

# RELATIONSHIP BETWEEN EXPORT FINANCE AND COCOA EXPORT PERFORMANCE IN INTERMEDIATE COCOA PROCESSING FIRMS IN SOUTHWESTERN ZONE OF NIGERIA

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## ABSTRACT

*This study ascertained the relationship between export finance and cocoa export performance in intermediate cocoa processing firms in Southwestern zone of Nigeria. The two main constructs employed in this study are export performance and finance. While export intensity was used to measure the former, the latter was proxy after Ebong, 2008 and Ahmed 2008's forms of export finance thus; Self-financing (profit ploughed back), Money market financing (commercial bank loans) and Development Bank financing (NEXIM bank loans) variables. Data for this study were sourced through the administration of copies of questionnaire to six (6) out of eleven (11) intermediate cocoa processing firms in Southwestern zone of Nigeria that are registered with the Nigerian Export Promotion Council. The six (6) intermediate cocoa processing firms were purposively selected because they were those discovered to be functioning firms as at the time of field survey exercise. It was discovered that fund sourced from Commercial banks and Ploughed back profit had significant impact on Nigeria cocoa export performance while the impact of fund sourced from Development bank was insignificant. Thus, policy makers are strongly advised to henceforth route their intervention funds/assistance to any sector through the commercial banks for effectiveness but that interest rates charged by these banks should be closely monitored.*

**Keywords:** *Credit Facilities, Export Finance, Cocoa Export and Export Performance.*

## INTRODUCTION

Non-oil export performance is the measure of success or failure of the efforts of a firm or nation in selling domestically produced goods and services in other nations. Non-oil export is any export business other than crude oil (Owofemi, 2008). It includes products and services of Nigerian origin not related to petroleum and petroleum products to the exclusion of items on the prohibition list as defined by the Nigeria Custom service (Borodo, 2008). The area of export performance is attracting both managerial, academic and more particularly government attention at an increasing pace. The fact that globalization has become an undisputed reality has led an increasing number of firms to search for opportunities abroad in order to survive, thus managers considered export performance as a tool to boost corporate

growth, strengthen competitive edge, and ensure company survival in a highly competitive market place (Leonidou and Katsikeas, 1996). Several studies have also been done to show how exports facilitate government savings (Thirlwall 1983, Park, 1981). The significance of non-oil export to Nigerian economy according to Opara (2010) include an enhancement of foreign exchange earnings capability, employment creation and improved living as well as increased business activities for sales and profit from the export market while the multiplier effects enable the country to earn foreign exchange that are central to fulfilling international financial obligations

All the benefits provided by the exporting activity encourage national government (public policy makers) to implement export assistance programmes with the objective of helping firms improve their strategy and ultimately enhance their performance in the international arena. Finance is one of the numerous forms of export assistance that could be facilitated by the national government to exporters in order to stimulate export growth. A major facet of financing involves producing the appropriate size, structure and tenor necessary to support asset acquisition in any project or venture, this is so for any class of business; export enterprises inclusive. According to Van Horne (2005) a wide variety of financing sources are available each characterised by a peculiar form of cost, maturity, availability, claims on asset and terms imposed by the suppliers of capital. However, the special case of export financing with its multiplier impacts on employment and foreign exchange generation makes it mandatory for government policy design to ensure adequacy of financing for its development.

Export finance are resources that are required to penetrate foreign market and create expansion thereby enhancing export performance (Demick and O' Reilly, 2000; Denis and Depleteau, 1985). The concerns for the revamping and development of non-oil export sector are motivated by the need for the realization of the enormous potentials of the sector to improve and accelerate national development (Akingbola, 2008). The Nigerian Export Promotion Council (1997) identified the country's comparative advantage in the production and supply of certain non-oil export product including cocoa and cocoa based beverages. However, the study noted that in spite of the country's product advantage and various export potentials; some exporting firms are still confronted with the problems of how to source for the product and finance production.

