FOREIGN EXCHANGE TRANSACTION IN NIGERIA: DETERMINANTS OF CUSTOMER PREFERENCES FOR BANK AND BLACK MARKET PATRONAGE

Oladele, Patrick Olajide[1]
Sulaimon, Abdul-Hameed Adeola[2]

Abstract

This paper presents empirical evidence on the determinants of customers' preferences for patronizing banks and black market for foreign exchange transactions in Nigeria. The study utilized a sample size of one hundred and fifty respondents using convenience sampling technique. The respondents' consent were sought verbally and obtained before data collection. A multiple regression analysis was employed to determine the level of significance (p<0.05) of the identified factors affecting customer preferences for foreign exchange transaction in Nigeria. An evaluation of the individual predictors show that the unrestricted value of transaction when foreign exchange hawkers are patronized accounts for the customers' patronage of this market otherwise called "black market" and the 't' value of 3.598 obtained reinforces this finding. These results have important implication for policy makers especially in view of the government's plan to re-structure and re-position the economy towards stable and sustainable growth. It is therefore recommended that a robust and strategic policy be put in place to regulate the foreign exchange market as a way of strengthening the government's economic intervention programmes.

Keywords: Black Market, Official Exchange Rates, Hawkers, Parallel FOREX Market

[1] Associate Professor of Business Administration, Ekiti State University, P. M. B. 5363, Ado-Ekiti, Nigeria
e-mail:- otunbagbobaniyi@yahoo.com
+234 8025253154
[2] Department of Business Administration
Ekiti State University, P. M. B. 5363, Ado-Ekiti, Nigeria
+234 8023551028
abualameen@yahoo.com (Correspondence)

CONCEPTUAL BACKGROUND

Foreign exchange (FOREX) through parallel market ("black markets") develops mainly as a result of government's restrictions on capital outflows, which induce domestic residents to seek alternative source of foreign currency. Its supply generally comes from the tourist industry, while demand originates mainly from residents traveling abroad on holiday or to study. Since demand for foreign currency normally exceeds supply, suppliers are able to charge a higher price than the official rate. The difference between the black market (or parallel) exchange rate and the official rate is known as the black-market premium, (Caporale & Cerrato, 2009).

These policies provided the impetus for the growth of the parallel FOREX market in Nigeria. In the period after independence in 1960, the parallel market was not an important feature, partly because the extent of rationing was limited, and demand was very low (Cerrato & Sarantis, 2003). The parallel market has reached a remarkable size in Nigeria (Musa, 1979). Over time, the parallel market has become a major source of FOREX to a wide variety of economic agents, and the exchange rate in the market is usually depreciated compared with the official exchange rate. Ayodele & Obafemi (2010) maintained that the expansion of parallel market for foreign exchange led to loss of government control over the economy as more of the official transactions are diverted to the parallel market. The source of currency being exchanged by the black market operators is questionable, since it is sometimes noticeable that FOREX hawkers dispense very neat crispy notes. However, bank officials' involvement in how these currencies get to the hawkers is an issue begging for further investigation.

Interestingly this market popularly called "black market" lacks legal backing for its existence and people patronizing this market are generally seen as having no regard for its consequences.

Ayogu (1997) states that the market, apart from being ubiquitous can also be found on the curbs, under staircases, on the landings of staircases between floors of storied buildings, inside shacks, in business bureau, inside restaurants, hotel lobbies, airport lounges, outside parking lots, and so forth. Any imaginable place qualifies as a dealing spot provided the parties involved in the resulting transaction feel secured (Bobola, 2009). As the market gained importance, and became more lucrative, it attracted a variety of entrants. Noteworthy are entrepreneurs who adapted their enterprises to the booming "money-changing business". Entry into the business and the competition it engendered greatly improved the reputation and infrastructure of the market. Within a given area, more transactions began to occur in fixed locations with a greater weight of reputational capital attached to the transactions. The extent of accuracy when counting currency exchanged and the genuineness of currencies traded became important dimensions of competition in the market.

Parallel market patronage for FOREX transaction however is expected to have negative effect on the economic growth of a nation, where such is entrenched (Odubogun, 1992). This can be more evident via non-payment of taxes by the operators, who are not necessarily recognised by government. The implication of this is that government tends to lose possible internal revenues accruable from the proceeds of tax payable on FOREX transaction.

A summation of the foregoing shows that the rate of patronage of FOREX black market is considerably high. It is the view of the authors therefore that some critical factors are responsible for this purchase behaviour. It is on this premise that the study attempts to investigate the determinants of customers' preferences for patronizing banks and "black market" for foreign exchange transaction.

