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Accounting and taxation review

## Provided in Cooperation with:

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*Reference:* Esezobor, Emmanuel Amie (2020). Financing of manufacturing exports and performance of deposit money banks in Nigeria. In: Accounting and taxation review 4 (2), S. 75 - 87.  
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Leibniz-Informationszentrum Wirtschaft  
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Leibniz  
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ISSN: 2635-2966 (Print), ISSN: 2635-2958 (Online).

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University of Benin, Benin City, Nigeria.

Available online at <http://www.atreview.org>

Original Research Article

## **Financing of Manufacturing Exports and Performance of Deposit Money Banks in Nigeria**

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Received: 09/04/2020

Accepted: 19/06/2020

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### **Abstract**

*The aim of this study was to examine the manufacturing exports sector financing and the performance of deposit money banks in Nigeria. The diversification policy of the Federal Government of Nigeria stated the components of non-oil exports as Agriculture, Manufacturing, Solid Minerals and Services, all key productive sectors. To facilitate this study, we used Total Bank Assets, Total Bank Liabilities and Total Bank Liquidity as proxies for the performance of Deposit Money Banks in Nigeria. The study adopted an ex-post causal research design using data for the period 1981-2017; 37 observations. The time series secondary data deployed were sourced from the Central Bank of Nigeria Statistical bulletins. The Auto-Regressive Distributed Lag (ARDL) statistical tool was utilised in the estimation of the data, and the findings revealed that credit to Manufacturing sector significantly impacted on bank liability levels and bank liquidity in the long run but did not impact significantly on bank assets in the long run. The study recommends that the government should provide an effective and safe enabling environment that can ensure that banks' lending to manufacturing exports sector comes at minimal risks. The study has contributed to the existing knowledge as it developed an econometric model that indicates that the manufacturing exports financing can improve the fortunes of deposit money banks in Nigeria.*

**Keywords:** Manufacturing exports, total bank assets, total bank liabilities, total bank liquidity, and autoregressive distributed lag

***JEL Classification Codes: E52, E58***

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**Citation:** Esezobor, A.E. (2020). Financing of manufacturing exports and performance of deposit money banks in Nigeria. *Accounting and Taxation Review*, 4(2): 75-87.

