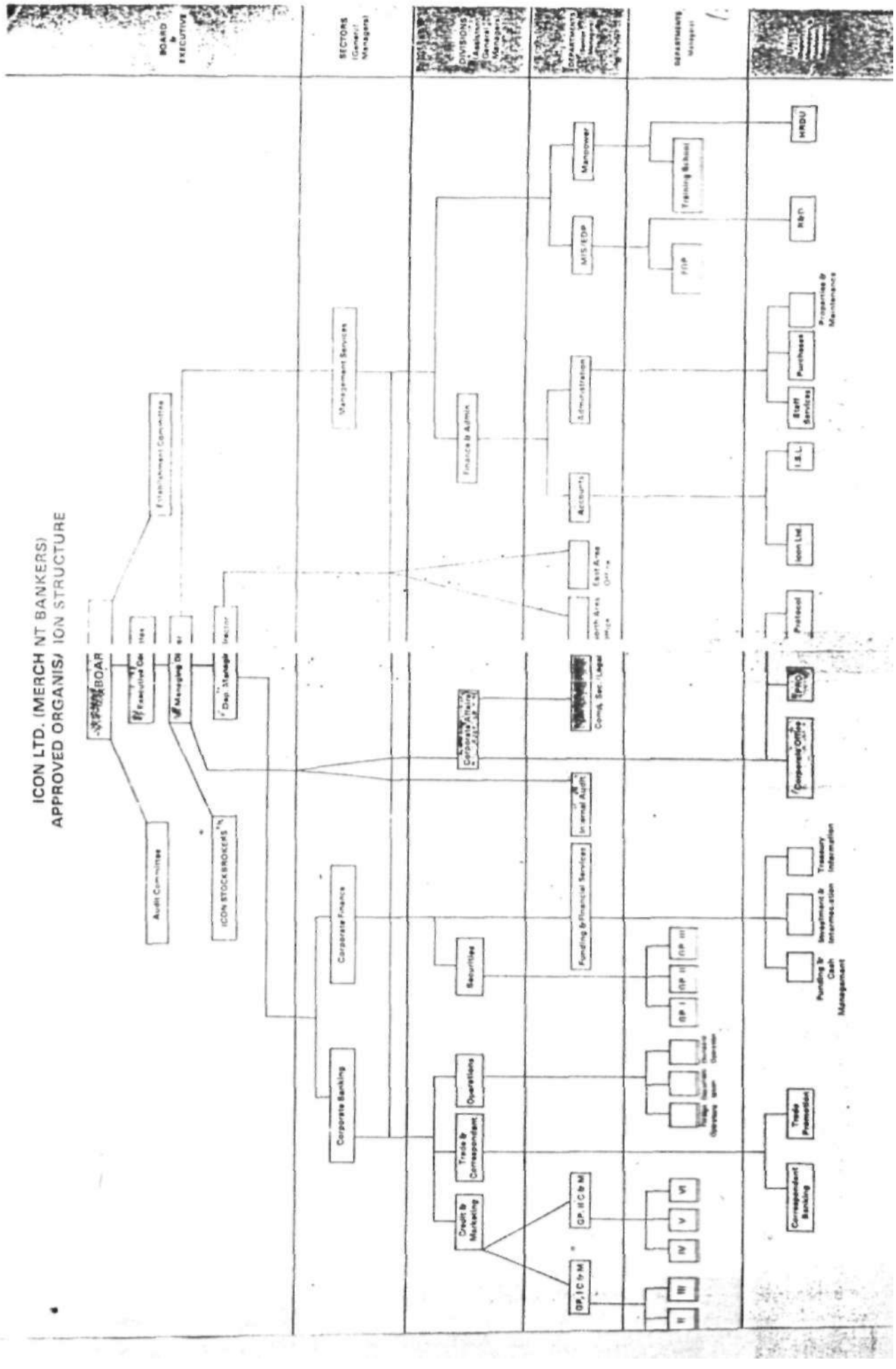
DELIVERY: on presentation of this warrant and against payment of charges

SGS Standard Terms and Conditions of Warehousing and Warrants to apply

Authorised signature   per NIGERIAN GENERAL SUPERINTENDENCE CO. LTD.
Authorised signature

SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS•SGS

Appendix E


ICON LTD. (MERCH NT BANKERS)
APPROVED ORGANIS/ ION STRUCTURE
BOARD OF EXECUTIVE
SECTORS (General Managers)
DIVISIONS
DEPARTMENTS
UNITS
Audit Committee
ICON STOCKBROKERS
Management Services
Finance & Admin
Corporate Finance
Corporate Banking
Securities
Funding & Financial Services
Internal Audit
Credit & Marketing
Trade & Correspondent
Operations
Accounts
Administration
MIS/EDP
Manpower
Training School
FIDP
Corporate Office
Trade Promotion
Correspondent Banking
Purchases
Staff Services
HRDU
R&D
I.S.L.
Icon Ltd.
Protocol
PRO
Treasury Information
Investment & Insurance division
Funding & Cash Management

NATIONAL MARITIME AUTHORITY

SHIPMENT NOTIFICATION FORM

FORM C—3.2

(PRIVATE SECTOR NON-OIL EXPORTS)

Appendix F

Year		Month	

FORM NCD 3(A) No.....

PART A *(To be completed by Exporter or Agent)*

№ 15578

1. **Particulars of Contract or Pro-forma Invoice :**

Contract/Proforma Invoice Particulars (attach copy) .....

Nature of Contract : (F O B/C & F) *Delete as Applicable*

2. **Mode of Financing :** .....

3. **Name & Address of Exporter :**

Name.....

Address : .....

Officer to contact in case of need :

Name : .....

Designation : .....Tel.....Telex:.....

4. **Name & Address of Forwarding Agent :**

Name : .....

Address : .....

Person to Contact in case of need :

Name : .....

Designation :..... Tel:.....Telex :.....Fax :.....

5. **Particulars of Cargo :**

Country of Origin	Type of Cargo*	Quantity	Dead Weight (tons)	Cubic Measurement
	Bulk Dry Bulk Wet Conventional Container			

**Delete what is not applicable*

Freight Tonnage :.....F O B Value :.....Cost of Freight :.....

Expected Port of : Shipment/Loading:.....(ii) Discharge:.....

6. **Proposed Date Shipment :***(attach shipment schedule)*

Between.....19..... and.....19.....

7. **Technical Partners** *(where applicable)*

Name: .....

Address: .....

8 **Particulars of Receiver of goods :** *(If "to order" give particulars of "notify part")*

Name : .....

Address : .....

Tel : .....Telex:.....Fax: .....

9. **Certification :**

I certify that the statements made above are to the best of my knowledge, true and in keeping with demands of Decree 10 of 1987.

Signature of Reporting Officer: ..... Date:

Name :.....

Designation.....

Authorized Dealer Bank : *(Stamp)*

FOR FREIGHT COMMITTEE

PART B

OFFER TO CARRY

In exercise of powers conferred on the NATIONAL MARITIME AUTHORITY uncer Decree 10 of 1987 and on behalf of the Shipper(s)/Importers(s), the Freight Committee of the Authority offers to Ship Operators in the..... route the contract for the transportation by ship of the above-mentioned cargo/cargoes.

Freight Committee Chairman.....

Date:..... Secretary.....