**EFFECTS OF HIGH BANK LENDING RATES ON THE MANUFACTURING SECTOR OF THE NIGERIA ECONOMY**

**Abstract**

The manufacturing sector of the economy is the most important sector and for obvious reasons it is affected by the unprecedented increase of banks high lending rate to borrowers. The study is to determine the manufacturing sectors capacity, product pricing and sectors profitability. Questionnaires were designed and distributed to elicit information from the sample population; also, data were gotten through primary source. These data collected were presented and analyzed by means of tables and percentages. The hypothesis adduced was tested using such tools as chi-square. Results have shown that the manufacturing sector has been constrained due to the inadequate funding culture of Nigerian banks and banks no longer want to lend on a long term basis, even when they lend, it is at cut-throat and high interest rates. Therefore, banks who are the ultimate source of bank loan should realize that, manufacturers are quality customers and bank rate should be a dialogue between the two sectors so that the manufacturing sector could survive and interest rates need periodical adjustments so that there would be increase in the level of investment.

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Granting that no country of the world can ever attain an expected level of economic development without a virile and highly productive manufacturing sector makes it imperative that Nigeria as a country must pursue policies aimed at stimulating a rapid growth capable of increasing the productivity of the manufacturing sector and thus, improve national economy. This very important sector transforms our numerous raw materials into marketable finished products that are required in our daily existence as a people and as a nation. The sector generates foreign exchange through the exportation of its finished products. Realizing the importance of this sector, Nigerian government had before now, made concerted efforts to give reasonable support and assistance to the realization of the growth of the manufacturing sector in Nigerian economy.It is greatly accepted that the oil boom of the 70's greatly improved Nigeria’seconomyand earned her industries need foreign exchange to import raw materials. Regrettably, thus boom changed drastically in the 80's with the dwindling oil revenue. The effect however saw the folding up of some industries, thus, negatively affecting the manufacturing sector of the economy. The harsh economic situation of the time wholly informed that sectors should be opened so as to supplement the poor oil revenue. This unpleasant economic condition got worse with military leadership which was considered unstable. Yet, the manufacturing sector remains the most wanted sector to supplement the foreign exchange earnings of the oil sector through exportation of their finished products. Nevertheless, military regimes are known not to offer enabling environment for effective industrial growth but with the emergence of a democratically elected government in May 1999, the Nigerian nation started the creation of enabling opportunities and environment to promote the gradual development of the manufacturing sector. However we must realize that the manufacturing sector of the economy has been the most unfortunate and hardest hit by the high interest rates. Odimaya (2000:17) noted that "banks no longer want to lend on long-term it is usually at cut-throat interest rates".This situation has continued to affect the manufacturing sector, even in this democratic dispensation with the federal government economic policy of deregulation of the banking sector. This condition according to kazeem (2004:23) has greatly affected the manufacturing sector. This opinion of kazeem is made stronger when he wrote that the banks high interest lending rates continue to threaten the agreement reached by the Nigerian government, the central bank of Nigeria (CBN) and the banks that lending rates should not be more than the minimum rediscount rate. The above agreement was to encourage bank lending to industrialists and so, stimulate the manufacturing sector development and improvement of the national economy which would guarantee rapid industrialization in line with development objectives.Manufacturing which cannot afford the high bank lending rates hardly survive and they are mostly neglected by government policies and it’s these small scale industries that respond to the lives and needs of the ordinary citizen. Libanio (2006:22) argues that the manufacturing sector has an important role in the growth and performance of the economy but the manufacturing output was not enough to generate sizeable. Growth in the economy. Regrettably, the performance of the manufacturing sector in Nigeria has been constrained due to inadequate funding culture of the Nigerian banks and even when banks lend, they lend on a high rate of interest on the loan and banks are the primary source of capital for manufacturers or industrialists. Goldman Sachs (2008:24) talks about the objective of the approved vision 20-2020 study projections that Nigeria will be 20th and 12th largest economy of the world and Africa respectively.This vision is to be realize through the growth of the private sector therefore, overconcentration and overdependence should be reduced on the oil sector because there have been a growing concern on the decline of the output of the manufacturing sector in Nigeria which is faced with the problem of accessibility of funds and high interest rates of banks.

**STATEMENT OF THE PROBLEM**

The first problem of the study is the poor capacity utilization of the manufacturing sector.The second problem of the study is the high cost of product pricing of the manufacturing sector. The third problem of the study is lack of profitability of the manufacturing sector.