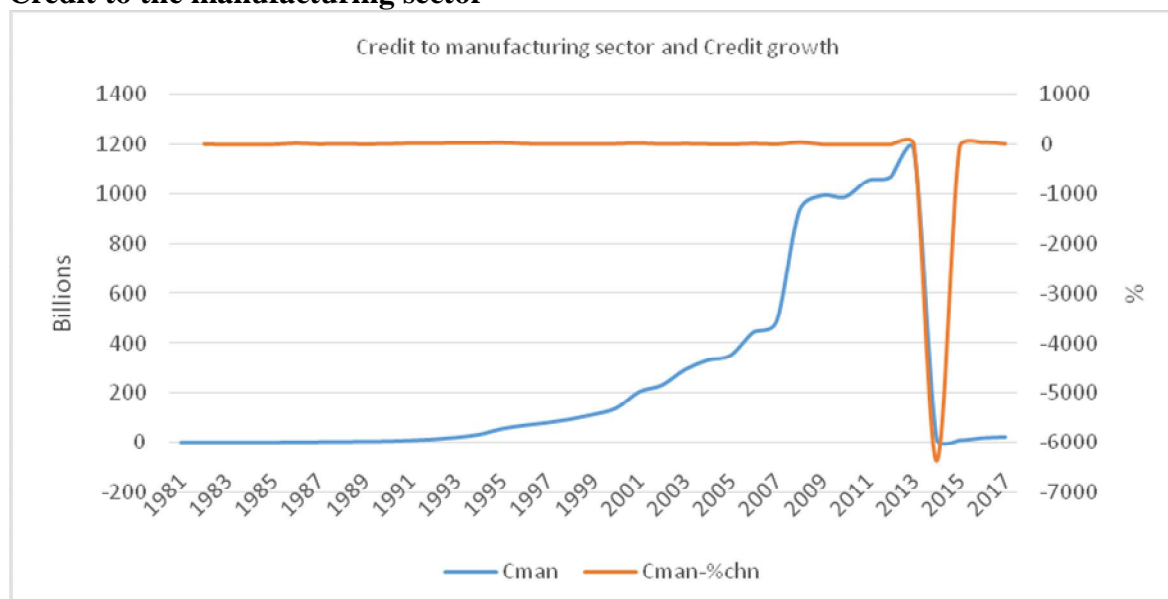
## 1.0 INTRODUCTION

Gradually but steadily, the mainstay of the Nigerian economy, crude fossil fuel is receding to the background in importance because the major consumers in Europe and America have christened it along with petroleum gas and coal dangerous since they must be combusted to generate energy. The process of combustion degrades the environment with the emission of gas. The United States of America and China, the two biggest world consumers of crude fossil fuel have since discovered a replacement in shale oil found in abundance under sedimentary rocks in both countries.

The Federal Government of Nigeria rose to the challenge in 2015 when early in the first tenure of the Buhari government, it enunciated the diversification policy fundamentally away from crude fossil fuel into four key sectors of agriculture, manufacturing, solid minerals and services. By this development, the government made its intention clear: these four key sectors should be supported by all and sundry to take over from crude fossil fuel as the

primary foreign exchange earner in exports and providers of jobs in Nigeria. This is also in tandem with the zero crude fossil fuel posture in the Nigeria Economic Recovery and Growth Plan (NERGP), a four-year medium-term strategic plan evolved in 2017. Oruta (2015) advances two reasons for the necessity to diversify Nigerian exports. First, he says the crude oil market is volatile, and a fall in earnings significantly affects government revenue and performance. Second, crude fossil oil, according to him is an exhaustible asset which makes it unreliable for sustainable development of the Nigerian economy. Ningi (2013) opines that crude fossil fuel accounts for 96% of total exports as against 4% of non-oil exports in justifying the call for diversification.

The crux of the matter is funding, and the leading financiers in the Nigerian financial market are the Deposit Money Banks (DMBs). The following graph depicts the trend analysis of DMBs credits to the Manufacturing Sector from 1981 to 2017, 37 observations.

**Credit to the manufacturing sector**

**Source: CBN Statistical Bulletin (2017)**

The above graph shows the data for DMBs' credit to the manufacturing sector, and as can be observed, there were significant increases in the amount of credit that banks disbursed for the most of the period from 1981-2017; N2.6598bn in 1981 and then N3.037bn in 1983, N3.053bn in 1984 and then N3.23bn in 1985. In 1986, credit to the sector grew to N4.475bn and then rose to N7.88bn at the end of 1990. In 1991, credit to the sector stood at N10.911bn.

The broad objective of this study is to ascertain the impact of financing of manufacturing exports on the performance of DMBs in Nigeria.

## **2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **Conceptual Review**

There are 22 DMBs in Nigeria, and each has a minimum paid-up capital of N25 billion. Most of the banks are well spread across the 36 states and the federal territory in Nigeria. They are all active with no current report of financial distress; thanks to the active

supervision of Central Bank of Nigeria (CBN) and the bank consolidation exercise which ended in January 2006. Although 22 DMBs have been mentioned to be in operation, CBN (2018) lists 28 banks of which 5 are merchant banks and Savannah Bank, one of the banks listed, is presently not in operation. Merchant banks are not DMBs because they cannot participate in bank intermediation, especially in deposit mobilization in the intermediation loop. Instead, according to Esezobor (2019), they operate with wholesale tenor placements and long-term loans and lend by structured credits.

The manufactured exports to the international export market comprise of agro-allied and manufactured goods. The agro-allied export products are cocoa butter, cocoa powder, cocoa cake, cocoa paste, groundnut cake and wood products including furniture and fixtures. The principal manufactures are textiles, chemical products, beer and beverages, urea-ammonia, pharmaceuticals, electric cables,

insecticides, soap and detergents, plastics and non-metallic mineral products and processed animal skin.

### **Research Variables and Measures of Financial Performance**

While the performance of DMBs is the dependent variable, the independent variable is a stand-alone, Credit to Agriculture.

Several accounting indicators can be used as proxies for the performance of DMBs. We opted for Total Bank Assets (TBA), Total Bank Liabilities (TBL) and Total Bank Liquidity (TBQ) because they are related to the study, and the data are readily available.