Several funding assistance windows are designed by the government and aimed at improving non-oil performance ranging from duty-draw back scheme and the operation of the Nigerian Export and Import bank among others. In an effort to revamp non - oil sector, Federal government of Nigeria of recent set aside N70 billion to resuscitate the textile industry (Business Day, 2008). In the same vein, N138.1 billion was committed to non-oil export activities by banks in 2005 (CBN, 2006), just as it was discovered that cocoa processing sector assumed the largest share with 27.06% of ADB export stimulation loans disbursed by NEXIM bank between the period 1990 and 2005 (Usman and Salami, 2008).

In the Nigeria business sector, the impact of finance on production and distribution has been reported a significant hindrance factor. The plausible question therefore is does finance have an effect on Nigerian cocoa export performance? To what extent is this factor relevant to the cocoa-export business? What are the effects of export financing on cocoa export? On the basis of the problem stated above, the study is designed to examine the relationship between export finance and cocoa export performance in intermediate cocoa processing firms in Southwestern zone of Nigeria. This zone is the major producer of cocoa beans in Nigeria and it has the highest concentration of intermediate cocoa exporting firms. Consequently, a comprehensive research hypothesis has been formulated in a null form for the study, thus: Export finance has no significant effect on the performance of Nigerian cocoa export. This purpose of this study is to ascertain the relationship between export finance and cocoa export performance in intermediate cocoa processing firms in Southwestern zone of Nigeria.

### **The Concept of Non-oil Export**

Non-oil export has been recognized as a basis for promoting rapid economic transformation of a nation. Generally, various empirical studies have been conducted to establish the strong link between export and the rate of growth of the gross domestic product at macro level (Idowu, 2005; Daisi, 2001). Falvey et al (2004) used firm-level data to show that exporting has a sizeable impact on industry productivity growth. For developing countries, exports are a major source of foreign exchange, a channel to maximize economies of scale and specialization and a channel to new technologies and knowledge spillovers (Lall, 2000).

However, an analysis of the components of the Nigerian export portfolio in the last decades reveals that export sector has been dominated by oil. For example, non-oil contribution to total export earnings was less than 20% between 2003 and 2006 (CBN, 2006). This does not only portray the economy of the country as a mono-cultural one but also expose the economy to the vagaries of activity in Oil sector. The Niger Delta crisis is affecting crude oil production of the country, the recent volatile prices of crude oil in the market, the search by the developed countries (who constitute the major buyers of Nigeria crude oil) for alternatives to oil energy and even the fear of oil reserves that will not be there forever are some of the factors that have compelled the government to begin to examine the composition of Nigerian exports.

It is thus paramount that Nigeria needs to diversify her export base, not only as a hedge against those factors but also a means of increasing export earnings and strengthening the Naira value. This can only be effectively realized through the revitalization and promotion of non-oil exports. It is in realization of this, Babalola (2008) submits that government is fully committed to the diversification of the economy in order to reduce its over-dependence on a single, non-renewable commodity, oil.

