

NAME: NWAOKORO MERIT

MAT.NO: SBS/2282040160

**TOPIC: THE ROLE OF DEPOSIT MONEY BANKS IN EXPORT
FINANCING IN NIGERIA (A CASE STUDY OF ECO
BANK PLC)**

DEPARTMENT: BANKING AND FINANCE

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The role of deposit money banks in a modern economy cannot be over exaggerated, deposit money banks in Nigeria as a financial institution help in financing the exporting sector of the economy, by lending out short and medium term loans to agriculture, manufacturing, trading and industries. Banks are important institutions that can provide finance to exporters in Nigeria. Banks are internationally recognized financiers and guarantees payment to exporters (Ningi, and Dutse, 2013). As stated by (Toby and Peterside, 2014) this critical role played by deposit money banks in financing exports in Nigeria dates back to post independence.

Crude oil accounts for about 95% of Nigeria's export earnings and 70% of total revenue while non-oil export account for about 5% export earnings. As such, any drop in the price of oil would have a significant negative impact on the Nigerian economy resulting from revenue shortfall. Okoh, (2004) noted that crude oil constitutes 96% of total exports as against 4% for non-oil exports in Nigeria. The Nigerian Government, conscious of the over-dependence on oil which constitutes

about 95% of generated revenue, has embarked on many measures to give the economy a new lease on life. To generate stronger and stable growth rate, the government promoted increased production in the non-oil sector of the economy by creating a level-playing field for private-sector led activity.

Non-availability of bank credits in Nigeria has brought about low growth rate of the economy and industrial diversification. The availability of bank credits to those in trade determines what is produced and how much of that product is produced. Consequently, deposit money banks perform their important role of financial assistance by delivering relevant services (by granting loans and advances) to various sectors of the Nigerian economy, including the export sector. Deposit money banks support the economy by serving the credit needs of their customary and providing a safe place for the cash balance. The benefit of export to economic growth cannot be exaggerated as it goes beyond the national boundaries of traditionally moving goods from one country to another with the sole aim of foreign exchange earnings.

Nigeria, over the years has engaged herself in export trade. This is not only very relevant in foreign exchange earnings, but also in its significant contribution to economic growth and

development. In some country exports have been found to perform as the engine of growth especially through high productivity exports, a nation can take advantage of international division of labour and procure desired goods and services from abroad at considerable savings in term of inputs of productivity resources, thereby helping to increase the efficiency of export industry.

Empirical research on Sub-Saharan Africa shows that economic growth is stimulated by export trade. Such studies include, (Leyaro, 2015 and Bbaale, Mutenyo 2007). The federal government of Nigeria over the years created some intervention funds and established agencies solely for the promotion of export. These include Export Development Fund (EDF), Export Expansion Grant Funds Scheme (EEGF), Duty Draw- Back/Suspension and Manufacture in Bond Scheme, Export Adjustment Fund Scheme and Nigeria Export- Import Bank (NEXIM). Other institutional bodies put to engage in financing export trade in Nigeria such as Nigeria Export Promotion Council (NEPC), Nigeria Export Processing Free Zone Scheme (NEPFZS) and Nigeria Export Processing Zone Authority (NEPZA).

1.2 Statement of Problem

It is regrettable that despite their various funding mechanism and incentives put by deposit money banks to stimulate the growth of export in relative contribution to the economy is still very low because of this low return, deposit money banks face the risk of non-payment of loan and advance given to export.

Firstly, the problems of policy stability it is needless to formulate a beautiful policy on export only to be discontinued, shortly, example the re-introduction of regulatory guideline in domestic account was disincentives to the exporter. This was reverse later by central bank of Nigeria (CBN). After much pressure recently Nigeria export and import only provide fund and transfer the risk to other banks. Another problem is that Nigeria exporters who ventures into foreign market do not avail themselves with the information relating to import countries such as culture, regulation and wealth this result in low returns those by increase the risk being faced by the financial institution that finances them. The Nigeria through the activities of some of its citizen has activities of some of its citizen has developed a negative business image both at home and abroad the poor included. Accommodation for a period of 3 days to 50 days, while long term credit usually related to a

period of more than 5 years. The exporters need pre-shipment finance for security the raw material and other input required for the execution of an export also ranging from the shipment of goods to foreign countries the credit is therefore regards as a loan granted to finance goods on the bases of letter of credit open in favour of exporter by overseas. Imports bank and Insurance of ware House Company. The duration of such credit provided by the past does not usually exceed 12 days post shipment credit is a loan or advance granted or any other type of credit, provided by the bank to an exporter of goods from the date of export proceeds within today. The main types of advance for post shipment are negotiated form of export bill drawn with confound export contract will order.

Leyaro, (2015) observed that inability of exporters to provide collateral to match the loan they are seeking, high interest of extending credits and non-availability of audited financial statement of non-export business entity deter the granting of loans and advances by commercial. Furthermore, most of the deposit money banks lack the expertise to manage credit risk associated with export financing in Nigeria.

1.3 Objectives of the Study

The broad objective of this study is to examine the effects of deposit money banks on export financing in Nigeria. Other specific objectives include:

- i. To determine the effect of credit to private sector on export financing.
- ii. To determine the effect of exchange rate on export financing.
- iii. To determine the effect of interest rate on export financing.

1.4 Research Questions

Based on the objectives of the study, the following research questions will guide the study:

- i. To what extent does credit to private sector affect export financing?
- ii. What is the effect of exchange rate on export financing?
- iii. To what extent does interest rate affect export financing?

1.5 Research Hypotheses

Ho: Credit to private sector has no significant and positive effect on export financing.

Ho: Exchange rate has no significant and positive effect on export financing.

Ho: Interest rate has no significant and positive effect on export financing.

1.6 Significance of the Study

The study is significant in a number of ways as follows:

- i. To policy makers and regulators of the export financing, it will present a schema, through its analysis that could assist them in enunciating policies and reforms that will positively impact on the performance of the stock market in the light of globalization.
- ii. To economic watchers and the interested public, it will provide some insight into the performance of export business.
- iii. To investors in general, it will expose the relationship existing between relevant variable used in the study.
- iv. To students, the research will assist those who wish to take a career in banking and finance to advance their understanding of the concept and mechanism of export financing and its inter-relationship with the financial markets of nations of the world.
- v. Finally, the research work will serve as a reference material for future researchers on similar topic by providing them with some index of and the Nigerian sources of business finance, export finance.