#### **a. Total Bank Assets (TBA)**

Olalusi (1998) and Osiegbu (2005) succinctly present the total assets of a bank as cash, money at call and short notice, treasury bills, certificates of deposit, special deposits, investments and advances arranged in the order from the top of a statement of financial position. Of all the assets, Advances otherwise called Credits or Loans and Advances take pride of place because its aggregate is about 75% of the total assets of a bank. These assets, it must be emphasized, are created from the weight of sundry deposits attracted into the system. In banks, a premium is given to liquid assets rather than fixed assets.

#### **b. Total Bank Liabilities (TBL)**

Osiegbu (2005) lists a bank's liabilities as Share Capital (owned assets), Reserve Fund (accumulated from past profits) and Deposits on current accounts, savings accounts, fixed deposits and borrowings from other banks otherwise called placements. While share capital and reserve fund are not used in calculating a bank's Assets and Liabilities profile, deposits are

easily equated with a bank's liabilities and regarded as short-term irrespective of the tenor of the deposits because the bank's cardinal promise is 'to honour all drawings on demand'.

#### **c. Bank Liquidity (BLIQ)**

Anyawaokoro (1999) recognizes that liquidity management is more crucial for a bank because illiquidity cannot be hidden for long and can cause immediate failure for a bank while a bank may conceal low profitability for long, not so for liquidity which can hardly be concealed for one day as long as the bank is open for business. Liquidity arises from how professional the bank is able to manage its cash and other assets that can be easily converted to cash at short notice and in terms of liability, commitments that must also be honoured at short notice e.g. deposits on current, savings and fixed deposit accounts. A bank's biggest asset, namely loans and advances constitute the main assets when reckoning with liquidity irrespective of the tenor of the credit because all bank credits are repayable on demand should the need arise as stated in the commitment letter issued on credit approval.

Ajibola (2005) opines that liabilities indicate where the funds that have been invested in the bank have come from while the assets show how these funds have been used. Bank liquidity is constrained by the quantum of deposits sourced, CBN statutory lending limits including liquidity ratio which also states the assets that qualify as liquid assets and lastly, availability of tested professionals to manage the available liquidity safely and profitably. Assets and Liability Management Committee that meets weekly in banks shoulders this responsibility.

## 2.2 Theoretical Review

There is a coterie of theories on this subject. The Theory of Growth Rate Maximization by Marris (1964), Endogenous Growth Theory by Pagano (1993), Export-Growth Strategy with followers like Abou-Strait (2005), Ezike, Ikpesu and Amah (2012) and Ewetan and Okodua (2013) tend to complement the manufacturing sector. Another recent theory titled Michael Porter's Theory of the Comparative Advantage of Nations was crafted in 2008.

In particular, the Endogenous Theory by Pagano (1993) captures the potential effects of non-oil sector diversification on economic growth in both developed and developing countries. The theory assumes that efficient non-oil sector diversification can affect economic growth through the channels of agricultural, manufacturing and solid minerals. The theory posits that indices like technology, innovation and information technology and human capital are novel accumulative indices whose application can engender self-sustaining economic growth. The theory recognizes the impact of diversification, which the paradigm shift from crude fossil fuel exports to non-crude oil exports in Nigeria represents. It, therefore, constitutes the theoretical framework of this study.

## 2.3 Empirical Review

In ten years from 2007 to 2016, a total credit of N40,208.29 million was extended to the non-oil sector of which manufacturing had a share of N12,302.11 million representing 30.6%. Following the massive publicity on the necessity for diversification in 2015, there was a phenomenal increase of funding to the non-oil export sector to the tune of N189,856 million from a mere N63,317.2 million in 2016, N52,890.6 million in 2015 and N45,900.76 in 2004. The phenomenal

increase also reflected in the credit exposure to manufacturing exports which had a rise of 219.7%. Clearly, Nigerians are bracing up for an economy without a credible international demand for crude fossil fuel in perhaps another ten years.