**OBJECTIVE OF THE STUDY**

The main objective of this study is effects of high bank lending rates on the manufacturing sector of the Nigeria economy. But for the successful completion of the study; the researcher intends to achieve the following sub-objectives;

1. To examine the effects of high interest rates on manufacturing sectors capacity utilization
2. To examine the effects of high interest rates on the profitability of the manufacturing sector.
3. To examine the effects of high interest rates on the product pricing of the manufacturing sector
4. To ascertain the relationship between high bank lending rates on the manufacturing sector and the Nigeria economy

**RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** there are no effects of high interest rates on manufacturing sectors capacity utilization

**H1:** there are effects of high interest rates on manufacturing sectors capacity utilization

**H02:** there is no significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy

**H2:**there is a significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy

**1.5 SIGNIFICANCE OF THE STUDY**

This significance of this study could be reflected in a number of ways;

In the first place, it could help to appraise the relationship between the banking sector and the manufacturing sector towards the economic development of the nation. Secondly, the study could make things clearer to workers in both sectors to realize their co-operative relationship in the development of the economy.Also, the study would make the masses realize the relevance of the sectors in the overall development of our national economy.Furthermore, to the educationists and researchers, this could serve as a reference material to them.More so, to the government, this could throw more light on how the government could effectively utilize the roles of the two sectors in the economic development of the nation. Finally, the study could make the central bank of Nigeria (CBN) realize how to use policy concerning lending rates to strike a good balance or parity between the sectors and so, facilitate National Economic Development.

**1.6 SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers the effects of high bank lending rates on the manufacturing sector of the Nigeria economy. The researcher encounters some constrain which limited the scope of the study;

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

**1.7 DEFINITION OF TERMS**

**BANK:** A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through

**BANK LENDING:** In finance, a loan is the lending of money from one individual, organization or entity to another ... If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it

**MANUFACTURING:** Manufacturing use of machines, tools and labor to produce goods for use or sale. Includes a range of human activity, from handicraft to high-tech, but most commonly refers to industrial production, where raw materials are transformed into finished goods on a large scale

**ECONOMY:** The state of a country or region in terms of the production and consumption of goods and services and the supply of money.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 INTRODUCTION**

This study investigates the effect of bank lending and economic growth on the manufacturing sector in Nigeria. It calls for concerted effort by the government, manufacturers and lending institutions to review the lending and growth policies and provide an investment-friendly lending and growth policies and borrowing by the financial institutions in other to strengthen the financial sector with favorable interest rates to enable borrowing by the industrialists.

1. **THEORITICAL REVIEW**

According to the oxford advanced learners dictionary (2000:102), a bank means an organization that provides various financial services, for example, keeping or lending money to the public and especially to business or industrialists.However, bank-lending according to Essen refers to the activity of the bank or bank service which provides credit to industrialists or manufacturers who seek capital.He further explained that bank-lending as a matter of fact could also be seen as a credit service which bankers offer willing customers or business tycoons who are in need of increased capital for increased capital utilization and for. Increase in productivity and profit.

Contributing, Oresotu (2003:36) noted. That the term bank lending refers to the percentage of the borrowed funds a customer must pay to the bank for use of the borrowed funds. Further still, Oresotu observes it is equally the interest which is in favor of the lender (the banker) for parting with its money for specified period of time.Explaining further, Oresotu opines that in economic circle, the lending rate creates the prospect which stimulates the bankers to offer such service to the borrower. Towards this end, Oresotu notes that bank lending rate is the gain which the banks receive for allowing customers to invest borrowed money into private business.Oresotu as a matter of fact explained that without the high bank lending rate, the industrialists seeking the bank loan definitely could not get through.The oxford advanced learners dictionary (2000:899) defines manufacturing as the business or industry of producing goods in large quantities in factories. This means that manufacturing is the production of finished products via the use of machinery in our indigenous industry according to Lamba (1987:7).Similarly too, Lambo (1987:7) defines the manufacturing sector as that sector of the economy which include all firms which transform raw materials into finished goods with the aid of machinery.Explaining further, Lambo (1987:8) noted that this sector in a precise term includes all the small scale, medium scale and of course, large scale industries producing in Nigerian economy.Again, Lambo noted that the manufacturing sector in Nigeria is the similar to that of any developing country that has pursued import substitution industrialization behind high protective. Barriers, Lambo then indicated that for an illustration, the manufacturing sector is broken into three groups namely:-