METHODS

The study area was Ado-Ekiti metropolis in Ekiti State, Nigeria, using a survey research design. 150 questionnaires were purposively administered at the three major restaurants in the town, that is, Tantalizer, Captain Cook and Danke foods. The outlets are often patronised by tourists, civil servants and affluent local residents. The research adopted this method because it was possible to obtain information from customers who have the experience of currency exchange transaction. The consent of the respondents were verbally obtained before questionnaire administration. The questionnaires were technically divided into two categories, that is, those completed by clients patronizing banks for the foreign currency exchange transactions and those filled by individuals patronizing "black market" hawkers. The distinction was made possible by the response to the first item in the questionnaire.

Eighty nine (89) of the respondents or 60% of the total sample of 150 patronised "black market" hawkers, while 61 respondents or 40% of the total sample indicated that they patronised the banks for their foreign exchange transactions.

A pilot test was carried out before actual data collection to ascertain the reliability of the survey instrument and test for vagueness and clarity of items. For the pilot test, the questionnaire were administered at two weeks interval between the pre-test and post-test on a group of ten (10) respondents at an entirely different restaurant. The restaurant for the pilot study was chosen to specifically differ from those which were involved in the main study. The responses of the first administration of the instrument were correlated with values obtained in the second administration using Pearson's Product Moment Correlation method as used by Ogigio (1994).

Three methods of validation used include face, content and construct validities. To ensure its face validity, the research instrument was given to experts in the area of business administration to judge the adequacy of the instrument. Their comments were used to modify the items on the research instrument which was further subjected to content validity by the same panel of experts. Experts were asked to ascertain the relevance of each item to factors being measured and to ensure that the content of the instrument can provide answers to the research questions, test the hypotheses and measure the objectives. The items were further amended to ensure their content validity. The final stage of the validation involved determination of the research instrument's internal consistency.

Cronbach co-efficient alpha was calculated to measure the construct validity and questions that appeared incomprehensible or vague and those that do not induce meaningful responses in the pilot study were changed, re-worded or dropped.

ANALYSES OF RESULTS AND DISCUSSION

Analysis of Regression Coefficients for Respondents Patronising Banks

Presented in table 1 is the summary of regression model for bank FOREX patronage (see appendix).

The analysis shows that 55.8% of the respondents were males and 44.2% were females, indicating that more men than women were involved in foreign exchange transactions. Evaluating the correlation between educational background and currency conversion, the value of "r" obtained = -0.234 indicating a weak and negative relationship between the two variables. It is clearly deducible from the result that educational background is negatively related to respondents' decision on FOREX transactions.

The customers' patronage pattern was evaluated using factors ranging from marketing activity, cheaper selling price, limit of transaction at banks (i.e. quantum of exchange), documentation, security of transaction with hawkers, waiting time in banks, and cost of currency conversion in banks as predictors. The analysis revealed a multiple correlation coefficient of "R" = 0.508 indicating a moderate and positive relationship between the attitude of Nigerians to foreign currency conversion and the associated predictive factors. This analysis is however limited to respondents patronizing banks for their currency conversion transactions. The degree of change in customers' patronage as a result of change in the above-mentioned predictors using coefficient of multiple determination (R^2) was 25.8%. The implication of this result is that the extent of change in any of the identified factors cannot bring an improvement above the percentage established. Even when the change is negative, it indicates that the effect cannot be more than 25%. A synoptic perusal of the above dimensions shows

that banks are not experiencing the desired level of patronage despite the concerted efforts put together by the majority of Nigerian banks to establish a functioning bureau-de-change needed to cater for this category of customers. To argue otherwise is to cover the inefficiency and ineffectiveness of the law enforcement agents saddled with the responsibility of enforcing financial regulation in the country, which if properly done would have curbed the growing rate at which foreign exchange "black market" thrives at the expense of the official financial institutions.

The possible model for the relationship between the predictors and dependent variable is represented below, as derived from table 2 (see appendix)

$$BPtr = 0.586 - 0.183Tw - 0.128Tdc - 0.321Ccv - 0.292Csp + 0.014Sbt + 0.154Ish + 0.24Lq + 0.072Ma + 0.536$$

The variables are defined as BPtr (bank patronage.), Tw (time wastage in banks), Tdc (tedious documentation in banks), Ccv (cost of conversion in banks), Csp (cheaper selling price to banks), Sbt (security of bank transaction), Ish (insecurity of hawkers), Lq (Limit of quantity transaction in banks) and Ma (market activity of banks).