1.7 Scope of the Study

The study covers the period 2010 to 2021 and also looks at impact of deposit money banks on export financing in Nigeria.

A study of Eco Bank Plc.

1.8 Limitations of the Study

Certain draws back were encounter during the course of the research. The limitations of the study span the non availability of adequate information and data in published journals and article in Nigeria. Inadequate internet facilities relating to researcher work.

However, these challenges notwithstanding, the researcher worked assiduously hard to ensure that the authenticity and reliability of the outcome of the research was not in any way jeopardized.

1.9 Definition of Terms

Rediscounting and Refinancing Facility (RRF): The RRF is a facility designed to assist exporters and banks to provide pre- and post-shipment finance in local currency. The RRF is made available in two ways. Namely; Rediscounting Facility and Refinancing Facility. The facility is available for a maximum tenor of 180 days.

Stocking Facility (SF): This facility, given in local currency, is to enable manufacturers of exportable goods procure adequate quantities of local raw materials (which may be seasonal in nature) needed to keep production at optimal levels during periods of scarcity. The duration of this facility is 12 months.

Direct Lending Facility (DLF/SDLF): In an attempt to create a wiser means of accessing NEXIM facilities and reduce observed lapses in the on-lending arrangement, the Bank in the third quarter of year 2002 introduced both the Short-term (SDLF) and long-term Direct Lending Facilities (DLF) for exporters. The SDLF is available for the financing of commodity and value added exports. The DLF, on the other hand, is available for a maximum duration of 180 days and 365 days respectively.

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 existing of existing 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.

Export Credit Guarantee Facility (ECGF): This facility is operated as a guarantee provided to banks in respect of credit given to exporters in support of the export of goods and services from Nigeria. The facility is the usual guarantee, which a lender received from a suitable party as security to protect it against a borrower's default. It is hoped that this facility will encourage banks to provide credit to exporters.

Export 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.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Concept of Deposit money bank

Deposit money banks are resident depository corporations and quasi-corporations which have any liabilities in the form of deposits payable on demand, transferable by cheque or otherwise usable for making payments.

Deposit money banks have traditionally played an important role in financing various sectors of the economy especially in developing nation like Nigeria. This is because deposit money banks involved in financial intermediation process which entails channelling funds from the surplus units to the deficit units of the economy, thus transforming bank deposits into loans or credit (Ujah & Amaechi ,2005). Deposit money banks function in various dimensions in economy which include: acceptance of deposit from customers for safekeeping, lending to customers ,provision of loans and overdraft, discounting bills of exchange. It is important to state that of all these functions mentioned, deposit money banks major operation is the acceptance of deposits and granting of loans to customers. An efficient financial intermediation function of deposit money bank will

boost the micro-economic growth process which is the productive capacity of the economy. Aliyu and Yusuf (2013) reasoned that a developed financial sector should reflect the ease of entrepreneurs with sound projects to obtain financial resources and the confidence with which investors anticipate adequate returns.

2.1.2Export is the shipping of goods and services out from one country border to another country. The shipper of such goods and services is known as an "exporter" and is based in the country of export whereas the overseas based buyer is referred to as an "importer".

Exports also refer to the selling of goods and services produced in the home country to other markets in another country (Mohan, 2005). The Nigeria export sector is classified into oil and non-oil exports sector. These are the sources of foreign exchange earnings to the country. Onodugo, Ikpe and Anowor (2013) noted that non-oil export sector comprises those groups of economic activities which are outside the petroleum and gas industry or those not directly linked to them while the oil export comprises those groups of economic activities which are link to the petroleum and gas industry. According to Okoh (2004) the non oil sector consists of sectors such as

manufacturing, agriculture, telecommunication service, finance, tourism, real estate, construction and health sectors and the non-oil (mostly agricultural) products such as groundnuts, palm kernel, palm oil, cocoa, rubber, cotton, coffee, beans, hides, skin and cattle dominated Nigeria's export trade in the 1960s. But the discovery of crude oil in commercial quantity shifted the attention from non-oil export to a "petroleum mono-cultural economy" since the 1970s. While petroleum export was growing, non-oil exports were declining. This made the dominance of oil export over non-oil export much more rapid and pervasive.

Deposit money bank credits are necessary tools for economic growth and development. This is based on the fact that when banks credit facilities are accessible to the productive sector – manufacturing, services and agriculture sectors, it results to enhancement of productivity which by implication leads to development. Despite the credit guidelines of the Central Bank of Nigeria (CBN) which is aimed at channeling funds to the productive sector in order to stimulate the growth, the real sectors performances has not been encouraging considering the volume of credits supplied (Akinleye, Akanni & Oladoja 2003). The debacle in dwindling in real sectors output to a

large extent account for the poor high level of unemployment, a continuous increase in import demand, inability to make investments in modern machineries, low human capacity building. This continuous increase in import demand of manufacturing products led to deficits in the current account balance and low growth of the Nigerian economy (Nwosa & Oseni, 2013).

2.2 Performance and Financial Deepening in the Nigerian Export Sector

The Nigeria export sector played significant roles in the Nigerian economy and is the primary source of capital for the country's economic development. For instance the average contribution of export sector to Nigeria's Gross Domestic Product from 1986 to 2016 was 22.50%. The highest contribution of the sector to GDP was recorded in 2005 with 32.5% while the least contribution was 4.4% in 1986. The growth rate of the Nigeria export sector has not been very encouraging. The highest growth rate was recorded in 1986 during the SAP period with growth rate of 240.3%. In fact negative growth rate was experienced in 1994, 1997, 1998, 2001, 2002, 2009, 2012, 2014, 2015 and 2016 which was - 5.8%, 5.2%, -39.4%, -4%, -6.6%, -17.1%, 0.6%, 15.1%,

32.8%, and 0.1% respectively and the average of total export of Nigeria to other country between 1986 to 2016 was 4833.29 billion naira while the average of the oil export and the non oil export was 4575.39 billion naira and 254.41 billion naira respectively. The export sector consists of oil export and non oil export sectors. Of these two sub-sectors of the export sector, the oil sub-sector has been playing the dominant role. As can see in appendix 1, there was no year between 1986 and 2016 in which its share in the export sector was less than 90%. The average share of oil and non oil export to total export from 1986 to 2016 was 95.77% and 4.27% respectively. In fact, the share of oil sector was generally above 92 percent during the SAP period. However, the average growth rate of non oil export was 42.60% while the oil sector was 39.96%. The reason for this may not be farfetched is as a result of diversification policy put in place by government to diversify the export sector and make Nigeria a multi product economy.

