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EXPORT FINANCING IN NIGERIA: A STUDY OF NIGERIAN EXPORT-IMPORT BANK (NEXIM)

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Abstract

Both oil and non-oil exports play a pivotal role in driving economic growth within an open economy. Consequently, the strategic promotion of exports is essential for any nation aspiring to achieve rapid development. This study explores the impact of export financing on Nigeria's economy, with specific emphasis on the Nigerian Export-Import Bank (NEXIM). Established under Decree 38 of 1991 following the 1986 Structural Adjustment Programme (SAP), NEXIM was created to support and promote export-related activities in Nigeria. The paper evaluates the various services offered by the bank in facilitating export operations, along with the procedural requirements for exporters. Utilizing secondary data obtained through academic literature, the research underscores the significance of export financing, particularly due to the high capital demands involved. The study concludes that the effectiveness of NEXIM's financial support is instrumental in enhancing Nigeria's export potential, especially in the areas of production, processing, and packaging. Accordingly, the paper recommends enhanced autonomy for NEXIM and increased funding, alongside government-backed export credit guarantees and insurance, especially for non-oil exports.

Introduction

The exchange of goods and services across borders—known as international trade—dates back to ancient times, originally rooted in the barter system. Over the centuries, the evolution of monetary systems introduced complexity and sophistication into global trade, fostering interdependence among nations due to varied resource endowments. According to Gbosi (2019), international trade involves the exchange of goods and services among countries using mutually accepted currency. While traditional trade focused on physical commodities, recent trends emphasize trade in services as well. At the core of international trade lies export trade, which refers to the sale of goods and services to foreign countries. As Beck (2003) explains, the flow of trade is significantly influenced by endowment factors, such as the availability of resources and financial infrastructure. By incorporating financial sector dynamics into the Heckscher-Ohlin model, Beck demonstrated that countries with advanced financial systems—especially robust banking sectors—possess a comparative advantage in industries reliant on external financing (Allen & Gale, 1994). Historically, Nigeria's economy in the 1960s and 1970s was largely supported by agricultural exports. However, with time, crude oil has taken precedence, now contributing over 90% to Nigeria's total exports, while non-oil exports constitute a meager 4% (Ogunkola, Bankole & Adewuyi, 2006).

Enhancing export performance necessitates access to adequate financing. Affordable credit provision to the export sector can significantly promote non-oil exports (Sama'ila, 2013). Banks play a central role in this regard by offering financing services and guaranteeing payments. The Central Bank of Nigeria (CBN, 2019) defines bank credit as financial assistance extended through loans or advances with a future repayment date. Unfortunately, despite efforts to promote non-oil exports, challenges persist. These include limited credit access and banks' reluctance to finance exports due to perceived high risks, especially at the pre-shipment stage (Odularu, 2008). As a result, the non-oil export sector has experienced slow growth, attributed to poor financing at both pre-shipment and post-shipment phases (Azzam, 2000).

To address these challenges, NEXIM was established as a strategic institution to correct balance of payment deficits and support export diversification. Given the volatility of oil prices and the finite nature of crude oil resources, diversification is critical to achieving sustainable economic development (Ogunkola & Oyejide, 2001; Sama'ila, 2013). However, despite policy reforms and institutional support, export growth—particularly in the non-oil segment—remains subdued due to high financing costs, limited access to credit, and cumbersome financial procedures. This study, therefore, investigates the role of NEXIM in facilitating export financing in Nigeria.

2.0 Export Trade Financing in Nigeria

Export financing plays a crucial role in enhancing a nation's competitiveness in global trade, especially for exporters seeking to expand their market reach. When banks are involved in handling and financing international transactions, both exporters and importers benefit significantly. Export financing can take the form of factoring or invoice discounting arrangements, allowing exporters to access a substantial portion of their invoice value—sometimes up to 90%—even before receiving payment from international buyers. Depending on the financial structure, firms may access funds against issued invoices to overseas clients, enabling them to maintain smooth operations and grow their trade capacity. In addition, some export financiers offer specialized credit management services through multilingual client advisors, thereby strengthening exporters' collection systems and risk control.

In Nigeria, the export sector is heavily reliant on crude oil, which accounts for approximately 96% of the country's total exports (Ojo, 2010). Although recent macroeconomic reforms have targeted export diversification, especially in manufacturing, the demand for financing in this sector has increased. This is largely due to the fact that many export-oriented firms are scaling up their operations, becoming more productive and capital-intensive (Bernard, Jensen, Redding & Schott, 2009). Chauffour and Farole (2009) argue that financing for export trade is especially vulnerable to economic instability and financial crises, even more so than domestic trade financing. This heightened sensitivity underlines the importance of a resilient and accessible financial system for exporters.