Analysis of Regression Coefficients for Respondents Patronising Banks

The study also evaluated the relationship between individual predictors and bank patronage for foreign exchange transaction. The fact that banks offer cheaper FOREX price was the most significant factor that motivate customers to patronize hawkers reasonably for higher returns. The t- value established was -3.596, significant at ($p < 0.05$).

The cost of transaction, such as payment of administrative cost and other charges also affect the rate of bank patronage for currency exchange negatively with a t-value of -3.617. Perhaps, the foreign currency sellers were nursing the fear that this will reduce the returns on FOREX transactions.

On the evaluation of the transaction limit (i.e. the quantum of foreign exchange) a negative t-value of -2.857 was obtained. This implies that as the quantum of transaction increases, the

level of patronage also increases. The few respondents who still patronize banks for their FOREX needs probably do so because of the perceived hawker's transaction insecurity and this was reinforced by the t-value of 1.909 obtained. The analysis further revealed that academic qualification is negatively related to banks patronage with a corresponding t-value of -2.072. The chronology of the findings suggests that the decision on whether or not to patronise banks for FOREX transactions has little to do with one's level of education.

Factors capable of determining customers' preference for "black market" hawkers' patronage were proxy and analysed. These factors include but are not limited to: awareness, insecurity of hawkers; limitless quantity of transaction with hawkers; academic qualification and marketing activity of hawkers. The result is as shown in table 3 (see appendix).

Analysis of Regression Coefficients for Respondents Patronizing Hawkers

The data analysis in table 3 (see appendix) shows that when the predictor variables are combined, they exhibit a coefficient of multiple correlation "R" of 0.363 and multiple determination (R^2) of 13.2%. This implies that a weak but positive relationship exists between the predictors in combination and customers' patronage of hawkers in FOREX trading.

Also, the degree to which the predictors explain level of changes in the patronage pattern of customers to hawkers yielded a coefficient of 0.132. Therefore, more customers still prefer "black market" hawkers for their FOREX transactions.

The multiple regression models for factors affecting customers' patronage of "black market" hawkers is expressed below; as derived from table 3 (see appendix):

$$HPtr = 1.726 - 0.1Acdmc - 0.009Ish + 0.30LLq + 0.090Ma + 0.052Aw + 0.0523$$

The variables are specified as; HPtr ("black market" hawkers patronage), Acdmc (academic qualification of customer), Ish (insecurity of transacting with hawkers), LLq (limitless quantity of transaction with hawkers), Ma (marketing activity of hawkers) and Aw (customers' awareness).

Analysis of Regression Coefficients for Respondents Patronizing Hawkers

The study also subjected each predictor variable to separate evaluation and the results revealed that limitless volumes of FOREX transaction when patronizing hawkers is the most significant reason for the continued interest shown in this market. The t-value of 3.598 is significantly high to reinforce this explanation. One reason that readily comes to mind is that the volume of cash in circulation is unreasonably high in Nigeria. This is in agreement with Bobola's (2009) opinion that the cash in circulation in Nigeria must be reduced significantly if the spate of bank robberies is to be curbed.

The marketing activities of the hawkers with a t-value of 1.042 also accounts for the increased patronage of hawkers of FOREX trading. The analysis confirmed the perceived insecurity associated with the patronage of hawkers of FOREX transactions. A negative t-value of -0.110 was established to reinforce this perception. Perhaps, the fact that those who patronize hawkers are deliberately disregarding the security consequences of their decision for the financial gains and conveniences account for the growing number of customers patronising "black market".

CONCLUSION

The empirical data generated resulted in an informed understanding that, pair-wise, the rate of hawkers to banks patronage was negative at t-value of -2.70. The implication of this is that as the number of customers that patronize hawkers' increases, there would be a 30.7% reduction in the number of customers patronizing the banks for FOREX transactions.

However, this research showed that a significant number of customers patronise the hawkers while fewer people patronize the banks for FOREX transactions. In actual sense, 40% of the respondents claimed they patronise banks while 60% acclaimed their patronage of hawkers whenever they are in need of foreign currency conversion. The importance of limitless FOREX transactions when patronizing hawkers emerges as central to the reason why hawkers are most preferred for such business dealings. Also, transaction cost, limited and regulated quantity

and cheaper FOREX offered by banks were the most significant factors militating against customers' patronage of banks for FOREX transaction.