An examination of the above gives a clearer picture of each of the average deposit money bank credit to the export sector in Nigeria from 1986 to 2016 was 115.35 billion naira. The highest value was recorded in 2015 with 1058.7 billion naira

while the least demand was 0.3 billion naira in 1986. Furthermore, the share of export credit to total credit in Nigeria was 4.18%. This implies that there was inadequate supply of credit to the Nigeria export sector. The growth rate of deposit money bank credit to the export sector has not been very impressive even negative growth was recorded in 1997, 1999, 2002, 2004, 2005, 2009, 2010, 2011, 2013 and 2015. The average growth rate of the deposit money bank credit to the export from 1986 to 2013 was 33.79% but the growth rate increase up presidentially from 2014 to 2016. The financial deepening of the export sector is determined by the percentage share of the sector commercial bank credit to the total export sector output. The average financial deepening in the export sector is 2.12% per cent and the highest of 3.69% per cent was recorded in 1998 while the least share was 0.63% in 1992. This implies that there is insignificant demand and supply of credit to the Nigerian export sector.

2.2.1 Import and Export Financing by Nigerian Banks

The truism that import and export financing holds the ace in economic development and growth of any nation may have accentuated the importance of this business portfolio, especially in the financing sector. Indeed, a much available

financing of export and import by the appropriate institutions will have great impact on the economy of that country.

Kravis (2007:116) observes that international trade could also make it possible for a country to specialize by the Chartered Institute of Banking of Nigeria (CIBN), Lagos branch; the participants discussed exchange control regulations in Nigeria in the context of rules and regulations of International Trade.

One of them, Nwagu (2009:12) argues the aspect of import and export transactions ranging from the means of financing of these transactions, to the role of multilateral agencies as well as aspects of regulations and banks compliance. In his paper titled: "Balance of Payments (BOP) and Foreign Exchange Management. The Nigerian Experience," Moran

(2003:18) observes that the external sector of every economy is quite vital in the contemporary world where nations and individuals are interdependent. Moran says that nations specialized to maximize their competencies and natural endowments, which informs international trade. As well, he says, certain nations are more successful than others in the course of economic activities, and thus end up stronger in international trade.

Mwega (2006:23) notes that Balance of Payment and foreign exchange management are closely related because the position of one impacts the other and vice. Mwega explains that poorly managed foreign exchange that results in over-valued or undervalued currency can produce BoP dis-equilibrium. Concerning the structure of Balance Payment, Adedipe said that in order to ensure comparability of BoP statements, the international Monetary Fund (IMF) sets the standards, which inform its components across nations. Mwega observes that Balance of Payment and foreign exchange management in Nigeria have been quite challenging because the Nigerian economy is a net importer of non-oil goods.

Taylor (2003:44) explains that the reference to non-oil exports derived from the experience of most oil exporting countries, whose oil revenue have distorted their macro economy and Balance of Payments. "This puts pressure on foreign exchange and the exchange value of the naira, which has resulted in the persistent depreciation of the naira vis-à-vis its trading currencies over the years. (Sundararajan and Thakur, 2004:62). They, however, state that Nigeria has indeed improved tremendously his BOP management capacity through rigorous training of staff of the Central Bank of Nigeria (CBN),

especially, those having responsibility for reserves management, trade and exchange while there has been improvement in the active trading of the external reserves, within well-defined risk-bands.

Otanka (2006) notes that from 1999 to 2005, except in 2003 of those years, Nigeria had current account surplus, which grew stronger in 2004 and 2005 and while the trend was sustained in 2006, the surplus, was stronger still at \$35 billion. For each of those years, movements in capital and financial account tended to smoothen the current position, the exception again being 2002, when both account had deficit balance, while the remaining four years recorded surpluses. The management expert expressed that with the figures for 2006 showing another strong surplus, the concern should be how that would be addressed. This, however, was not unexpected, given the sustained trend with crude oil prices and the prudent fiscal management, especially since 2004," (Moha, 2007:80). Moha says further that the trend with market prices vis-à-vis the budget assumption over the period from 1999 to end December 2007 is as in the following slide, showing that oil prices have been favourable to Nigeria over that period.

The oil prices trend strengthened accretion to external reserve from the oil revenue windfall, and took the reserves to \$42.9 billion in December 2006 and \$61 billion in May 2008. As well, the oil windfall helped Nigeria to repay the bank of her external debt stock," (Nwagu, 2009:62).

Nwagu enumerates the advantages of free trade in contrast to the issue of protectionism. Referring to David Ricardo in his "Principles of Political Economy (1817). Nwagu says is mutually beneficial for countries if they specialize in the production of goods they can produce more efficiently and trade those goods among themselves.

According to him, the implication of Ricardo's theory is that liberalization of international trade will enhance the welfare of the world's citizens. Although the theory is not completely immune to valid criticisms, it nevertheless produces a powerful intellectual rationale for promoting free trade among nations. Consequently, international trade is becoming further liberalized at both the global and regional levels, notes Nwagu Stordel (2009) observes that nations develop at different stages, which can be attributed to various factors such as education, factor endowments (land, capital,) entrepreneurial spirit and so on. It is these factor endowments that

necessitated international trade among nations, notes Stordel. According to him, apart from the differences in factor endowments that necessitated international trade, other benefits of international trade include; voluntary economic exchange, improved standard of living, world peace and employment opportunities. However, Wilson (2011:341) states some economists view that rather than free trade, nations should adopt a protectionist policies stressing the user to protect infant industries from undue competition from established industries of developed countries otherwise, they will be forced to fold up. Unrestrained importation in relations to export will result in advance balance of payment situation, while uncontrolled trade could lead to dumping.