## **Export Performance Measurement**

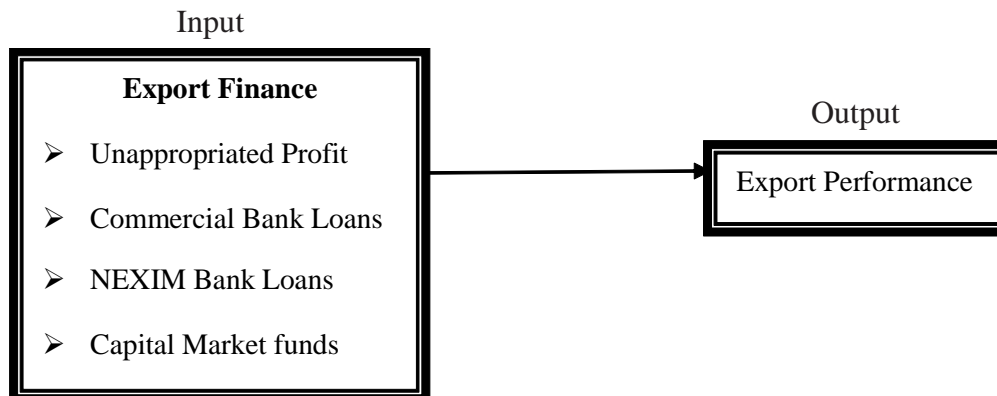
Export performance is an indispensable guide for any firm/nation analyzing its level of success, in both the domestic and international arenas. Studies on export performance were initiated in the pioneering work of Tookey, 1964 (Cited in Lages L. F., Lages C. and Lages C. R., 2004). Thereafter, researchers have adopted many different ways to assess export performance, as no consensus opinion exists about its conceptual and operational definitions (Cavusgil and Zou, 1994; Shoham, 1998) thus suggesting the fact that assessing exports performance is a complex task (Lages, 2000). This inability to form a consensus on the conceptual and operational definitions of export performance has resulted in situations whereby different measures are been adopted to assess export performance. For instance, Sousa, 2004 reviewed studies of 43 empirical literatures published between 1998 and 2004 concerning the measurement of export performance revealed that as many as 50 different performance indicators were adopted. But in spite of this large number of varying export performance measures identified by Sousa, 2004 export intensity was among the most frequently used measures of export performance (Nazar and Saleem, 2009).

## **Concept of Finance**

Every individual as well as institution has a definite source of income and a particular way of expenditure, all of which come under the domain of finance. Finance is the process of channeling funds in the form of credit, loans or investible capital to those economic entities that need them most or can put them in the most productive use (Van Horne, 2005; CBN, 2004). Generally, the concept of finance theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them. In simple terms, financing also means pro- vision and allocation of funds for a particular business module or project.

However, this paper is concerned with the aspect of the various ways by which Nigerian cocoa exporters raise money, and most especially the method for the allocation of such fund in the cocoa processing sector. Finance is also used synonymously as export finance in this study. Ebong (2008) opined that export financing is the provision of credit facilities for pro-moting exports and export-related transactions. NEXIM (1997) referred to export finance as the availability of funds to the exporter at favourable terms in all stages of investment, production and export. Ahmed (2008) broadly defined export finance as "the totality of funds available to an exporter including the net worth (paid-up and internally generated funds), debts, subsidies and grants as well as other miscellaneous funds".

Conclusively, export finance consists of the various options and facilities available to an exporter in securing needed funding for his export business activities. That is, ways and means by which the exporters financial needs or financing requirements can be met.



**Figure 1:** Export Performance and Finance Model Adapted from Tooksoon and Mohamad, 2010.

## METHODOLOGY

Eleven intermediate cocoa processing firms in Southwestern zone of Nigeria that are on the registered list of Nigerian Export Promotion Council of which six were purposively selected as sample size. The six firms were purposively sampled because these were the firms discovered to be functioning during the field survey exercise. The study covers a ten-year period of 1999 - 2008. For the purpose of the study, finance directors, export operations officers of registered Intermediate cocoa processing firms with the Nigerian Exports Promotion Council (NEPC) constituted the population of this study. The choice of NEPC as appropriate source to determine the population size is informed by the primary duties of NEPC which requires that the agency should maintain a register of Nigerian exporters along with the provision of information on export procedures and documentation (NEXIM, 1997). Eleven intermediate cocoa processing firms were found to have fully registered and being in operation with the Council. Two study variables are selected for analysis in this paper; namely export performance of the sampled firms and sources of financing employed. The study viewed export finance as a construct for - Self-financing, Money market financing, Development Bank financing and Capital market financing while export performance reflect the profit earned on cocoa export activities (export profitability). Performance was generated by applying the ratio of net profits to total sales in the financial statement of registered cocoa processing firms.