POLICY IMPLICATION

What could be inferred from this study is that, if customers could not get the required quantity/volume of transaction needed from the bank, which of course is the approved agent of FOREX transaction, and hawkers are ready to offer this in limitless quantity, it may be necessary to investigate the possible sources of the hawkers funds; since banks have regulated volume of individual transaction. Also, it might not be out of place to suggest that, if un-accredited agents have access to FOREX transaction to the extent of doing greater businesses than the approved agents, then such transactions should be investigated. Government should therefore look into increasing financial institutions' FOREX transaction capacity in order promote legitimate business transactions and curb the menace of foreign currency hawkers in the country. Also, financial institutions should speedily embark on implementing measures aimed at reducing the bottlenecks of documentation required for FOREX transaction in order to encourage potential customers. Government should also educate customers on the illegality of their patronage of FOREX "black market" hawkers.

SUGGESTIONS FOR FURTHER STUDY

Future researchers in the area of foreign exchange should unravel the sources of funds being used by FOREX hawkers and examine the economic implications of increasing rate of customers' patronage of the parallel FOREX market in Nigeria.

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Appendices

Appendix I: Result of Data Analysis

Table 1: Summary of regression model for bank patronage

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.508	0.258	0.212	0.88151	1.826

Table 2: Regression coefficients of factors determining banks patronage for FOREX

      Transaction

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	.586	.536		1.094	.276
Time wastage in Banks (Tw)	-.197	.095	1.183	-2.074	.040
Tedious documentation in banks (Tdc)	-.132	.092	-.128	-1.445	.151
Cost of conversion expensive in bank (Ccv)	-.380	.105	-.321	-3.617	.000
Cheaper selling price to banks (Csp)	-.322	.090	-.292	-3.596	.000
Security of bank transaction (Sbt)	.018	.105	.014	.170	.866
Insecurity of hawkers (Ish)	.149	.078	.154	.1.909	.058
Limit as to quantity of transaction in bank (Lq)	.252	.088	.224	2.857	.005
Market activity of banks (Ma)	.079	.085	.072	.938	.350

Table 3: Summary of regression model for "black market" hawkers' patronage

R	R Square	Adjusted R Square	Std. Error of the Estimate
.363	.132	.099	.98021

Table 4: Regression coefficients of factors determining "black market" hawkers patronage for FOREX transaction

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	1.726	.523		3.301	.001
ACDMC Qualification (Acdmc)	-.196	.164	-.100	-1.198	.233
INSECURITY OF HAWKERS (Ish)	-.009	.086	-.009	-.110	.913
LIMITLESS QTY OF TRANSACTION WITH HAWKERS (LLq)	.319	.089	.300	3.598	.000
MARKETING ACTIVITY OF HAWKERS (Ma)	.112	.108	.090	1.042	.300
AWARENESS (Aw)	.075	.124	.052	.601	.549

Appendix II: Research Instrument

Dear Respondent,
It would be appreciated if you can assist in providing answer to the questions below. Please be informed that these set of questions are strictly for academic purposes; more importantly to facilitate a study on customers' preferences for banks and black market while transacting foreign exchange businesses and any information provided shall be treated with utmost confidentiality.
Thank you.
Section A
1. Sex: Male   (   )   Female   (   )
2. Academic Qualification: Secondary School Certificate   (   )
                                University/Polytechnic Education   (   )
                                Masters and Above   (   )
                                Others (Specify)…………………………………..
3. I have had the opportunity of converting foreign currency to local currency
                        Yes   (   )   No   (   )
4. I have had the opportunity of converting local currency to foreign currency
                        Yes   (   )   No   (   )
5. Are you currently working?   Yes   (   )   No   (   )

6. If yes, how many years of work experience

Less than one year ( ) 1 to 3 years ( )
4 to 6 years ( ) Above 6 years ( )

Section B: Kindly tick the appropriate space that conforms to your opinion.

Note: SA = STRONGLY AGREED
A = AGREED
D = DISAGREED
SD = STRONGLY DISAGREED

S/NO	DESCRIPTION	OPTIONS			
		SA	A	D	SD
1	I am aware of the official and recognised place (s) of currency conversion				
2	I do visit the bank whenever I wish to convert currency				
3	I do visit the road side hawkers whenever I wish to convert currency				
4	I do visit registered bureau de change agents/banks whenever I wish to convert currency				
5	Currency conversion in banks always lead to waste of time				
6	Documentation required for currency conversion in banks is tedious				
7	Foreign currency purchase is more expensive in the banks				
8	Foreign currency sales in the bank is cheaper				
9	There is insecurity changing currency with the road side hawkers				
10	Converting currency in the banks is more secured				
11	I always have access to quantity required when converting currencies with road side hawkers				
12	Quantity of transaction is limited using the bank				
13	Bank do inform customers of currency conversion opportunity				
14	Road side hawkers do whistle and beckon on passers by to create awareness of currency conversion opportunity				