Wilson also a protectionist policy will prevent importation of damaged goods; check possibility of unemployment that could result if local industries are forced to fold up as a result of imported goods. In order to avoid trade war, there is general consensus among experts that it is better for nations to adopt an outward oriented strategy and liberal trade unencumbered by artificial barriers and subsidies to foster economic goods in individual countries and global prosperity, Wilson concludes.

Udo (2009:24) notes that it is the need to foster economic growth and global prosperity that gave rise to the establishment of international organizations concerned with promoting free trade and development. These organizations include World Trade Organization (WTO), United Nations Conference on Trade and Development (UNCTAD), Organization for Economic Co-operation and Development (OECD) and International Chamber of Commerce (ICC). Udo mentions the rules and regulations for international trade, which impacts on the financial market, in particular the opening of letter of credit and bills for payment. According to him, the Code of Conduct for trade policy is provided in the World Trade Organization (WTO), which contains a set of specific legal obligation regulating trade policies of member states. These embodied in the General Agreement on Tariff and Trade (GATT), the General Agreement in Trade Services (GATS) and the agreement on Trade Related Intellectual Property Right (TRIPs) "concludes Udo.

According to Moha (2007:88), the rules and principles of the WTO constrain the freedom of governments to use specific trade policy instruments while they influence the balance between interest groups seeking protection and those

favouring open markets in the domestic political market place. Another rule with WTO trade policy is the dispute settlement and enforcement of rules. This is vital for the smooth functioning of the trading system, concludes Moha.

2.2.2 Financing Export Transactions

Export financing is often a key factor in a successful sale. Contract negotiation and closure are important, but at the end of the day, your company must get paid. Moran (2003:48) notes that exporters naturally want to get paid as quickly as possible, while importers usually prefer to delay payment until they have received or resold the goods. Because of the intense competition for export markets, being able to offer attractive payment terms customary in the trade is often necessary to make a sale. Exporters should be aware of the many financing options open to them so that they choose the most acceptable one to both the buyer and the seller. In many cases, government assistance in export financing for small and medium-size businesses can increase a firm's options. The following factors are important to consider in making decisions about financing:

The need for financing to make the sale. In some cases, favorable payment terms make a product more competitive. If

the competition offers better terms and has a similar product, a sale can be lost. In other cases, the buyer may have preference for buying from a particular exporter, but might but might buy your product because of shorter or more secure credit terms.

The length of time the product is being financed. This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.

The cost of different methods of financing. Interest rates and fees vary. Where an exporter can expect to assume some or all of the financing costs, their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.

The risks associated with financing the transaction. The riskier the transaction, the harder and more costly it will be to financé. The political and economic stability of the buyer's country can also e a issue, to provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possible confirmed) or export credit insurance or guarantee.

The need for pre-shipment finance and for post-shipment working capital. Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains in the exporter's working capital. Even during normal periods, inadequate working capital may curb an exporter's growth.

However, assistance in inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources (Vyss, 2011:11)

2.2.3 Increasing non Oil Exports in Nigeria

As narrates Soludo (2009), it is not news that petroleum that was discovered in Nigeria decades ago with the expectation of improving the lots of the people has succeeded in making majority of Nigerians go cap in hand begging for their share of the oil resources. It is not news that the non-oil resources we used to develop oil exploration now contribute less than 10% of the nation's foreign earnings. It is not news that oil has put the nation resources in few hands and equally unable to generate widespread employment for the employable hands in the country. It is surely not news that government came to realization that only the development of our non-oil exports products that can alleviate poverty and bring development closest to the people.

Nwagu (2009) observes that it is not enough to remain in one place blaming and waiting for government for everything; instead you need to plan your life within the available resources. Checking out to her countries cannot bring you the comfort you desire in life. Think of becoming your own boss and tap on the opportunities provided by this non-oil export crusade. While you are busy waiting for your share of the oil resources a lot of Nigerians are smiling their way to their banks with proceeds from exports of various products such as cocoa, cashew, fried snail, gari, gallstones, ginger, dried vegetable, cassava chips/leaves/roots, bones, sesame seeds, pepper, honey, charcoal, spices, various manufactured or processed products and intermediate goods etc.

international Development Agency (2010) notes that the beauty of non-oil export is that you reap from your efforts because your earning come to you and not to the central (federal) purse. You therefore need not wait for any sharing formula to dispose of your profit. Nwagu (2009:40) notes that the Federal Government, in its bid to change the mono-culture picture of Nigeria export earnings and possibly firm up the value of the Naira, has projected that by the end of 2007, export earnings from the non-oil sector would hit the USD 5

Billion mark. The above is coming quickly at a time when the volatility of the upstream oil sector is under very close observation in the light of the youth receptiveness and rebellion by Niger Delta resource control agitators. The question being asked is how the economy would fair if crude oil export is seriously threatened. What options are there for exporters of non-oil products?

In the light of the present volume of non-oil export and anticipated incentives, exporters of various products other than oil have a bright chance of increasing their takings. Otanka (2006:10) states that with government target of netting USD 5 Billion from non-oil export by the year 2012, there is wide chance for discerning exporters to explore. Government realizes the accrued benefits from non-oil exports which have since 1974 been relegated in favour of Petro-Naira. It must be recalled that the export of non-oil products; Cocoa, Groundnut, Palm Kernel/Oil, Rubber etc., funded the various marketing boards, which were effectively utilized by the first republic Regional Government in their development programmes.