Customer goods, intermediate goods and capital goods industries

However, the term economy according to the oxford advanced learners dictionary (2000:466) means "the relationship between production, trade and supply of money in a particular country or region.Contributing, soludo (2005:8-9) notes that an economy of any nation is a combination of many functional sectors such as the manufacturing sector, agricultural sector, banking sector and the oil sector. He adds that the effective performance of all these sectors makes the economy of the nation stable with acceptable employment opportunities and reduced corruption and reduced corruption and other vices but when the economy is not virile, there is high rate of unemployment and a disturbing low level of the masses standard of living in the Nigerian economy.Contributing, Oleongwu (1999:6) sees the economy as the production of virile living situation in a given country.According to him, economy is said to be virile when the living condition is suitable to the aspiration of the masses. In which case there should be a good standard of living with acceptable employment opportunities and reduced corruption and other vices but when the economy is virile there would be vices in the economy.There has been a growing concern on the decline in the output of the manufacturing sector in Nigeria in recent times, despite the fact that the government embarked on several strategies aimed at improving industrial production and capacity utilization of the sector. This worry is understandable in view of the fact that it has been generally acclaimed through the kaldor's first law that manufacturing sector is regarded as the engine of growth of the economy (libanio 2006:2).

The unimpressive performance of the sector in Nigeria is mainly due to massive importation of finished goods and inadequate financial support for the manufacturing sector, which ultimately has contributed to the reduction in capacity utilization of the manufacturing sector in the country. Enebong (2003:20) argued that the level of the Nigerian manufacturing sector in the country and organizations performance will continue to see a decline because, as it is now, the manufacturers will have even more problems in assessing raw materials due to stiff competition from the foreign firms.Edirisuriya (2008:11) report that financial sector reforms are expected to promote a more efficient allocation of resources and ensure that financial intermediation occurs as efficiently as possible. This also implies that financial sector liberalization brings competition in the financial markets which raises interest rates in the economy.Regrettably, the performance of the manufacturing sector in Nigeria has been constrained due to inadequate funding, either due to the inefficient capital market or the culture of the Nigerian banks to finance mainly short term investment. The long-term funds from the banking sector are not easily accessible as a result of the stringent and restrictive credit guidelines.As Gerschenkron (1992:6) suggested, in a moderately developed economy like Nigeria, there is need for some special institutions to supply long-term funds for industrial capital, since the enterprises have no substantial prior ploughed-back profits and the average plant size is assumed to be much larger, making the banks to be the primary sources of capital and entrepreneurship for the type of industrialization, indicating a kind of supply-leading tendency. The implication of the Gerschenkron analysis is that external finance is considered critical for the manufacturing sector to contribute to economic growth. It can also be said that the manufacturing sector had been unable to obtain needed finance from the financial institutions either because of (i)"an information gap" which prevents them from knowing how and when to obtain this finance on acceptable terms or(ii) "a genuine availability of funds gap" which is due to the failure of Financial institution appreciate the economic prospect and developmental role of these enterprises by organizing adequate financial resource and channeling them into productive projects.Similarly, the imperfect credit market conditions and lenders inefficiency allow the(politically or otherwise),dishonest or credit unworthy borrowers (corporate bodies or individuals) to have access to larger loans who tend to get away with credit money or to become willful defaulters.(Ojo 1992:4).The 1970's saw different interest rates for different sectors in the mid 1980's, the preferential interest rates were based on the assumption that the market rate, if universally applied, would exclude some of the priority sectors. Interest rates were therefore, adjusted periodically to promote increase in the level of investment in the different sectors of the economy. For example, agriculture and manufacturing sectors were accorded priority and the commercial banks were directed (by the central bank) to change a preferential interest rates (vary from year to year) on all loans and advances to small-scale industries.Currently, the government of Nigeria is pursuing a market-determined interest rate regime, which does not permit a direct state intervention in the general direct of the economy. The market demand and supply is the driving force of resource allocation. Thus, current formal lending policy does not give special interest on is based on the risk factor of the sub-sector that the loan is meant for.

