



Research Article

FINANCING OPTIONS FOR THE NIGERIAN COTTON INDUSTRY

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ABSTRACT

Nigeria produces a wide range of agricultural commodities, which could serve as raw material for industrial production in Europe. Asia and Latin America. Top on the list of the agricultural commodities produced in Nigeria are Cocoa, cotton, Accha, Soya beans, Sorghum, Maize, Cassava, Gum Arabic, Ginger, Sesame Seeds, Sheanuts, Cashew Nuts and Cowpea.

White tree crops such as cocoa and cashew nuts are produced in the southern part of the country, cereal crops such as cowpea, Soya beans, Sorghum, Maize, Sesame Seeds, Ginger, Gum Arabic, Shea Nuts and cotton (which is the focus of this seminar) are produced in the savannah belt in Nigerian.

With the federal government's current initiatives aimed at increasing output in the agricultural sector, additional volumes of agricultural produce are available for domestic and industrial uses as well as external trade.

KEYWORDS

Financing, Industry, Option, Cotton, Nigeria, Export.

INTRODUCTION



Am pleased to address this gathering on behalf of the Nigerian export-import bank (NEXIM). NEXIM's decision to honour this invitation to deliver a paper at this all-important seminar on the way forward in repositioning our ailing Textile/Cotton industry is borne out of the bank's conviction that a successful revamp of the industry, as is being vigorously pursued, would bring about a number of multiplier effects in the national economy.

The paper shall attempt to discuss the types and sources of export finance in Nigerian, review the statutory functions of NEXIM and the specific financial support available in the bank for the revitalization, diversification and expansion of the textile industry in the country.

COTTON

Cotton is a major agricultural and industrial crop in Nigeria, providing employment and means of livelihood to about 2 million families. A total of 24 states in the federation produce cotton, including Katsina, Zamfara, Gombe, Kaduna, Kano, Sokoto, Kebbi, Niger, Plateau, Jigawa, Yobe, Bauchi, Borno, Adamawa, Kwara, Taraba, Nasarawa, Kogi, Benue, Ekiti, Oyo, Ondo, Osun and Ogun.

Available statistics shows that the country's average annual cotton production is about 250,000 metric tonnes against the total world production of 20.5 million metric tonnes. The major market destination for Nigeria's cotton are the European Union, China, South Korea and Taiwan and the major player in the cotton industry in Nigeria include Olam Nigeria Limited, Nigeria Seed Cotton Limited, West African cotton processing

company limited, national seed service and AFCOT Nigeria Limited.

The crop has occupied a strategic position in the economic activities of Nigeria, providing both food and fibre for the rapidly expanding vegetable oil and textile industries in the country. Unlike cocoa beans, cotton has a strong backward linkage with the domestic industries, which consume up to 50 percent of the total annual production.

WHY EXPORT TRADE

Since the early 1950's the global economy has witnessed an expansion in trade brought about by a growing interdependence amongst countries and an increasing internationalisation of capital and division of labour. The economic well-being of nations (especially the developing countries) has been closely dictated amongst others by:

- Their ability to exploit the growing interconnection between market and economies.
- Trade liberalization
- Diffusion of technological developments from the industrialized north to the rest of the world.
- Internationalization of production.

However, the increasing competition for capital to finance growth and development especially amongst developing countries has limited the ability of such nations to expand their productive base to cater for the widening yet stratified markets. Export trade has therefore become an essential tool in generating the resources required to finance essential imports, service debt and



expand national production. The increased focus on trade in recent times, especially export, is a reflection of its positive and dynamic contribution it brings to the growth and development of the exporting economy.

generally accepted as basis for promoting rapid economic transformation.

In what follows, the paper dwells on:

- Export financing in Nigeria
- Types and sources of export financing
- NEXIM and its statutory functions
- Main products and service offered by NEXIM
- Concluding remarks

WHAT IS EXPORT FINANCE?

Export finance is the totality of funds available to an exporter, including:

- Net worth, i.e. paid-up and internally generated funds.
- Debts.
- Subsidies and grants.
- Other miscellaneous funds.

Such funds take various forms/types and their categorization may be done by purpose, stage of export operation or tenor. Although an exporter might need one or a combination of the different types of financial assistance (depending on the nature of his contract), he is usually mindful of the cost of such assistance as it affects his ability to compete in the international market. The provision of fund to him, therefore, requires skill/expertise in financial operations, a through

knowledge of the export processes and of the conditions prevailing in the international market.