The ongoing unrest in the Niger Delta makes continued reliance on oil export very precarious. The volatility of the oil market does not also make 100% reliance on Petro-Dollar a

wise decision, so government has no option than to encourage the increase in export of non-oil products including various agricultural products earlier enumerated to shore up foreign exchange earnings and stabilize the Naira. A nation, wise at trade, ensures the export of products in which it is much endowed. Nigeria is extensively endowed with various products, which are goldmines for discerning individuals. Take up the opportunities and earn decent income. Huge income earning opportunity: One of the Personal Entrepreneurial Characteristic (PEC) that makes a big difference between a successful entrepreneur and unsuccessful one is opportunity seeking. That is seeking, recognizing and acting on new business opportunities. Jonah (2008:284) notes that this is the use of contacts or networking to obtain useful information. It is in view of the above fact that we at the consulting are introducing this wonderful opportunity to you. This is golden opportunity that will enable readers to create for themselves, the target and lofty goals for huge success. Jonah further notes that in order to assist a lot of Nigerians to tap into this highly lucrative venture of non-oil export business, our organization, the thy consulting, has written a manual titled how to make it in non-oil export in Nigeria, to enable them

know all the techniques and secrets involved in non-oil export business.

Some of the contents of the manual include:

1. Introduction to export
2. Management issues involved in the Export Decision
3. Developing overseas markets
4. Assessing export potentials
5. Cost of exporting
6. Benefits of exporting
7. Risk of exporting
8. Pricing, quotation and terms pricing
9. Export Prerequisites
10. Myths About Exporting
11. Export Financing
12. Government Assistance Programs
13. Common Payment Terms
14. Letter of Credit
15. Export Procedures
16. The New Export Regime in Nigeria
17. Paper on Pre-Shipment Inspection of Non-oil Export from Nigeria under the Nigeria Export Supervision Scheme(NESS)
18. Common Export Products

19. How to Get Loan For Your Agricultural Enterprises and many more.

Chiriana (2004:100) notes that only very few Nigerians for now have penetrated the lucrative market of non-oil export and reaping cool big profit without stress. The KNOW-HOW of Non-oil Export secrets had been covered up and seriously guarded for sometime but now, we the present Nigerian revolutionary wealth builders have decided to uncover the secrets and release them without reservation to fellow aspiring Nigerians who so desire and keen in operating the wealth building secrets.

2.3 Theoretical Framework

There are three major theories underlying the role of deposit money banks in mobilizing credit for the real sector financing. They include the supply leading theory, financial repression theory and loanable Fund theory. The study will however hinge on loanable Fund theory.

The Supply Led Finance Theory

This theory was first developed by Patrick (1966) as reported in Arikpo and Adebisi (2017) who stressed that finance is one of the leading aspects of economic development. Supply led finance theory is growth inducing or growth induced, which

means finance (credit) is the most significant factor for promoting economic development such as export. The provision of funds through financial institutions to support the creation, transformation, expansion of industries and developmental projects is an element of the supply led theory.

Financial Repression Theory

This is associated with the work of Mckinnon (1973) and Shaw (1973). The theory emphasizes that financial development would contribute most significantly to the growth of economic activities if the authorities were not to interfere in the operations of the financial institutions.

According to the proponents of the theory, poor performance by banks and other financial institutions is thus often attributed to interest rate regulation, ceiling on deposit and loan rates and official guidelines pertaining to lending operations. Such interferences results in a low and often negative rate of return on financial assets and therefore inefficient savings mobilized and channeled into investment projects. Arikpo and Adebisi (2017) observed that this theorists advocated a positive real interest rate and financial liberalization which would ensure an optimal financial structure

for development as well as eliminating the fragmentation of market.

The loanable fund theory

The neo classical loanable fund theory of interest rate propounded by Dennis Robertson, postulated that savings and investment are responsible for determination of interest rate in the long run. The rate of interest is the price that equates the demand for and supply of loanable funds (Jhingan 2006). The demand for loanable fund for investments in the export sector such as purchase of capital goods, constructions, shipment of goods and services, e.t.c. depends on the expected rate of profit as compared with the rate of interest. This demand is met by past savings or through dis-saving and are interest elastic. According to Ojima and Fabian, (2015) the loanable fund regards the rate of interest as a function of four variables: savings, investment, the desire to hoard and the money supply. The theory holds the proposition based on the general equilibrium theory of interest rate determined by the demand for and supply of loan and advances. The demand for capital stems from investment decision on the real sector such as export while the supply of capital results from savings in the country deposit money bank.

2.4 Empirical Review

However, the answer to the question about the impact of deposit money bank credits on economic activity has remained inconclusive argument in the literature. Were, Nzomoi and Rutto (2012) examined the impact of access to bank credit on the economic performance using sectoral panel data for Kenya. They find that a positive and significant impact of credit on sectoral gross domestic product measured as real value added and recommended that the banking sector, which is the main source of credit to the private sector, is an important channel of financial intermediation through which financial resources can be mobilized for productive investment needed for the realization of the high economic growth. Consequently, policies towards deepening of the financial sector and reducing the cost of credit which is currently considered to be high are important.

Avinash and Mitchell-Ryan (2009) assessed the impact of the sectoral distribution of deposit money bank credit on economic growth and development in Trinidad and Tobago. They noted that in Trinidad and Tobago, commercial bank credit plays an important role in the way in which businesses and individuals finance economic transactions. They employ a vector error

correction model to firstly assess the relationship between credit and investment, and secondly to determine the casual directionality of the relationship (if any). The model found that overall, credit and growth tends to demonstrate a demand following" relationship. However, further analysis revealed a „supply leading" relationship between credit and growth within key sectors of the nonoil economy.

Imoughele and Ismaila (2013) investigated the impact of deposit money bank credit accessibility and sectoral output performance in the Nigerian economy for the period which spanned between 1986 and 2010. An augmented growth model was estimated via the Ordinary Least Square (OLS) techniques to ascertain the relationship between various commercial bank credits and sectoral output growth. The variables were tested for stationarity and co-integration analysis was also carried out using the Augmented Dickey-Fuller test. Also error correction test was performed. The study found that the various commercial bank credit supply and other included variables has a long run relationship with sectoral output performance i.e agricultural, manufacturing and services sector output and the main demand for credit facility in the Nigerian economy is the manufacturing sector.

