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BANK CONSOLIDATION AND CREDIT AVAILABILITY TO SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM NIGERIA

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ABSTRACT

The trend of collapse and continual closure of business by Small and Medium Enterprises (SMEs) in Nigeria due largely to financial constraint has raised the important question of whether or not bank consolidation really impacts on the sector. Using an aggregated data for all the Deposit Money Banks (DMBs) in Nigeria as at the end of 2008, this paper assesses the impact of bank consolidation on credit availability to SMEs in Nigeria. The results of the ordinary least squares (OLS) regression model show that so far, bank consolidation in Nigeria has no positive impact on the size of credit available to SMEs. Based on that, the paper recommends that the Federal Government should come up Credit Guarantee Scheme to enhance accessibility of SMEs to banks' financing, taking into consideration the peculiarities of the sector and the reasons responsible for the failure of previous financing schemes. The Central Bank of Nigeria (CBN) on her part should review the minimum capital base of N25 billion for banks and classify banks into international, national and regional to enable the emergence of small and medium-sized banks that will concentrate on SMEs financing.

KEYWORDS

Bank Consolidation; Credit Availability; Credit Guarantee Scheme; Small and Medium Enterprises.

INTRODUCTION

The recent publications of conflicting statements about the outcome of bank consolidation in Nigeria have attracted the attention of researchers and analysts. While banks management on the one hand claim that consolidation of the banking industry has done a magic wand in increasing credit size to the Small and Medium Enterprises (SMEs), on the other hand, SMEs operators insist that consolidation has not brought solution to their financial problems. Financial constraint is arguably said to be the main problem of SMEs. In recognition of the importance of SMEs, government in Nigeria has set up various credit schemes, programmes and institutions aimed at developing the sector and solving its financial predicament since the early 1970s. The programmes however, seem to have failed to promote the development of SMEs in Nigeria.

With consolidation of the banking industry, the Central Bank of Nigeria (CBN) believes that the financial problems of SMEs would be over. CBN (2006) and Soludo (2006) posit that banks in Nigeria would expand their branch network and mobilise more funds to lend to the SMEs and other deserving sectors of the economy. The belief of the CBN and Soludo is premised on one of the arguments in the literature that consolidation enables banks to extend more credit to SMEs due to the supposed positive relationship between capitalisation and deposits on the one hand, and on the other hand, deposits and credit size. Contrary to this position however, it is argued in some literature that consolidated banks seem to turn away from SMEs for bigger ticket transactions. According to this view, consolidation is more of a threat to SMEs than opportunity. The trend of collapse and continual closure of business by SMEs in Nigeria due largely to financial constraint has raised the important question of whether or not bank consolidation really impacts on credit availability to the sector.

OBJECTIVE OF THE STUDY

The objective of this paper is to assess the impact of bank consolidation on credit availability to SMEs in Nigeria. The aim is to see whether or not consolidation of the Nigerian banking system has brought about additional lending to the SMEs sector in line with the objective of the reform. To achieve the objective, the paper tested the null hypothesis that bank consolidation has no significant impact on credit availability to SMEs in Nigeria. The paper covers 8 years, from 2001 to 2008. This enables us to have two equal sub-periods, with 2001 through 2004 as pre-consolidation, and 2005 through 2008 as post-consolidation periods. The period is considered appealing because it provides before-and-after consolidation data.

The paper is further organised in eight sections. The next section offers a conceptual discussion about SMEs. Section three carries out review of theoretical and empirical studies on SMEs access to financing in the world. Section four covers a review of literature on SMEs' credit in the era of consolidation. Section five discusses the dataset and methodology of analysis. Sections six and seven respectively present the statistical description of the data and the results of regression analysis. Section eight concludes the paper and makes recommendation.