**2.3 LOAN PRICING THEORY**

Banks cannot always set high interest rates. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz and Weiss, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behavior or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the reasoning of Stiglitz and Weiss, it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

**2.4 CONCEPTUAL CLARIFICATION OF INTEREST RATE**

Interest rate is the amount of interest paid per unit of time expressed as a percentage of the amount borrowed. The cost of borrowing money, measured in naira, per year per naira, borrowed, is the interest rate. Interest rates differ mainly in term/maturity. When maturity and liquidity together with other factors are considered, many different financial instruments and so many different interest rates will emerge (Anyanwu, 1997). Interest rates can either be nominal or real. Nominal interest rate can be measured in naira terms, not in terms of goods. The nominal interest rate measures the yield in naira per year, per naira invested while the real interest rate is corrected for inflation and is calculated as the nominal interest rate minus the rate of inflation (Pandey, 1999).

**2.5 INTEREST RATE CHARGED ON BORROWERS**

There are daily reports of how Nigerian banks rip off their customers through various charges and practices. Often times, customers complain and cry out for appropriate regulatory intervention. Unfortunately, their complaints seem to fall on deaf ears, because they are unaware of any positive regulatory action in response thereto. Emboldened by regulatory inaction and indifference (which suggest tacit approval), many Nigeria banks now engage in more exploitative practices. The categories of such predatory bank practices are unfolded daily. Normally, when a customer secures loan from a bank, the latter fixes a negotiated lending rate based on the prevailing interest rate approved by the apex bank. Any change in the interest rate should be brought to the notice of the borrower except otherwise agreed. In Nigeria, however, the lending rate is rarely negotiated and, when it is reviewed upwards by the Central Bank of Nigeria (CBN), the average bank automatically applies the new rate to the outstanding loan without notifying the borrower (Okafor, 2011). Ironically, the same bank hides the fact of any downward review of the lending rate from its mostly uninformed customer, thereby illegally subjecting the customer to a higher interest regime. Often, what the bank staff present to a prospective borrower during loan negotiations as the total charges become hydra-headed once he swallows the bait. While processing loans, Nigerian banks impose on borrowers both “processing” and “administrative” fees which are duplicates. Again, they charge borrowers and corporate customers higher than what they pay lawyer to conduct searches at land and company registries. We believe that the interest rates Nigerian banks display at their offices and report to CBN per Section 23 of the Banks and Other Financial Institutions Act (BOFIA, Chapter B3, Laws of the Federation of Nigeria 2004) are different from what most of them impose on customers. To verify this, CBN may wish to randomly obtain and examine depositors/borrowers account statements from banks.

**2.6 DEVELOPMENTS IN NIGERIAN BANKING SECTOR**

The development of banking activities in Nigeria can be classified as free banking era, regulated banking era, deregulated banking era, consolidated banking era and post consolidated banking era (Somoye, 2008). The free banking era also known as pre-independence banking period marked the genesis of the development of banking activities in Nigeria and the era was before 1952. Two main features characterized the era. The first feature was the absence of any banking legislation as anyone could establish a banking company as long as he registered under the Companies Ordinance 1948. The second feature of the era was that five banks were established consisting of three biggest foreign banks and two biggest indigenous banks (Nwankwo, 1980). However, Aigbiremole and Aigbiremolen (2004) reported that between 1947 and 1952, 22 banks were registered in Nigeria. Banking operation actually started in Nigeria with establishment of African Banking Corporation (ABC) in 1892 and two years later, the Bank of British West Africa (BBWA) (now First Bank of Nigeria Plc) was established to take over ABC. BBWA remained the only bank operating in Nigeria until Barclays Bank (now Union Bank Plc) joined it in 1912. The third foreign bank to operate in Nigeria was British and French Bank Ltd (now UBA Plc)