REVIEW OF EXPORT FINANCING IN NIGERIA

Prior to 1945, Nigeria had on specialized export financing mechanism as multinational corporations, which had no problem in securing finance from foreign owned banks, undertook traditional exports. Subsequently, some marketing and financial arrangement were put in place, namely;

- Establishment of the defunct west African produce marketing board to exclusively handle the marketing of scheduled traditional agricultural produce such as Cocoa, groundnut, ginger and solid minerals.
- Transfer of marketing arrangement to the Nigerian produce marketing company limited to export the produce from the various regional marketing boards.
- Provision of an export-financing scheme by the federal government of Nigeria for marketing boards to meet their each requirement by drawing 90-day bills of exchange on the Nigerian produce marketing company.
- Establishment of a discounting window through a consortium of commercial banks and acceptance houses for the bills up to a specified limit.
- Provision of a rediscounting & refinancing facility by the central bank of Nigeria (CBN).



- Stipulation of mandatory credit allocations by commercial and merchant banks to the export sector. The prescribed credit allocation to the export sector, which became a preferred sector from 1979 ranged between 3 and 6 percent for commercial banks and 3 and 4 percent for merchant banks in the period 1979-1982.
- Introduction of the structural adjustment programme (SAP) in 1986 marked a turning point in export financing in Nigeria, marking export a high priority activity.

Creation of an export credit agency in Nigeria. The institution that came into being was called the Nigerian export credit guarantee and insurance corporation (NECGIC) established by act 15 of 1988. NECGIC later metamorphosed into the Nigerian export import bank (NEXIM).

TYPES AND SOURCES OF EXPORT FINANCE

Self-financing

Self-financing are funds that can be generated from personal savings, net worth (paid-up shares and internally generated funds), loans, subsidies and grants. The shortage of these funds usually makes people to seek assistance locally from their government and financial institutions and/or internationally. Also included in this category is simultaneous and financing where accruals are delayed and, for example, trade debtors are facilitated to improve cash flows.

Money Market

Although banks play a significant role in the provision of funds to exporters for bulk financing

of their business activities, the short-term nature of most of their funds makes it difficult to undertake term lending, which is of utmost importance to local manufactures.

There are however positive indications that the real sector would soon witness a dramatic change in its financing with the recent launching by Mr. President of a N50 billion micro credit development fund. It is envisaged that the scheme would increase SMEs access to medium- and long-term funding to meet their fixed and working capital needs and improve entrepreneurial skills.

Capital Market

The capital market is another major source that could be used by businesses to raise medium and long-term funds either as equities, debentures or bonds. At this market, equities of companies can be listed for public subscriptions. However, many companies tend to shy away from raising funds from the market because of the unwieldy formalities in preparing prospectus and the multiplicity of processes.

Other aspects of finance included global depository receipts, Eurobond, put and call options in which Nigerian market is still evolving to accommodate this type of structured finance.

Development Finance

The government is not oblivious of the financial problem faced by local manufactures and exporters. To ameliorate the problem, government had in the past adopted several methods to ensure the availability of funds to SMEs especially those that are in the real sector.



Such methods include sectoral prescription and the establishment of specialized development finance institutions (DEIs) and funding schemes such as the bank of industry (BOI), Nigerian Agricultural cooperative & rural development bank (NACRDB) and NEXIM amongst others.

Credits granted to exporters by these institutions may be broadly classified by export cycle (pre-or post-shipment) or duration (short, medium-and long term) as follows;

- Pre-shipment –any loan/advance granted or any other credit availed to an exporter for the
- Financing of purchases, processing and packaging of goods up to the point they are placed on board as ship or other means of transportation =.
- Post-shipment credit- are funds provided to an exporter from when the goods have been shipped to the date of realization of export proceeds.
- Short-term credit- funds provided up to 360days.
- Medium-term credits-funds provide between one five years.
- Long-term credits-funds provided above five years.
- eatment within the ECOWAS region.

ATYPICAL DOCUMENTATION REQUIREMENT FOR FIF WOULD INCLUDE:

A duly filled application form;

A feasibility study for star-up project berif for on-going projects;

Pro-forma invoices/form M;

License/approvals where applicable (e.g. Mining lease, letter of assurance for trawling, etc.);

Briefon environmental safeguards of proposed industrial activity;

Certificate of incorporation;

Export contract (s) if available;

Three years audited accounts for on-going projects; and

Other supporting documents that may be deemed appropriate.