Self-financing relates to funds sourced from corporate savings through retained profit otherwise known as unappropriated profit thus unappropriated profit is a proxy for self-financing. Money market financing comprises of all short-term loans and advances granted to the exporter for exporting activities by the commercial banks while Development bank financing is a reflection of all short and medium-term export loans and other export facilities provided by NEXIM Bank to Nigerian non-oil exporters. Funds realized from new shares inform of initial public offers,

bonus and right issues constitute capital market financing. This is line with similar study carried out by the Central Bank of Nigeria (CBN, 2004). According to the list of NEPC, 11 registered intermediate cocoa processing firms were discovered. Upon field survey exercise, six firms were discovered to be functioning, one to commence operation in June, 2011 and four others were either no longer functioning or not discovered. These six functioning cocoa processing firms were thus purposively sampled for this study.

The sample size of six for this study conform with the finite population correction version of Yard formula  $n = \left\lceil \frac{N \times n^1}{N + n^1} \right\rceil$ , where  $n$  is sample size after applying the correction factor,  $N$  is population of the study and  $n^1$  is sample size on

the basis of Yard formula without correction factor  $n^1 = \left\lceil \frac{N}{1 + Ne^2} \right\rceil$ , where  $e$  (15%) is margin of error tolerated. This version of yard formula is used where the population size is small (Avwokeni, 2005). The statistical method adopted for the study include analysis of variance and regression model which are employed to determine the efficacy of finance as an export assistance strategy designed to stimulate Nigerian cocoa export. Study variables are crystallized into a working model and equation as presented below. The equation is examined to test the relationship between the study variables using the F- value,  $R^2$  and adjusted  $R^2$  at 0.05 level of significant.

$$Y = f(x) \dots\dots\dots\text{Equation 1}$$

Where  $Y_1$  = Cocoa Export Performance.  
 $X$  = Export Finance (a construct comprising naira value of finance sourced from unappropriated profit, Money market and Development Bank).

Stated more explicitly in equation two below:

$$Y_2 = f(x_1, x_2, x_3, e) \dots\dots\dots\text{Equation 2}$$

Where  $Y_2$  = Export Profitability (gains from exporting activities of the firm)  
 $x_1$  = Self-financing - this is proxy by firm's profit plough back, that is, retained/unappropriated profits  
 $x_2$  = Money Market financing : short-term loans and advances secured from Commercial Banks  
 $x_3$  = Development Bank financing comprise of loans/facilities benefited from NEXIM Bank directly.

## RESULTS AND DISCUSSION

Table 1 shows the result of Export Intensity as regressed on sources of finance options. The table displayed a very strong association between export performance and available finance. This is evidence by a high R value of 0.696,  $R^2$  value of 0.484 and F value of 18.796.

**Table 1:** Regression Result of the Effect of Available sources of Finance on Export Intensity

Model	Unstandardized		Standardized		
	B	Std.Error	Beta	t	Sig
Constant	0.587	0.024		24.739	0.000
Unappropriated Profit	0.115	0.192	0.064	0.602	0.549
Commercial Bank	0.644	0.113	0.702	5.719	0.000
NEXIM Bank Loans	-0.016	0.024	-0.075	-0.662	0.511

Dependent Variable: Export Intensity,  $R^2 = 0.484$ ,  $F = 18.796$ ,  $R = 0.696$

The effect of the forms of finance on export performance (export profitability) can be ex-pressed thus:

$$Y_{XP} = a + b_1 X_{UP} + b_2 X_{BL} + b_3 X_{NL}$$
$$Y_{XN} = -0.587 + 0.115X_{UP} + 0.644X_{BL} - 0.016X_{NL}$$

Where:

- $Y_{XP}$  = Export Intensity
- $a$  = constant factor
- $b_1 - b_3$  = parameter estimates of the respective independent variables
- $X_{UP}$  = unappropriated profits
- $X_{BL}$  = commercial bank loans and advances
- $X_{NL}$  = NEXIM bank loans