Sola, Obamuyi, Adekunjo, and Ogunleye (2013) note that industrialization is the driving force for the modern economy. They aver that the manufacturing sector is the engine room of the economy. In the First and Second National Development Plans in 1962-1968 and 1970-1974, respectively, several strategies aimed at enhancing the productivity of the manufacturing sector in order to achieve economic growth and development were deployed. The manufacturing sector was organized in such a way to depend on imported inputs because Nigeria then could not produce the capital goods for industrial growth. It was believed according to the writers, that the introduction of the Structural Adjustment Programme in 1986 could replace the high dominance on crude fossil fuel by promoting non-oil exports in manufactured goods such as plastics, textiles, food and chemicals which flourished at the time. Using the secondary data from CBN statistical bulletin, 2010, the results of their study showed the following: there is a positive relationship between manufacturing and capacity utilization and import as 1% change in capacity utilization, and import leads to 3.8% change in manufacturing. The result also showed that there is a negative relationship between manufacturing and investments, exchange rates and exports as a 1% change leads to a 3% reduction in manufacturing.

Evbuomwan, Okoruwa, and Ikpi (2018) observe that banks as important financial intermediaries grant credits by lending a

safe proportion of their deposits. Thus their study set out to empirically evaluate the effect of deposit money banks' credit on the performance of Micro, Small and Medium-scale Enterprises (MSMEs) in Nigeria with the aid of a vector autoregressive and error correction mechanism (ECM) techniques. The research finding revealed that credit had a positive impact on MSME and was significant at 1%. On this basis, the writers recommended more funding to MSME since they are close to the grassroots and can improve job creation.

Alsakran (2014), in his doctoral thesis, praises the efforts of the Saudi Arabian government to diversify from crude oil to non-oil exports sector, particularly the manufacturing sector. He applied the instruments of Leverage Ratio, Liquidity Ratio, Chi-square and two-stage Least Square Estimation. He discovered that management by individuals or family members has a negative effect on export. In contrast, the running of companies through shareholders has a positive impact on export intensity. Thus bilingual staff was important for export expansion. Alsakran notes that Saudi Arabia and Nigeria share the same economic concern: over-reliance on one product, crude oil. While the former has the wherewithal to diversify into manufacturing of exportable goods, Nigeria was on the drawing board fine-tuning proposals to diversify into agriculture in the main, followed by manufacturing, solid minerals and professional services for exports.

From the broad objective, we derive the research hypothesis developed as follows:

$H_0$ : Manufacturing exports financing does not have a significant effect on the performance of DMBs in Nigeria.

### **3.0 METHODOLOGY**

The data were time-series sourced from CBN Statistical Bulletin from 1981 to 2017 on non-oil exports financing and performance of DMBs as it relates to Nigeria earlier stated in graphical representation. The study used ex-post facto research design because the data considered were already available since the events of study occurred in the past. The population of the study consisted of the 22 DMBs in Nigeria, that is we took a census of all the DMBs in Nigeria. The study used the Autoregressive Distributed Lag (ARDL) approach to integration also known as the bounds testing approach outlined in the methodology of Pesaran and Shin, (1999). The data deployed for this study were tested for: normality, using Jacque-Bera statistics by measuring the difference of the skewness and kurtosis of the series with those from the normal distribution. In a normal distribution, the Jacque-Bera statistics would be less than 0.05. We also tested for stationarity, using Augmented Dickey-Fuller testing method to ensure the data were stable to avoid spurious results. Co-integration test also called Bounds Test for Dynamic Co-integration to ensure the data had long run relationship between the dependent variable and independent variables followed thereafter. Cumulative sum of squares test (CUSUM of square test) was conducted at the end of the regression to confirm that the residual variance was stable by plotting a pair of parallel lines around the expected value. Any movement outside the critical lines delineated, would indicate variance instability.