The study also reveal that commercial bank credit has direct and insignificant impact on sectoral output performance but cumulative supply and demand for credit in the previous period has direct and significant impact on the growth of agriculture, manufacturing and the services sectors output. This findings was attributed to the vital position of credit facility as an input in the production process and persistent inflow to the manufacturing, Agriculture and services sectors have the capacity to induce the growth and development of the sectors which also induce exportation of goods and services. The study concluded that continuous credit accessibility in a deregulated financial market economy has the capacity to induce the nation sectoral output performance which will promote economic performance.

Yakubu and Affoi (2014) analyzed the impact of the commercial banks credit on economic growth in Nigeria from 1992 to 2012. In order to examine the role of commercial bank credit to the economy, the commercial bank credit to the private sector of the economy is used to estimate its impact on Nigeria"s economic growth, which is proxy by gross domestic product. Using the ordinary least square it was found that the commercial bank credit has significant effect on economic

growth in Nigerian. They recommended that better and stronger credit culture should be promoted and sustained; there should be strong and comprehensive legal framework that will continue to aid in monitoring the performance of credit to private sector and recovery debts owed to banks; bank should share among themselves information on bad debt; and preferred sectors like agriculture and manufacturing should be favoured in terms of granting loans.

On the effect of deposit money bank credit on export, Gupta and Keshari (2013) evaluate export trade financing in India with particular reference to commercial banks in terms of providing financial resources for promoting exports by providing both pre and post shipment finances. Using the Ordinary least Square, the study finding shows that increasing in the flow of bank credit to export sector, restructuring the interest rates enhances export performance and calls for the need for coordination between banks and financial institutions in the country in financing export sector. However, much attention has not been given to impact of deposit money bank credit on Nigeria aggregate export performance. Most scholar focus attention on how it affect non oil export for instance, Ningi (2013) noted that non oil export contributes 4% to the

Nigerian economy and the growth of Nigerian export sector is very low as a result of insufficient access to deposit money bank finance. Using questionnaires which was distributed to 120 non-oil exporting firms. Mean and standard deviation, multiple regression methodology was used for data analysis. The multiple regression indicates that non-oil exports financing by banks significantly accounts for slightly 16% of variance in non-oil exports performance, similarly beta coefficient reveals that firm's perception of banks attitude to risk of financing non-oil exports has the highest beta value followed by cost of bank finance, in the case of exchange rate fluctuation effects and volume and access to credit facility they present insignificant relationships with the non-oil exports and concluded that there is need for governments to develop financial sectors of their economies for improved exportation of goods and services.

Elechi, Kasie and Chijindu (2016) examine the contribution of the Nigerian banks to the promotion of non-oil exports. The study employs econometric time series analysis to examine the contribution of Nigerian deposit money banks credit to non-oil exports performance. Using unit root, co-integration and granger causality test, in which changes in non-oil exports performance was regressed against commercial banks credit to

non-oil exports, interest rate and inflation using annual series data for the period 1990-2013. The result of the analysis showed that Nigerian banks have not adequately contributed toward the promotion of non-oil exports. The study also finds that there is a long run relationship between deposit money banks credit to non-oil exports and the performance of non-oil exports but no causality between Nigerian banks credit to non-oil exports. They recommended that the Central Bank of Nigeria should reduce the current monetary policy rate of 14% to a range of 5%-8% so that when commercial banks add up processing, transaction and other administrative fees, credit would be extended to non-oil exporters at a rate lower than 15%. Also the Central Bank of Nigeria should as an operational guideline, impose commercial banks to set aside a certain amount of money from their yearly profit for financing of non-oil export as it is the case for small and medium scale enterprises equity scheme.

Iyoboyi and Abdelrasaq (2015) examined the impact of policy and institutions on non-oil exports in Nigeria for the period 1961-2012. The Autoregressive Distributed Lag (ARDL) framework was employed for analysis and found a long-run relationship between non-oil exports and the associated

variables. In both the long and short run, broad money supply and exchange rate were found to have direct and significant impact on non-oil exports. Both the short and long run results indicate that fiscal deficit, interest rate, and openness are inversely related to non-oil exports and statistically significant with the exception of fiscal deficit and concluded that increased in money supply and proper exchange rate management are means of driving non-oil exports and also there is need to reduce fiscal deficit and interest rate. A reduced fiscal deficit can ease the pressure on the market for loanable fund and consequently the crowding out of private investment.

Enoma and Isedu (2011) observes that the Nigerian economy has been a mono- product economy relying more on oil export and this has had an adverse effect on non- oil export supply. Equally observed are the various financial sector reforms embarked upon by the Central Bank of Nigeria (CBN) in boosting the productive capacity of the economy. Given these facts, they empirically examined the impact of current financial sector reforms on non- oil export in Nigeria and estimated non-oil export supply model. The results obtained from the estimated error correction model reveals that interest rate, exchange rate and broad money supply have direct and

significant impact on non-oil export in Nigeria and recommended that financial sector reforms should be improved upon and sustained by the monetary authorities to induce exportation.

Arikpo and Adebisi (2017) examined the effects of deposit money banks financing on real sector output in Nigeria. The study specifically assessed the effect of private sector credit, interest rate spread, deposit mobilization and banks' holding of treasury bills on trade and agricultural sectors outputs in Nigeria. The study used the Vector Error Correction Mechanism (VECM) for data analysis and revealed that deposit money banks financing have a long term significant effect on the trade sector but does not have any long run effect on the agricultural sector in Nigeria and interest rate spread has an inverse effect on the trade sector output but a positive effect on the agricultural sector output. The study therefore recommended that the spread between lending and deposit rates should be narrowed to trigger savings and enhance banks' loan supply and real sector loan demand which consequently will boost productivity in the real sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

According to Onwumere (2005), a research design is a kind of blueprint that guides the researcher in his or her investigation and analyses. The research design that was adopted for this research is the ex-post facto (quantitative) research design. The intended adoption of this research design hinges on two reasons. Ex-post facto research design as described by Kerlinger (1970), the ex-post facto research design also called causal comparative research is used when the researcher intends to determine cause-effect relationship between the independent and dependent variables with a view to establishing a causal link between them; the study is an impact study thus the adoption of the ex-post facto research design.