Which was established in 1949? The first indigenous bank in Nigeria was the National Bank of Nigeria, which was established in 1933. The second successful indigenous bank was African Continental Bank Ltd, which started operation in 1947 (Alabede, 2012). Following the collapse of some banks in the free banking era, it became obvious that there was need for legislation for the control of the Nigerian banking sector. As a result, the first banking legislation in Nigeria was passed in 1952.This marked the beginning of regulated era in the Nigerian banking sector. Under the 1952 Banking Ordinance, before a bank was allowed to operate in Nigeria, it must have a banking license and must have a minimum paid upcapital of £25,000 for indigenous bank and £200,000 for foreign bank. In 1958, Central Bank of Nigeria (CBN) was established through CBN Ordinance of 1958 to supervise Nigerian banking sector and under 1958 Ordinance, the authorized capital of foreign banks was raised to £400,000 (Alabede, 2012). The Banking Ordinance of 1952 together with its several amendments was replaced with the Banking Decree of 1969. With the introduction of Structural Adjustment Program (SAP) in 1986, the Nigeria banking sector was deregulated. As a result of the deregulation, the number of banks operating in Nigeria increased from 55 to 125 together with 275 branches of the people’s bank and 1,000 community banks (CBN, 1998). During the deregulation era, Banking Decree of 1969 was repealed while Bank and Other Financial Institution Act of 1991 (BOFIA) was promulgated. The new Act raised the minimum capital of banks to N50 million for commercial banks and N40 million for merchant banks in 1991 and this was further increased to N2 billion in 2001 (Alabede, 2012). In 2004, CBN embarked on major reform in the Nigerian banking sector with a 13-point agenda and this marked the commencement of the consolidation era. The objective of the reform was to consolidate the Nigerian banksand increase their capital (Somoye, 2008). As part of the reform, the minimum capital for Nigerian banks was reviewed from N2 billion to N25 billion in July 2004 with effect from 31 December 2005. Before the consolidation era, 89 commercial banks were operating in Nigeria but the number reduced to 25 after consolidation. The grave conditions in the Nigerian banking sector under the crisis provoked the post consolidation reform tagged “The Project Alpha Initiative” in 2009 (Sanusi, 2012). As part of the reform, CBN carried out special examination into operation of Nigerian banks with specific reference to the liquidity, capital adequacy and corporate governance in 2008. The results indicate that 10 of the 24 banks were in grave condition (the 10 banks in grave condition included Afribank, Equatorial Trust Bank, FinBank, Intercontinental Bank,Oceanic International Bank, Platinum-Habib Bank, Spring Bank, Sterling Bank, Union Bank, Unity Bank and Wema Bank) (Alabede, 2012) . To save the sector, CBN moved and replaced chief executive and directors of 8 banks (the chief executive officers removed from office were that of Afribank, Equatorial Trust Bank, FinBank, Intercontinental Bank, Oceanic International Bank, Platinum-Habib Bank, Spring Bank, Sterling Bank and Union Bank) with more competent hands and bailed out 9 banks with N620billion public money (Sanusi, 2010b). Similarly, in order to reduce the problem of liquidity in the banking sector, CBN established the Assets Management Corporation of Nigeria (AMCON). In 2011, AMCON acquired 1.7 trillion naira nonperforming assets of some Nigerian banks in Nigeria. Furthermore, the CBN reviewed and replaced the universal banking model which was adopted in Nigeria in 2001 with a new model which make banks to focus on core banking business (Sanusi, 2012). Under the new model, banking licenses are categorized into three: commercial banking (regional, national or international); merchant (investment) banking and specialized banking which could be microfinance (unit, state or national) mortgage (state or nation) or non-interest banking (CBN, 2011; Sanusi, 2010a). In 2011, after 3 of the 8 banks bailed out with the public money failed to show commitment towards recapitalization, their banking licenses were revoked and NDIC formed three new banks to take over their assets and liabilities (the 3 banks that failed to recapitalize before the CBN dateline were Afribank, Platinum-Habib Bank and Spring Bank; while Main Street Bank Ltd, Keystone Bank Ltd and Enterprise Bank Ltd were new banks established to take up their operations respectively) (CBN, 2011). The remaining bailed banks were recapitalized through merger/acquisition and injection of capital by core investors (Equatorial Trust Bank, FinBank, Intercontinental Bank and Oceanic Bank International entered into merger/acquisition agreement with Access Bank, Eco Bank, FCMB and Sterling Bank respectively). Subsequently, the number of deposit money banks (DMBs) operating in Nigeria reduced to 20 with 5,810 branches at end of 2011 (Alabede, 2012). The various reforms in the Nigerian banking sector had impact on the performance of the sectors. For example; the 2004 reform indicates that capital adequacy rate increased from 13.16% in 2004 to 21.25% in 2005 while liquidity improved from 50.44 % to 60.69% and the ratio of nonperforming debt to total credit dropped from 23 to 20% in the same period (NIDC, 2005). Furthermore, because of the impact of the reform, all the 25 DMBs operating in Nigeria in 2005 were in sound condition. The 2009 reform also shows great impact on performance of the banks and save the sector from collapse as a result of the adverse effect of the global financial crisis. Evidence available shows that the banks are recovering from the shock of the crisis as the number of DMBs in sound healthy condition increased from 13 in 2009 to 19 in 2011. This is reflected in the performance indicators: capital adequacy rate moved from 10.24% in 2009 to 17.9% in 2011, liquidity increased from 44.17 % to 69.1% and the ratio of nonperforming debt to total credit declined from 32.8 to 5% respectively (NDIC, 2010; CBN, 2011). However, this impressive performance was partly driven by the activity of AMCON. The AMCON took over N1.7 trillion nonperforming risk assets of the DMBs in 2011 (Sanusi, 2012). In view of the foregoing, Nigeria is considered a veritable case for investigating the link between bank lending and economic growth, for at least two reasons. First, since the reform measures are meant to strengthen the banking system to adequately play its intermediary role between the surplus and deficit unit, there is need to assess the efficacy of the measures in raising the lending ability of banks. Second, since the ultimate aim of developments/reforms in the banking sector is boosting of economic activities, there is need to determine the level of impact of bank lending on economic growth.