### **3.1 Model Specification**

The model was adapted from the study of Ugiagbe and Egbeonu (2016) titled "Sectoral Loans Demand and Performance

of Deposit Money Banks in Nigeria”. Using Return on Capital Employed as a proxy for bank performance, they derived the following model:

$$\text{LogROCE} = \alpha_0 + a_1 \log A_s + a_2 \log M_s + a_3 \log M_q + a_4 \log R_{scs} + e$$

where:  $A_s$  = Loans and advances to agricultural sector

$M_s$  = loans and advances to manufacturing sector

$M_q$  = loans and advances to mining and quarrying sector

$R_{scs}$  = loans and advances to real estate construction sector

TBA, TBL and TBQ were used as proxies for DMBs to be regressed by the data on credit to manufacturing as stated in CBN statistical bulletin from 1981 to 2017. We therefore arrived at the following models:

$$\Delta TBA_t = \alpha_0 + \delta CMAN_{t-1} + e$$

$$\Delta TBL_t = \alpha_0 + \delta CMAN_{t-1} + e$$

$$\Delta TBQ_t = \alpha_0 + \delta CMAN_{t-1} + e$$

Where: TBA = Total Bank Assets

TBL = Total Bank Liabilities

TBQ = Total Bank Liquidity

CMAN = DMBs' credit to manufacturing

$e$  = stochastic error term

$\alpha_0$  = Intercept

$\delta$  = Co-efficient to be estimated

The apriori expectation of this study suggests that DMBs financing of manufacturing will be positively related to the performance of DMBs in Nigeria within the period of study and will be presented as  $CMAN > 0$

## 4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

### 4.1 Preliminary Analysis

#### (i) Descriptive Statistics of Variables

In this section, the descriptive statistics was presented to provide insight into the central tendencies of the distribution in order to ensure that the data and variables satisfied basic time series econometric expectation.

**Table 1**

	CMAN	TBL	TBA	BLIQ
<b>Mean</b>	252.4359	7346.018	6253.599	2743.802
<b>Median</b>	58.0907	1070.02	954.7866	333.6747
<b>Maximum</b>	1179.691	31301	36951.83	19631.73
<b>Minimum</b>	2.6598	19.4775	47.9271	1.9505
<b>Std. Dev.</b>	373.9318	10361.75	9399.828	5104.573
<b>Skewness</b>	1.462853	1.143729	1.581674	2.013119
<b>Kurtosis</b>	3.609477	2.738969	4.648144	5.770398
<b>Jarque-Bera</b>	13.76897	8.171765	19.61485	36.82378
<b>Probability</b>	0.001024	0.016808	0.000055	0.000
<b>Observations</b>	37	37	37	37

Source: Researcher's computation (2020)

The mean Credit to the manufacturing sector (CMAN) stood at 252.4359bn with maximum and minimum values of

N1,179.691bn and 2.6598bn, respectively. The average total bank liability (TBL) for the period stood at N7,346.018bn with



maximum and minimum values of N3,1301bn and N19.4775bn. The Average total bank assets (TBA) for the period stood at N6,253.599bn with maximum and minimum values of N36,951.83bn and N47.9271bn respectively. The average bank liquidity (BLQ) for the period stood at

N7,346.018bn with maximum and minimum values of N31,301bn and N19.4775bn. The p-value of the Jacque-Bera statistics for all the variables was less than 0.05 which suggested the absence of outlier in the series and that the data were normally distributed.

## (ii) Unit Root Test Results

**Table 2**

### Unit root test at levels

	ADF-Test Statistic	95% Critical ADF Value	Remark
TBA	1.7881	-2.96	Non-stationary
TBL	2.9573	“	“
BLQ	3.9403	“	“
CMAN	3.7281	“	“

### Unit root test at 1<sup>st</sup> difference

	ADF-Test Statistic	95% Critical ADF Value	Remark
TBA	3.1688	2.96	Stationary
TBL	6.4613	“	“
BLQ	4.8813	“	“
CMAN	5.8911	“	“

Source: Researcher's computation (2020).

The Augmented Dickey-Fuller (ADF) test was employed in order to analyze the unit-roots. The results were presented in levels and first difference. This enabled us to determine in comparative terms, the unit root among the time series and also to obtain more robust results. The result indicated that CMAN and BLQ had ADF values were less than the 95% critical ADF value of 2.96. The implication of this is that the time series for these variables werenon-stationary since the values were less than the critical value of 2.96. There was a need

to proceed to first differencing for TBA and TBL as prescribed byBox and Jenkins (1976). Indeed, the variables were integrated at level I(1) with ADF values of 3.16988 for TBA, 6.4613 for TBL, 4.8813 for BLQ, 5.8911 for CMAN.