3.2 Population of the Study

The population of the study is all credit granted for since the establishment of NEIXM and Banks in Nigeria. This will also constitute the total sample size for this research. However, the study is time series analysis thus we examined the impact of Export credit on non-oil export in Nigeria from 2000 to 2021.

3.3 Sample Size/Techniques

The idea of sampling or determining sample size is to obtain a part of the population from which some information about the entire population can be inferred. In line with the nature of this type of research, the sampling Techniques were the Non Probability Convenience sampling method. This is justified on the availability of data.

3.4 Sources of Data

The nature of data for this research was of secondary nature. Secondary data are data which have been processed, collated and existed in published form (see Onwumere, 2005). The secondary data sources that were used in this study are extracted from Central Bank of Nigeria statistical bulletin and the Nigerian Export-Import Bank annual statement and accounts. The relevant data include, Non-oil Export in volume, Gross domestic Product in volume, Nigeria Export-Import Bank Credit and Total Bank Export Credit in volume for the period under study.

3.5 Model Specification

The simple regression equation is stated thus:

$$EXPT = CPS + EXCR + INTR + Ut \dots\dots\dots 1$$

$$EXPT = \beta_0 + CPS \beta_1 + EXCR \beta_2 + INTR \beta_3 + Ut \dots\dots\dots 2$$

$$\beta_1, >_0 \beta_2, \beta_3 < 0$$

3.6 Technique for Analysis

The hypotheses stated in chapter one will be tested using the Ordinary Least Square (OLS) Regression model. The justification for adopting this analytical technique is based on the following premise; the ordinary least square is assumed to be the best linear unbiased estimator (Gujarati, 1995); it has minimum variance (Onwumere, 2005), and similar work (Usman and Salami, 2009) adopted this technique in their study.

CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND INTERPRETATION OF REGRESSION RESULT

4.1 Data Presentation

| Years | EXPT | CPS | EXCR | INTR |
|--------------|-------------|---------------|-------------|-------------|
| 2000 | 985.0 | 587,999.90 | 102.1052 | 10.44 |
| 2001 | 1,358.2 | 844,486.20 | 111.9433 | 10.09 |
| 2002 | 1,512.7 | 948,464.10 | 120.9702 | 15.57 |
| 2003 | 2,080.2 | 1,203,199.00 | 129.3565 | 11.88 |
| 2004 | 1,987.0 | 1,519,242.70 | 133.5004 | 12.21 |
| 2005 | 2,800.9 | 1,991,146.42 | 132.147 | 8.68 |
| 2006 | 3,108.5 | 2,609,289.40 | 128.6516 | 8.26 |
| 2007 | 3,912.0 | 4,820,695.70 | 125.8331 | 9.49 |
| 2008 | 5,593.2 | 7,799,400.11 | 118.5669 | 11.95 |
| 2009 | 5,480.7 | 9,667,876.68 | 148.8802 | 12.63 |
| 2010 | 8,164.0 | 9,198,173.06 | 150.298 | 7.19 |
| 2011 | 10,995.9 | 9,614,445.80 | 153.8616 | 6.30 |
| 2012 | 9,766.6 | 10,440,956.33 | 157.4994 | 7.63 |
| 2013 | 9,439.4 | 11,543,649.93 | 157.3112 | 6.72 |
| 2014 | 10,538.8 | 13,179,598.11 | 196.0562 | 9.89 |
| 2015 | 11,076.1 | 13,568,543.70 | 389.1230 | 8.26 |
| 2016 | 9,480.4 | 16,500,150.26 | 360.1721 | 5.46 |

| | | | | |
|------|----------|-------------|----------|------|
| 2017 | 10804.8 | 16193858.35 | 374.64 | 7.73 |
| 2018 | 13445.1 | 15438603.87 | 367.4098 | 7.99 |
| 2019 | 14125.1 | 15738603.87 | 367.4098 | 7.99 |
| 2020 | 142123.5 | 15945677.85 | 380.00 | 8.50 |
| 2021 | 145876.5 | 16135677.55 | 400.00 | 9.50 |

Source: CBN Statistical Bulletin 2021

Dependent Variable: EXPT
Method: Least Squares
Date: 23/09/22 Time: 12:49
Sample: 2000 2021
Included observations: 22

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|--------|
| C | 4109.872 | 1967.742 | 2.088623 | 0.0542 |
| CPS | 0.000667 | 0.000107 | 6.213684 | 0.0000 |
| EXCR | -3.480682 | 5.577230 | -0.624088 | 0.5419 |
| INTR | -233.3834 | 161.1465 | -1.448268 | 0.1681 |
| R-squared | 0.903951 | Mean dependent var | 6448.921 | |
| Adjusted R-squared | 0.884741 | S.D. dependent var | 4153.427 | |
| S.E. of regression | 1410.082 | Akaike info criterion | 17.52535 | |
| Sum squared resid | 29824972 | Schwarz criterion | 17.72418 | |
| Log likelihood | -162.4908 | Hannan-Quinn criter. | 17.55900 | |
| F-statistic | 47.05658 | Durbin-Watson stat | 1.685662 | |
| Prob(F-statistic) | 0.000000 | | | |

4.2 Interpretation of Result

$$EXPT = \beta_0 + CPS \beta_1 + EXCR \beta_2 + INTR \beta_3 + Ut$$

$$EXPT = 4109.872 + 0.000667CPS - 3.480682EXCR - 233.3834INTR + ut$$

$$t\text{-stat} = (2.088623) \quad (6.213684) \quad (-0.624088) \quad (-1.448268)$$

$$R^2 = 0.903951$$

Adj. $R^2 = 0.884741$

Durbin-Watson = 1.685662

F- Statistic = 47.05658

From the result above the estimate of β_0 is 4109.872. This shows that if the independent variable is zero, the dependent variable would be 4109.872. It implies that there is a direct relationship between the dependent and independent variables.

The estimate of a β_1 is 0.000667. This implies that there is direct relationship between the Export financing and Credit to private sector (CPS). An increase in CPS would course 0.000667 changes in Export financing. In other word, Export financing and CPS moves in the same direction.