According to Ayodele, Akinyede, and Iriobe (2017), in addition to facing structural challenges, Nigerian exporters often encounter difficulties in obtaining credit from commercial banks. High interest rates, limited loan volumes, and stringent credit requirements hamper their ability to modernize equipment and improve product quality. These financial constraints often lead to substandard goods, making it difficult for Nigerian exporters to compete globally. Consequently, many traders and manufacturers are increasingly turning to the Nigerian Export-Import Bank (NEXIM) for more flexible and supportive financing options.

3.0 Challenges Faced by Exporters in Financing: Nigeria in Focus

Export financing in Nigeria is fraught with multiple constraints, which stem from legal frameworks, institutional inefficiencies, and operational bottlenecks involving both exporters and financial intermediaries. Some of the major challenges include restricted access to credit, underfunding, low product quality, and continued dependence on primary goods exports. Additionally, exporters often lack adequate knowledge of packaging standards, face documentation errors, and experience procedural delays. The lengthy timeline of export transactions, coupled with repayment difficulties, low export volumes, and a prevailing import-oriented mindset, further complicates financing. Moreover, commercial banks tend to prioritize short-term gains, showing reluctance toward long-term investment in the export sector.

3.1 Cost of Export Financing in Nigeria: The cost of financing for export-oriented businesses is influenced by a combination of macroeconomic and institutional variables. These include fluctuations in money and capital markets, inflation trends, and expected returns on equity. In commercial banking, the interest rates charged on export loans typically incorporate the banks' breakeven costs, administrative overheads, and desired profit margins. These cumulative costs result in relatively high lending rates for exporters, further straining their financial capacity.

3.2 Cost and Accessibility of Bank Financial Services: Accessing credit from banks remains one of the most pressing challenges for non-oil exporters in Nigeria. High interest rates, limited loan disbursements, and risk aversion among banks restrict the sector's potential for growth and modernization. As noted by Odularu (2008), the elevated cost of finance prevents non-oil exporters from upgrading outdated equipment and technologies, leading to substandard goods that lack competitiveness in international markets.

Moreover, banks in Nigeria often exhibit inefficiency in evaluating and managing credit risks, especially for long-term loans to small and medium enterprises (SMEs). This is largely due to a lack of trained credit officers, poor access to borrower information, and the absence of a reliable national credit registry. As a result, potential exporters are subjected to stringent requirements, such as multiple years of audited financial statements, collateral that fully covers the loan and interest, and detailed trade documentation. In some cases, borrowers must even make upfront deposits amounting to 30% of the loan's net present value.

4.0 THE NIGERIAN EXPORT-IMPORT BANK (NEXIM)

Export financing has long been part of Nigeria's economic development strategy. Prior to the establishment of the Nigerian Export-Import Bank (NEXIM), institutions such as the Nigerian Export Promotion Council (NEPC) and various commodity marketing boards were primarily responsible for promoting agricultural exports. However, the liberalization of the economy under the 1986 Structural Adjustment Programme (SAP) and the subsequent dissolution of the commodity boards led to the creation of NEXIM in 1991 as a dedicated export credit agency (ECA).

According to Uzoechina and Uwajumogu (2015), the core mandate of NEXIM includes:

i. Providing export financing in both local and foreign currencies
ii. Offering export credit guarantees and insurance
iii. Managing export-related funds
iv. Sustaining foreign exchange funds to support importation of raw materials and equipment for export production
v. Maintaining an export-oriented trade information system

Beyond these foundational roles, NEXIM also delivers business advisory services, export development support, and market intelligence to assist Nigerian exporters.

NEXIM plays a strategic role in facilitating trade and stimulating economic development. It supports both oil and non-oil export transactions, funds the acquisition of industrial machinery, and promotes value-added production. The bank has particularly prioritized the manufacturing and agro-processing sectors, which in 2009 received 48.59% and 35.86% of total sectoral allocations, respectively. Due to NEXIM's financial interventions, Nigeria's non-oil export volume reportedly increased by 14%, rising from N1.74 billion in 2019 to N2.07 billion in 2020. Data from the NEPC indicates that leading export products include cocoa beans, sesame seeds, cashew nuts, urea, leather goods, aluminum ingots, and seafood such as shrimp and crab. With its headquarters in Abuja and regional offices across the country, NEXIM collaborates with institutions like the Bank of Industry (BOI) and the Central Bank of Nigeria (CBN) to expand its reach and influence.