**2.7 HISTORY OF THE NIGERIAN MANUFACTURING SECTOR**

Since a peak of 7.83% in 1982, the contribution of manufacturing as a share of total economic output in Nigeria generally declined. Many factors have contributed to the variation in sector share through time, many of which show both the vulnerability of manufacturing to global economic pressures, as well as the impacts that policy changes can have in reshaping the sector. Prior to the oil boom of the 1970’s, manufacturing contributed approximately 10% to Nigeria’s economic output. Thereafter, increased revenues from oil caused the sector’s relative Gross Domestic Product (GDP) share to decline; growth persisted albeit at a slower rate. The recession caused by the fall in oil prices in the early 1980’s triggered policy attention to turn back to the manufacturing sector, with steel production gaining prime focus. Prior to this, the Nigerian Enterprises Promotion Decrees of 1972 and 1977 had switched the majority firm ownership from foreign to Nigerian, restricting foreign capital inflows. The lack of affordability of imported goods, combined with the absence of foreign capital and technology, encouraged domestic production of basic commodities such as soap and salt. Alongside, price manipulation through export and import subsidies encouraged the importation of intermediary inputs and thus the expansion of assembly based industry. A brief spike in manufacturing output was observed in the early 1980’s so that it contributed to 7.83% of total economic output. However, the price manipulation discouraged domestic manufacture of inputs, as well as the investment in the infrastructure and human capital required to do so in the future and this share soon began to decline. In 1987 import bans on raw materials were imposed under the World Bank Structural Adjustment Programs (SAPs), encouraging import substitution. Intermediary input manufacturers were able to produce competitively again, and there were fewer plant closures. This, combined with the Privatization and Commercialization Act of 1988, encouraged a higher degree of efficiency to be achieved in manufacturing. A slight increase in the share of manufacturing in economic output of 0.62% points was observed from 1986-1988.Throughout the 1990s and 2000’s, Nigeria continued to rely heavily on the export of oil, allowing manufacture to remain in decline. Firms were not export orientated, and lacked efficiency, causing competitive companies to relocate factories abroad. A few key industries, such as beverages, textiles, cement and tobacco kept the sector afloat, but even these operated at under half of their capacity. To this day, production is mainly located in Lagos and its periphery, and to a lesser extent some other commercial towns such as Kano or Kaduna.