The estimate of a β_2 is -3.480682. This implies that there is inverse relationship between Export financing and EXCR. A unit change in EXCR will bring about -3.480682 changes in export financing. This implies that unstable exchange rate will negatively impact on export financing.

The estimate of β_3 is -1.448268. This implies that there is a inverse relationship between export financing and Interest Rate (INF). A unit change in INTR will bring about -1.448268changes in export financing. A high interest rate will discourage export financing.

The Durbin – Watson d statistic at 5% $dL = 1.142$, $du = 1.739$, $D.W = 1.6856622$, is significant and i.e $dL < d > du$ ($1.142 < 1.2209 > 1.739$) there is absence of autocorrelation.

4.3 Test of Hypotheses

Hypothesis I

Ho: Credit to private sector has no significant and positive effect on export financing.

The hypotheses above were tested by considering the f-tabulated and f-calculated values.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f-critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F-calculated value of F- Statistics in model one shows that the F-Statistic = 47.05658 and f-tabulated of 0.5300 shows that the f-calculated is higher than the f-tabulated. We therefore reject the null hypothesis and conclude otherwise that credit to private sector has no significant and positive effect on export financing.

Hypothesis II

Ho: Exchange rate has no significant and positive effect on export financing.

The hypotheses above were tested by considering the f -tabulated and f -calculated values.

Decision Rule: Reject the null hypothesis if the f -calculated is greater than the f -critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F -calculated value of F -Statistics in model one shows that the F -Statistic = 47.05658 and f -tabulated of 0.5300 shows that the f -calculated is higher than the f -tabulated. We therefore reject the null hypothesis and conclude otherwise that exchange rate has significant negative effect on export financing

Hypothesis III

Ho: Interest rate has no significant and positive effect on export financing.

The hypotheses above were tested by considering the f -tabulated and f -calculated values.

Decision Rule: Reject the null hypothesis if the f -calculated is greater than the f -critical (table value) at 5% level of significance.

Decision: A comparative analysis of both the F -calculated value of F -Statistics in model one shows that the F -Statistic = 47.05658 and f -tabulated of 0.5300 shows that the f -calculated

is higher than the f -tabulated. We therefore reject the null hypothesis and conclude otherwise that interest rate has significant negative effect on export financing

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND
RECOMMENDATIONS

5.1 Summary of Findings

Base on the empirical analysis, the following are the summary of research findings:

- i. Credit to private sector has significant positive effect on export financing.
- ii. Exchange rate has negative significant effect on export financing.
- iii. Interest rate has negative significant effect on export financing.

5.2 Conclusion

Export financing is an aspect of financing that looks into exportable goods that earn foreign exchange for the nation. It is a technique of diversifying the resource base of the country. Presently, Nigeria over depends on oil proceeds. Action has to be taken adequately to increase the earnings from none oil export. According to Abubakar (2011), Export Expansion Grant (EEG) is designed to increase earnings of government from non-oil through renowned agro-allied products such as cocoa, leather, rubber, cotton-textiles, shrimps, sesame seeds and gum Arabic. Abubakar notes that the main objective of EEG is to compensate

local manufacturers who export. For rising operational expenses traceable to harsh operating environment thereby enhancing their products competitiveness outside the country, he notes that the policy has succeeded to the point that Nigerian's non-oil exports have been growing consistently at a double-digit rate in the last five years. Implementation challenges of EEG, notes Mohammad (2011) ranges from the corruptive and manipulative activities of a few local manufacturers to alleged institutional hindrances on the part of Federal Government implementation agencies. In increasing export

financing, government has to take measures to monetize local production. The research concludes that measures should be taken by policy makers in Nigeria to increase export grant, as this will enhance the growth of the Nigerian economy.

5.3 Recommendations

Based on the findings of the study, the researcher recommends as follows:

- i. The government should encourage private investor by making bank credit available to expand production and increase their earnings and expand exports.
- ii. A relative stable exchange rate should be put in place by the monetary authority.

- iii. Single digit interest rate should be put in place to encourage investors and to promote export.

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APPENDIX

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Source: CBN Statistical Bulletin 2021

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Method: Least Squares

Date: 23/09/22 Time: 12:49

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| F-statistic | 47.05658 | Durbin-Watson stat | | 1.685662 |
| Prob(F-statistic) | 0.000000 | | | |

**THE ROLE OF DEPOSIT MONEY BANKS IN EXPORT FINANCING
IN NIGERIA
(A CASE STUDY OF ECO BANK PLC)**

**NWAOKORO MERIT
MAT.NO.SBS/2282040160**

**DEPARTMENT OF BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
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**NOVEMBER, 2022
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**PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND
FINANCE**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE AWARD OF HIGHER NATIONAL DIPLOMA (HND)
IN BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI, EDO STATE**

CERTIFICATION

We, the undersigned certify that this research work titled
**THE ROLE OF DEPOSIT MONEY BANKS IN EXPORT
FINANCING IN NIGERIA** was carried out by **NWAOKORO
MERIT** with **MAT.NO.SBS/2282040160** in the Department of
Banking and Finance, School of Business Studies, Auch
Polytechnic, Auch.

We also certify that the work is adequate in scope and
content in partial fulfillment of the requirements for the award of
Higher National Diploma (HND) in Banking and Finance.

Mr. Okolie Sylvester
Project Supervisor

Date

Mr. Musa Abudulai
Ag. Head of Department

Date

DEDICATION

This project work is dedicated to God Almighty who created the universe for His mercies and protection for seeing me through in my academic pursuit in Auchi Polytechnic.

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ABSTRACT

The growth of export sector has dwindled over time in spite of deposit money bank credit supply to the sector. It is against this backdrop that this study examined the role of deposit money banks in export financing in Nigeria. The main objective of this study is to examine the deposit money banks and export financing in Nigeria. The study employs ordinary least square regression techniques. The empirical findings showed that there is significant relationship between banks credit and total export in Nigeria. The study recommends that Local manufacturers and private investors should be encouraged to expand production and source market globally. This will increase their earnings and expand exports. Also, there is need to reposition the non-oil tax revenue as one of the sources of sustainable revenue for the national development.

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