4.1 NEXIM Financing Facilities

i. Direct Lending Facility: NEXIM provides direct credit to eligible exporters either independently or in partnership with commercial banks. These facilities may be structured as short-term or medium-term loans (1–3 years), with both fixed and floating interest rates. The loans, which may be disbursed in either local or foreign currencies, can finance up to 80% of a project's cost. They are typically used to acquire machinery, working capital, or to support the export of services, including oil and gas consultancy.

ii. Foreign Input Facility: This facility is designed to enable exporters procure raw materials, equipment, and packaging materials sourced from international markets. Disbursed through participating banks, loans under this scheme are denominated in foreign currencies. To qualify, businesses must ensure that over 50% of their final product's value is locally derived. Repayment can extend up to seven years, with a potential moratorium of two years.

iii. Local Input Facility: This facility supports the purchase of domestic inputs required for export production. It can be used to finance new projects, expand production facilities, or modernize equipment. Loans are disbursed in Nigerian naira via partner banks. Repayment terms range from one year (for working capital) to three years (for capital projects), with optional grace periods.

iv. Creative Arts and Entertainment Industry Loans: NEXIM's financing support also targets Nigeria's creative economy—including music, fashion, film, and broadcasting. This facility aims to boost the sector's global competitiveness, create employment, and diversify Nigeria's export portfolio. Registered businesses operating in these industries may receive loans of up to seven years with flexible terms and potential moratoriums.

v. Small and Medium Enterprise Export Facility (SMEEF): This scheme is tailored for export-oriented SMEs, especially those contributing to the non-oil export value chain. The facility encourages the industrialization of production processes, leading to more competitive export goods. It covers financing needs ranging from working capital to the importation of production equipment. Repayment terms vary: one year for working capital and up to seven years for project financing. Interest rates are set at a concessional 9%.

vi. Women and Youth Export Facility (WAYEF): This program is designed to increase access to export finance for women and youth aged 18 to 35. It seeks to empower these groups by supporting their participation in the non-oil export sector. Eligible applicants may include NGOs, cooperatives, trade associations, and registered businesses. Loans are capped at N50 million, covering up to 80% of the project cost, with one-year terms and a 9% interest rate.

4.2 Loan Eligibility Criteria

NEXIM loans are open to all registered businesses engaged in export-related activities. Individuals are generally not eligible unless operating through formally registered enterprises. Applicants must demonstrate that the credit will contribute to expanding or establishing export capacity. Businesses may apply directly to NEXIM or via designated commercial banks, which may apply additional lending requirements.

4.3 Application Procedure

To apply for a NEXIM facility, businesses must submit a formal application either directly to NEXIM or through a commercial bank. Preliminary discussions with bank officers are advisable to identify the most suitable loan product. A comprehensive application form must be completed, detailing the business's financial needs, project objectives, location, and operational structure.

Required documentation typically includes:

i. Completed application form
ii. Company profile and business plan
iii. Projected cash flow and financial statements

iv. Tax clearance and CAC registration certificates
v. NEPC registration
vi. Valid means of identification
vii. Evidence of collateral (if required)

Once all documents are submitted, NEXIM conducts a thorough project assessment. Upon approval, funds are disbursed according to the agreed loan terms.

5.0 Conclusion and Recommendations

Exports are widely regarded as a catalyst for economic growth, particularly in developing economies like Nigeria. Promoting exports—especially in the non-oil sector—is therefore essential for achieving sustainable development. However, one of the primary challenges faced by Nigerian exporters is limited access to finance. Banks often exhibit hesitancy in financing export transactions, especially during the pre-shipment stage, due to perceived credit risk and potential defaults.

This paper explored export financing in Nigeria, with a particular focus on the role of the Nigerian Export-Import Bank (NEXIM) in supporting the country's export sector. Relying on secondary sources, the study examined the barriers to export growth, including insufficient funding, low bank participation, and inadequate credit structures. It also highlighted various financing options available to exporters through NEXIM, such as direct lending, foreign and local input facilities, and SME-targeted programs.

The study revealed that many small-scale exporters lack the financial capacity to meet the capital demands of international trade. As such, the presence of institutions like NEXIM is vital to bridging the financing gap and enhancing the competitiveness of Nigerian exports.

5.1 Recommendations

i. The Central Bank of Nigeria (CBN) should enforce its supervisory role by ensuring that commercial banks fulfill their financial intermediation responsibilities, particularly towards the non-oil export sector. The Nigerian Export Promotion Council (NEPC) should also develop programmes that build the creditworthiness of SMEs and assist them in accessing formal credit channels.

ii. Given the high cost of bank credit, NEXIM should collaborate with commercial banks and the NEPC to establish a subsidized loan program specifically for non-oil exporters. This initiative would lower financing barriers and encourage new entrants into the export market.

iii. Exporting firms must evaluate their internal financial strategies to determine their dependency on external financing. Enterprises operating in sectors that require significant external funding should position themselves to meet international standards by investing in intangible assets, skilled labor, and efficient production systems.

iv. The government should reduce the concentration of exports in a few markets and product types by providing fiscal incentives, lowering export-related levies, and expanding trade partnerships. These measures will attract more investors and reduce the risks of market saturation.

v. There is a need for dedicated government funding to support the production of export goods. This will not only stimulate growth but also improve the quality and volume of export commodities.

vi. The autonomy of NEXIM should be enhanced, and its financial base expanded to enable it to provide more tailored and responsive services to exporters. This includes streamlining loan processes and expanding outreach programs for small and medium-sized exporters.

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