(i) Stocking Facility (SF)

The facility, which is provided in local currency either directly to exporters of through the participating banks, is to enable manufactures of exportable goods procure adequate quantities of local raw materials (which may be seasonal in nature) for keeping production at optimal levels during periods of scarcity.

the duration of this facility is 12 months and the documents required include the following:

- A filled copy of exporter's application form;
- A project brief (if available);
- An evidence of export credit (bill of exchange);
- A copy of export contract/letter of intent (if available);
- A copy of letter of hypothecation
- Copy of an insurance policy
- Copy(s) of warehouse warrants
- Undertaking on stock reconciliation.

Derict Lending Facility (DLF)

In an attempt to create wider means of accessing NEXIM facilities and reduce observed lapses in the interbank arrangement, the bank in the third



quarter of year 2002 introduced both the short- and medium/long-term direct lending facilities (DLF) for exporter. The short-term DLF is applicable for trade financing, for primary products export while medium/long-term DLF is available to creditworthy companies engaged in manufacturing export.

Local input facility (LIF)

The local input facility is a medium/long-term facility disbursed in local currency for the purpose of asset acquisition/modernization, and/or expansion of existin production units for exports. The facility is also made. Available for the acquisition, rehabilitation and/or expansion of plantations/farms for the production and processing of exportable products.

(A) RISK BEARING FACILITIES

One of the cardinal function of NEXIM is the provision of risk mitigating services. Among the facilities NEXIM has developed and introduced are the export credit guarantee facility, the export credit insurance facility and the ECOWAS interstate road transit scheme.

credit guarantee facility (ECGF)

this facility is to be operated as a guarantee provided by NEXIM to bank in respect of credit given to exporter in support of the export of goods and service from Nigeria. The facility is the usual guarantee, which a lender receives from a suitable party as security to protect it against a borrower's default. We hope that this facility will encourage banks to provide credit to exporters.

credit insurance facility (ECIF)

This facility insures exporters against risk of non-payment by buyers where such default is

ascribable to commercial causes. Payment defaults due to political reasons are covered separately by NEXIM for the account of the federal government of Nigeria.

(B) PROVISION IF TRADE INFORMATION AND ADVISORY SERVICE

In its continued quest to be a repository of trade and financial information as well as a reliable source of market/product intelligence, NEXIM.

- Establishes working relationships with other export credit agencies around the world;
- Creates linkages with major financial, commodity and procut markets, as well as subscription to current and reputable markets and economic developments journal;
- Established one of the best-stocked libraries for finance, economics, risk management and markets.

Fund-raising Timetable

- Entered into a 12-week timeframe with UBA within which fund-raising activities will be conclude and proceeds to NEXIM. We are in the 7th week of the timetable relevant waivers/exemptions have been given by the central bank, federal inland revenue service, etc.
- Federal government guarantee document is being finalized by the ministry of justices.

Management Structure

- Full-fledged textile revival fund office has created in the bank and fully staffed. A credit appraisal, disbursement and monitoring management structure has been approved. Three credit appraisal teams with a total of 60 application from textile companies, ginning facilities and cotton producers have benn created.



- Guidelines for accessing the facility have been developed and circulated to all applicants.
- Several meeting have been held with the respective associations of textile manufacturers, ginning companies, cotton farmers.
- Desk appraisals of all the eligible textile/ginning/cotton production companies have since been completed.
- Pre-appraisal visits to potential beneficiaries from across the country .

CONCLUSION

We have in this paper recognized the importance of finance in all stages of the export cycle and that practically all countries have diverse systems for the provision of such finance.

The paper has equally shown that NEXIM is currency active in the provision of finance, trade information and advisory services, as well as risk bearing facilities. It is the intention of NEXIM bank to continue to use its facilities to reinforce other policies/incentives targeted at the export sector for a sustainable export culture in Nigeria.

We believe that a forum such as this provides opportunities for problems discussion, ideas sharing and strategy formulations and the national economy in general.

In conclusion, let me restate that the export potentials of this country, particularly in the textile/cotton industry are far from being even barely tapped. Though, one is happy to note that there is a better awareness today's than a few year ago, thanks to the concerns of the federal government, various private sector institution,

and the strengthening of institutional support to the sector.

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