## (iii) Bounds Test for Dynamic Co-integration

The Bounds Test for Dynamic Co-integration is to confirm that the proxies for the dependent variable had a long-term relationship to make the results dependable.

Table 3

Equation	Tests		
<i>Total Bank Assets</i>	F-statistic	38.35	7
	Significance	I(0) Bound	I(1) Bound
	5%	2.32	3.5
	1%	2.96	4.26
<i>Total Bank Liabilities</i>	F-statistic	41.16	7
	Significance	I(0) Bound	I(1) Bound
	5%	2.32	3.5
	1%	2.96	4.26
<i>Total Bank Liquidity</i>	F-statistic	2.73	7
	Significance	I(0) Bound	I(1) Bound
	5%	2.32	3.5
	1%	2.96	4.26

Source: Researcher's Computation from E-views 9 (2020).

Table 3 showed the result of the Bounds test of long run effects for the ARDL specifications for the equations. The evaluation of the results was based on the critical F-statistic values for the lower and upper bounds as also reported in the results. The results revealed that for each of the equations, the determinant variables had strong long- run relationships with the appropriate bank performance measure used.

#### **iv. Autoregressive Distributed Lag (ARDL) Long Run Estimation Results**

With the conclusion of the diagnostic and robustness tests and the favourable results obtained, we proceeded to the estimation of the ARDL equation. The results for the long run equations, based on the co-integrating form from the ARDL modelling procedure, were presented in this section.

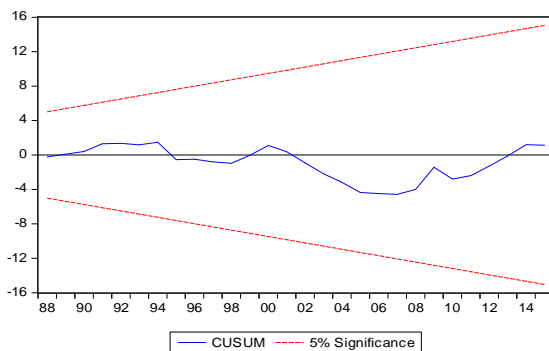
Table 4: **ARDL Long-run Impact of Bank credit on Bank Financial Performance**

Variable	Coefficient	Std. Error	t-Stat	Prob.
Bank Non-oil Credit and Bank Assets Regression				
C	158.9609	121.1092	1.312543	0.2161
CMAN	17.13628	27.36643	0.626179	0.544
Bank Non-oil Credit and Bank Liability Regression				
C	13.58763	4.683400	2.901232	0.0158
CMAN	8.927611	0.571988	15.60803	0.0000
Bank Non-oil Credit and Bank Liquidity Regression				
C	-28.6859	4.12653	-18.2809	0.2161
CMAN	13.62922*	0.619734	21.99206	0.0000

Source: Researcher's computation (2020). \*Significant at 1%

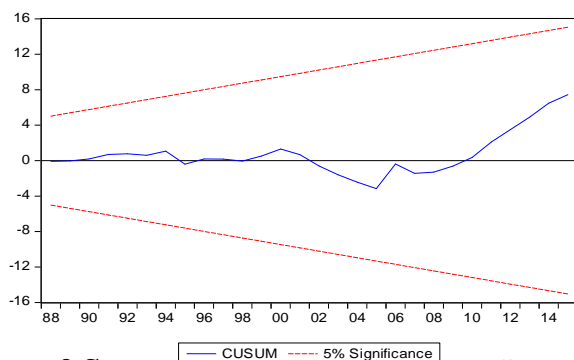
The regression effects of the Non-oil Credit on Bank Assets performance revealed that the effect of CMAN on TBA was positive (17.136) though not significant at 5% ( $p=0.544$ ) which implied that credit to manufacturing sector though showing a positive impact on TBA was not significant in the long run. The effects of CMAN on TBL was positive (8.927) and significant at 1% ( $p=0.00$ ); hence credit to manufacturing sector impacted positively on bank liability levels and was significant in the long run. The effect of CMAN on BLQ was positive (13.6292) and significant at 1% ( $p=0.000$ ) indicating that credit to manufacturing sector had a positive impact on bank liquidity and also significant in the long run. Overall, the result showed that credit to

manufacturing sector significantly impacted on bank liability levels in the long run, bank liquidity in the long run but did not impact significantly on bank assets in the long run. Consequently, the null hypothesis that credit to the manufacturing sector had no significant impact on banking performance was rejected. The study is in tandem with the results in Ningi (2013), Minetti and Zhu (2011), Enoma and Isedu (2011), Buono and Banca (2014) and Bada (2017).