**2.8 STRUCTURE AND PERFORMANCE OF THE NIGERIAN MANUFACTURING SECTOR**

The manufacturing sector is one of the most dynamic sectors in Nigeria. Manufacturing sector grew between 1970 (when the civil war ended) and 1982, using the index of manufacturing output. The average annual growth rate of manufacturing was more rapid during the second millennium of the 1970s than during the first and began to accelerate at the first half of 1980s and manufacturing declines after 1982. The index of the manufacturing production showed the negative growth rate 28.6, 12.0, 64.3 and 21.8 percent were recorded for the years 1982, 1984, 1985 and 1986 respectively (Manufacturers Association of Nigeria, 2012). Manufacturing industries in Nigeria so far has done well in production of goods to the nation. Recent, study has shown that Nigeria goods are been exported to other countries. Nigerians now patronize made in Nigeria goods. The performance of the industry sector improved slightly during the first half of 1997 where the industry production index 132.6 increased by 0.69 over its level in the first half of 1996 but declined by 0.2% below that level in the second half of the same year. The rise in output relative to the position during the corresponding period in 1996 was accounted for by 1.0 and 0.4% increase in mining and manufacturing production. The structure of industrial growth was heavily based in favor of consumer goods industries because food, beverage, tobacco, beer, spirit and textile industries dominated the structure of manufacturing activities. The overwhelming dominance of the consumer goods sector both in value added and employment is evident. Durable consumer goods industries which began to expand rapidly in the middle of the 1970s were yet to make significant impact by 1985. Similarly, the contribution of machinery and transport, equipments, mental fabrication, chemicals, energy and engineering industries to manufacture value added were insignificant. In 1981, due to the slump in international oil market, there was a sharp decline in the performance of the manufacturing sector. This weak performance exposes the inherent weakness of the sector that had largely been sheltered by competition by the Import Substitution Industrialization (ISI) policy that the country adopted after independence in 1960. The ISI process was thus marked by the pyramid tariff structure with relative low duties on intermediate and capital goods import and progressively increasing duties on consumer goods imports. Under SAP (Structure Adjustment Program), there was a modest increase in import substitution in durable consumer goods production while there was a significant decline of import substitution in nondurable consumer production. This showed that the manufacturing sector received the lion share of foreign exchange at the auction market. Industrial growth, especially raw material, machineries and spare parts typically absorbed 70-80% of auction funds with the remainder going to finished consumer goods. The poor performance of the manufacturing sector can be attributed to many factors. These include the existence of trade barriers in industrial countries, the general poor macroeconomic performance of the economy which means weak aggregate demand, weaker demand for local manufacturers as a result of poor quality product and the influx of relatively cheaper imports. The high price of domestic manufacturers is partly due to the increased cost, inefficient and old equipments, inadequate infrastructure and the depreciating naira. The failure of infrastructural service extends to the area of water supply and telecommunication. All these have implication for the cost of producing manufactured goods and any extension, the competitiveness of domestic industries. According to Central Bank of Nigeria (CBN), as manufacturers are required to invest huge capital funds to provide alternative infrastructure facilities for their operation, domestic industries carry high cost/price structure which results in loss of competitiveness for their product in both domestic and foreign market. Since 1992-1993, industrial GDP has been tracked closely by crude petroleum and natural gas implying that crude oil exploration accounts largely for it. This leads to a paradox in definition, as the crude component as the name implies is „crude‟ with no real value added. Furthermore with a mining component defined as coal, metal ores and quarrying all primary products. Industrial GDP fails to capture the term „industrial‟ in the popular sense of the word. It does not refer to the sum total of productive processes involved in value adding to primary/raw materials to create a final good that can be consumed (Olapade and Olapade, 2010). More clarity can be obtained by painting a picture that takes into cognizance the nature of output and value addition. A bit of theory here the Lewis sector theory named after Arthur Lewis the first and only Blackman ever to win a Nobel Prize in Economics proposes that every economy is made of two sectors initially. The first sector is a primary often agrarian labor intensive sector with the other being a capital intensive industrial one Lewis left out the services sector as he felt distributive activities takes prominence after a country attains a high economic growth. More clearly, after countries have attained high growth rates, their citizens became less interested in efficiency and more agitated about equitable distribution of growth. Furthermore, the services type economy requires a higher level of human capital than the previous types. Today people talk about a knowledge economy fired by technological innovation. Clearly these latter two sectors require much richer quality of human capital than the earlier two (Manufacturers Association of Nigeria, 2010). His theory posits that in the beginning the rapid increases in agricultural output spur growth and create a surplus, which is the leftover of what is not consumed locally. This surplus is exported and/or fed into industrial or manufacturing sector as capital. With more growth, this process is made faster and eventually taking advantage of economies of scale, industrial output rises faster than primary produce lending to a nation being termed industrial. Clearly, manufacturing GDP in our present past democratic decade has declined from what it was in the 1990s. Basically, Nigeria’s economy has not been able to utilize the excess surplus created by its primary sector for industrial growth. It appears that Nigeria’s real sector has struggled to contribute more than 10% throughout her history. The tertiary component comprising services and trade are clearly in second place implying that Nigeria will transit next to a service type economy excluding building and construction in the secondary or industrial component which refers to the production of houses to give a clearer picture of the real sector’s contribution to Nigeria’s GDP. In addition, trade lies higher than services implying that Nigeria’s economy is largely a trading outpost production takes place elsewhere and we are a roadside market for sale of wares produced in other countries. This explains why the Central Bank is constantly behind the curve in fighting inflation always fire fighting with its attendant implications for interest and exchange rate management.