The result is the outcome of the effect of independent variables (forms of export finance) on the export performance (export intensity) of cocoa processing firms. The result indicated that every increase in the profit ploughed back (unappropriated profit) form of finance into the cocoa export processing activities; export performance will increase by 11.5% in the intermediate cocoa processing firms per year holding the effect of the other forms of finance constant. Furthermore, it was observed that a unit change in loans and advances obtained from commercial banks for export operations, after factoring in fund sourced through unappropriated profits and NEXIM bank, resulted in a positive change of 64.4% in export performance of intermediate cocoa processing firms. Holding other finance factors constant, funds sourced from NEXIM bank for export operations contributes just a negative and marginal value of 0.016% when a unit change occurs in loans secured from NEXIM.

The findings on the NEXIM bank contributions to export performance in this study only confirmed the earlier findings of Usman and Salami (2008) where it was discovered that the contribution of NEXIM bank towards non-oil export growth in Nigeria between 1990 and 2005 period remained less than satisfactory. The relative satisfactory contribution of finance sourced from commercial banks in form of loans and advances to the export performance of the intermediate cocoa processed products can be adduced to the fact that commercial banks in Nigeria are generally accessible in terms of proximity within the locality and personal services being rendered by these banks as a strategy to outwit their rivals in their competitive industry notwithstanding the high interest rate. The result corroborated Nwakoby (2004)

findings that commercial banks constitute the major source of private sector funding ... they enhance credit delivery, mobilization of funds to encourage investments by private sector and areas of investment opportunities are made available to investors. This submission was also corroborated by Sanusi (2004) that banks and other financial institutions are providers of liquidity and payment services and therefore, represent an important nerve centre of the economy and the link between the real and the financial sectors. The relative low contributions of funds sourced through profits ploughed back (unappropriated profits) can better be explained by the assertion of Obadan and Odusola (2001) that "experience has shown that when profits of corporate bodies increase, the tendency is to increase employees' emoluments and declare high dividend payments rather than increase investment (in non oil exports)" In general, the findings revealed that NEXIM bank loans does not have a significant effect on Nigerian cocoa export performance while unappropriated profits and commercial bank loans do.

Since export intensity is the proportion of export sales in the total sales of the exporting firm generally, the constant factor (a) intercept term assuming a positive value of ₦587m is an indication that even where sales are not made abroad, ₦587m volume of sales could still be realized domestically by the exporting firm each year. This finding is not unexpected as export loans/funds are obtained to boost sales abroad and the absence of export loans do not indicate that domestic operations will be discontinued.

## **CONCLUSION AND RECOMMENDATIONS**

Based on the findings of the study, it was concluded that profit ploughed back (unappropriated profit) into cocoa processing firms had significant effect on the export performance of the country while fund sourced from commercial bank after factoring in the effect of fund sourced from unappropriated profit and NEXIM bank was also found to be significant. The effect of NEXIM bank source of finance on export performance having considered other sources was insignificantly negative. Finally, it was concluded that when there is no form of funds/finance secured for export operations, domestic sales would still be realized.

The following recommendations are made. Since funds sourced from commercial banks in form of loans and advances was the most effective according to the findings of this study, Policy makers are strongly advised to hence-forth route their intervention funds/assistance to any sector through commercial banks for effectiveness but that interest rates charged by these commercial banks should be monitored and if need be controlled. Profits ploughed back (unappropriated profits) into the business was recognized in this study to be the second most effective source of finance for export operations in improving export performance, the onus is now on the government to see to the policies that will enhance the widening of these profits. For instance, Manufacturers Association of Nigeria (MAN) noted that the



existence of multiple taxation from the different tiers of government is taking its toll on their profits (Ukpabi, 2010 cited in Owonibi, 2010) and there is therefore the need to streamline the tax paid by the companies in order to enhance substantial contribution of the intermediate cocoa processing sector to the improvement of export performance

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