THE CONCEPT OF SMEs

SMEs are a mixed group found in a wide array of business activities and the concept of SMEs is relative and dynamic (Organisation for Economic Cooperation and Development (OECD), 2004). The definition of SMEs has tended to change over time and to a large extent, depends on a country's level of development (Olorunshola, 2003) cited in Ogburu (2007). Statistical definition of SMEs varies by country and is usually based on the number of employees, value of sales and/or value of assets and size of capital (Ganbold, 2008).

Ayyagari et al. (2007) for example, provided official SME definitions for 74 OECD, transition and developing countries, including references to the sources of data. Due to its ease of collection however, the most commonly used variable in defining SMEs is the number of employees. The European Union (EU) and a large number of OECD transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan that stipulate 300 employees and the USA 500 employees. Before 1992, various government agencies in Nigeria tended to adopt various definitions to reflect differences in policy focus. In 1992 however, the National Council on Industry (NCI) synthesized the various definitions with a view to removing all ambiguities and agreed to revise them every four years (Olorunshola, 2003) as cited in Ogburu (2007). With the introduction of Small and Medium Enterprises Equity Investment Scheme (SMEEIS) in Nigeria in 2001 and the subsequent revision of the SMEEIS guidelines, SMEs are defined as enterprises with a total capital of not exceeding N500 million excluding land and working capital, and with no upper or lower limit of staff.

The concept of SMEs was introduced into the terrain of growth and development as early as the late 1940's with the introduction of targeted policies such as grants, special tax treatment, subsidized credits, etc., and the establishment of SME support agencies by governments (OECD, 2004). Despite this long history, SMEs were merely perceived as a synthetic construction of "social and political" importance, especially in the 1980's and up to late 1990's. Although domestic SMEs and the informal sector constituted most of what could be called the private business activity in most developing countries, private sector development strategies advocated for and implemented in these countries seem to favour the needs of large-scale businesses, including foreign invested ones.

SMEs in Nigeria are a very diverse group of businesses that operate in different sectors of the economy. They consist principally of businesses that are engaged in distributive trade, manufacturing, agriculture and services. It is estimated that all together, SMEs account for well over 50% of Nigerian GDP (Odeyemi, 2003) and about 70 percent of her industrial employment (Adebusuyi, 1997 cited in Olutunla and Obamuyi, 2008). The multiplier effects of investing in this very important sector is there very huge and of immense importance for economic growth and development. These admirable contributions underscore why governments and various international agencies facilitate the actualisation of sustainable industrial growth and mass job creation through the rapid growth and development of SMEs (CBN, 2006). They also explain why Governments of different countries are always concerned about the growth and development of the sector.

SME AND ACCESS TO FINANCING

SMEs' access to finance has been a subject of great interest both to policymakers of both developed and developing economies and researchers because of the significance of SMEs in private sectors around the world (Da Silva et al., 2007; Beck *et al*, 2008). World Bank (2007) defined access to financial services as the absence of price and non-price barriers in the use of financial services determined by the forces of demand and supply. According to Beck *et al* (2008), Ganbold (2008) and De la Torre *et al* (2009), improving access to finance entails improving the degree to which financial services are available to all at a fair price.

A number of issues are associated with access to financial services. According to Claessen (2005), the first issue relates to the question of whether financial services are available in what quantity. The second relates to cost, that is, at what price, both implicit and explicit, are financial services available, including opportunity costs? The third issue relates to the range, type and quality of financial services being offered. Following Morduch (1999), Claessen (2005) named these dimensions differently as reliability, continuity and flexibility.

According to Ganbold (2008), the importance of SMEs access to finance is predicated upon four reasons. One, there is empirical evidence confirming that the expansion of access may reduce prevailing poverty in developing countries; two, the channels through which financial development may lead to growth often include access related stories; three, there is a lack of financial services in emerging economies, particularly when compared to the extent of access in developed countries; and four, empirical researches confirmed that lack of access to financial services by agents of economic growth and development, is one of the major impediments of fostering firms.