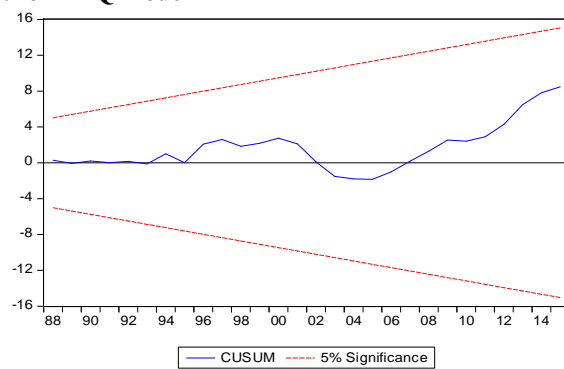
**4.2 Post- Estimation Diagnostics-Cumulative of Sum (CUSUM of Squares Test)**

**Fig. 4.1: CUSUM Test for TBA model**



**Fig. 4.2: CUSUM Test for TBL model**

**Fig. 4.3: CUSUM Test for BLQ model**



Credited to Brown, Durbin and Evans (1975), the test showed the stability of the data set across the cross-sections in the sample, and it helped to eliminate doubt about possible outlier regression. The chart in Figures 4.1, 4.2 and 4.3 showed the result of the CUSUM of squares test. It could be seen that the CUSUM of squares line for the result lay entirely within the dotted 5% line of significance.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

The non-oil exports sector consists of the totality of economic activities without crude fossil oil and the end products. It consists of four key sectors of which manufacturing is one. DMBs' credits available to the sector are often negatively affected by long repayment programme and securities that cannot be legally charged as collaterals. The study was, therefore primed to empirically investigate the implications of credits to the manufacturing sector on banking performance. Overall, the result showed that credit to manufacturing sector significantly impacted on bank liability levels in the long run, bank liquidity in the long run but did not impact significantly on bank assets in the long run.

### **Recommendations**

Financing manufacturing sector comes at added risk for banks because of the poor infrastructural quality of the Nigerian environment such as power supply, lack of security, technology and supportive institutions and all of these tend to raise the cost of doing business. In addition, discontinued manufacturing operations and migration to better climes for business as observed in Nigeria in the past ten years can

create longer-term liquidity pressure in some banks. Therefore, the study recommends that the government creates the enabling environment that will ensure that banks' lending to the manufacturing sector comes at very minimal systemic risks. Otherwise, compelling banks to increase credit to the manufacturing exports sector without addressing these risks may not be economically sensible as banks would instead divert resources to more profitable and safe ventures such as gilt-edged securities with little or no risks.

Other policy recommendations are as follows:

1. The government should address the non-financial factors militating against the manufacturing exports sector of the economy such as the infrastructural deficit, the prevalence of fraud and insecurity, the high cost of doing business and the capacity limitation of SMEs.
2. The government should embark on a vigorous country image re-building to boost manufacturing exports, preferably in both local and foreign media.
3. Nigeria Exports Promotion Council should provide a service to assist export-oriented firms to improve their credit-worthiness by giving them international market intelligence, especially on sourcing of export orders.
4. DMBs should improve the performance standards of exporters through regular but subsidized training to improve the ability of exporters to execute export orders and pay back their debts successfully.
5. DMBs should step up their issuance of performance bond which serious

overseas buyers call for when doing business with Nigerians.

6. Since this study has confirmed that DMBs' credits significantly impact on the manufacturing exports, in the long run, DMBs should help to raise a new crop of exporters from the rank of fresh unemployed graduates. Such graduates should be thoroughly trained, supervised and funded to go into exports. Almost all the DMBs have flourishing export departments that can work out the details. Targets on the number of export orders that can be handled per quarter should be given and appropriate motivation given for the bright hands. This novelty will create jobs, improve the liquidity and profits of banks and in due season, impact on the country's GDP.

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