**2.9 THE CONCEPT OF SUSTAINABILITY IN MANUFACTURING SECTOR**

Sustainable manufacturing is the part of a larger concept, sustainable development, which emerged in the early 1980‟s in response to increase awareness and concern over the environmental impact of economic growth and global expansion of business trade. As put forward by World Commission on Environment and Development (2012), “sustainable development is the one that does not compromise how the future generation gets satisfied with their needs. It contains within it two key concepts; the concept of needs, in particular the essential needs of the world’s poor, to which overriding priority should be given; and the idea of limitations imposed by the sty ate of technology and social organization on the environment’s ability to meet present and future needs.” At the 1992 UNCED Conference held in Rio de Janerio, sustainable production was introduced and adopted as one of the guiding principles for business and government in transitioning towards and achieving sustainable development. Sustainability is now an expected practice by both large and small companies and is defined, developed and implemented by manufacturing companies, including their suppliers and customers. Various definitions abound for sustainable manufacturing. According to the US Department of Commerce (www.trade.gov), sustainable manufacturing is defined as the creation of manufactured products that uses processes that minimize negative environmental impact, conserve energy and natural resources that are safe for employees, communities, and consumers and are economically sound. Lowell Centre for Sustainable Production (www. Sustainableproduction.org) described sustainable production as the c reation of goods and services by using process and systems that are: Non-polluting, conserving of energy and natural resources, economically viable, safe and healthfully for workers, communities, consumers and socially and creatively rewarding for all working people. Also, Julian (2005), describe “sustainable manufacturing as a way of developing technologies to transform materials without emission of greenhouse gases, use of non-renewable, use of toxic material or generation of waste.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to effects of high bank lending rates on the manufacturing sector of the Nigeria economy.

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information on the effects of high bank lending rates on the manufacturing sector of the Nigeria economy. 200 staff of Dangote group of company was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions.

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The positions held by respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | managers | 37 | 27.8 | 27.8 | 27.8 |
| HRMs | 50 | 37.6 | 37.6 | 65.4 |
| Senior staff | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents27.8% of the respondents are managers, 50 respondents which represents 37.6 % are human resource managers, 23 respondents which represents 17.3% of the respondents are senior staff, while 23 respondents which represent 17.3% of the respondents are junior staff

**TEST OF HYPOTHESES**

There are no effects of high interest rates on manufacturing sector capacity utilization

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **There are no effects of high interest rates on manufacturing sector capacity utilization** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | There are no effects of high interest rates on manufacturing sector capacity utilization |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that there are no effects of high interest rates on manufacturing sector capacity utilization as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state that there are effects of high interest rates on manufacturing sector capacity utilization

**TEST OF HYPOTHESIS TWO**

There is no significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **There is no significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | There is no significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that statethere is no significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economyas the calculated value of 28.211 is greater than the critical value of 5.99

There is significant relationship between high bank lending rates on the manufacturing sector and the Nigeria economy

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain effects of high bank lending rates on the manufacturing sector of the Nigeria economy.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of high bank lending rates on manufacturing sector

* 1. **Summary**

This study was on effects of high bank lending rates on the manufacturing sector of the Nigeria economy. Four objectives were raised which included; To examine the effects of high interest rates on manufacturing sectors capacity utilization, to examine the effects of high interest rates on the profitability of the manufacturing sector, to examine the effects of high interest rates on the product pricing of the manufacturing sector, to ascertain the relationship between high bank lending rates on the manufacturing sector and the Nigeria economy. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of Dangote group of company. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made managers, human resource managers,senior staff and junior staff was used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**Conclusion**

The study examines the effect of bank rates on the manufacturing sector of the Nigeria economy. The manufacturing sector of any economy is seen as critical in the development process. These results imply that the government, manufacturers and the lending institutions must work together to jump- start manufacturing output in order to generate a corresponding increase in economic growth. This can be achieved through the provision of conducive macro-economic environment and appropriate investment incentives, as well as encouraging investment-friendly lending and borrowing by the financial institutions. The manufacturers could reciprocate the gesture through commitment to the use of the funds and promptly honoring loan obligations.

**Recommendation**

Given these findings, the study recommends that aside from trying to manage interest rate for enhanced economic growth, the Nigerian Government should strive to provide infrastructural facilities particularly power and transportation to reduce the high cost of production. In other words, Government should closely manage monetary and fiscal policies in a way that they engender the need growth of the Nigerian economy.

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