According to Ganbold (2008), a problem of access to financial services for SMEs exists when projects that could be financed internally in the event of resources availability do not get external financing due to what Stiglitz and Weiss (1981) referred to as principal-agent problems and transaction costs. This, according to Ganbold (2008), happens because there is always a lock between the expected internal rate of return of the project and the rate of return that external investors require to finance it.

Empirical evidences document that lack of access to finance is a key obstacle to the growth of SMEs worldwide. OECD (2004), Beck *et al* (2009) and Ganbold (2008) show that SMEs find it more difficult to access financing more than larger firms especially in developing countries. The theoretical argument suggests that suppliers of funds may choose to offer higher interest rates and credit rationing that would exclude from financing, a significant number of potential borrowers (Ganbold, 2008) largely due to agency and principal problem, asymmetric information, adverse credit selection and institutional problem (Beck *et al*, 2008).

Although this argument is not specifically aimed at SMEs, but given their nature and specific characteristics, SMEs are more affected by these problems than large firms. Some empirical studies using firm-level survey data have shown that SMEs not only perceive access to finance and the cost of credit to be greater obstacles than large firms, but these factors constrain SMEs more than large firms (Beck *et al*, 2009). According to Malhotra *et al* (2006) cited in Ganbold (2008), SMEs are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of know-how on the part of banks, information asymmetry and high risk inherent in lending to SMEs.

A number of studies have been conducted on SMEs' access to financing. In his study, Charles (2002) investigated through interview the factors that influence the growth, performance, and development of SMEs in Nigeria and their implications on policy. He found that accessibility to finance and good management are central to SMEs' growth and development. Using a sample of firms and commercial banks in Lagos, Oyefuga *et al* (2008) evaluated the impact of SMEEIS on the growth of Nigerian SMEs. Their study found that inappropriate business plans and poorly packaged projects are the main reasons why SMEs find it difficult to access funds from the new scheme and that even though the scheme had been helpful to some SMEs, most of them are not even aware of their activities and potentials.

In his study, Obamuyi (2007) examined the level of loan delinquency among SMEs in Ondo State of Nigeria, and banks' lending behaviour towards them. The results of the research, which were based on the analysis of interview in 2004 with the managers of some selected commercial banks and SMEs, revealed that poor credit worthiness, lack of collateral security and the constraint imposed on banks' capital by regulations are responsible for banks' attitude of not expanding loan portfolio to SMEs. In their studies, Sanusi (2003) and Olutunla and Obamuyi (2008) found that SMEs' accessibility to formal financial system in Nigeria is very limited. According to CBN (2007), as at the end of the first quarter of 2007, out of N38.2 billion contributed to the scheme by banks, only N18.1 billion or 47.3% had been assessed by the SMEs, which clearly indicates that there has always been a gap between the supply capabilities of banks and the demanding needs of the SMEs. Based on prior studies, there seem to be a huge supply of both equity and loanable funds in the commercial banking sector, which the SMEs are not benefiting from. Beck *et al* (2009) carried out an in depth research on the drivers, obstacles, business models and lending practices of bank financing for SMEs. Using the primary data from a total of 91 banks in 45 countries, the authors studied bank financing to SMEs around the world and found that banks recognised the SME sector to be highly profitable, but perceived macroeconomic instability in developing countries and competition in developed countries as the main obstacles.

Alessandrini *et al* (2008) believed that lack of financing has been a major reason for SMEs' innovation failure. According to their research, financial services problem of the SMEs is not largely due to bank size nor distance, but the vulnerability of the enterprises to failure. Using credit-level data from Mexico, Nanda and Canales (2008) cited in Ganbold (2008) examined the relationship between the organizational structure of banks and credit terms to small businesses. They found that banks with decentralized lending structures grant more credit to small businesses and those with more *soft information*, and that decentralized banks are also more responsive to the competitive environment when setting loan terms.

Using fixed-effects regression model based on a balanced panel data of 115 SMEs randomly selected in Ondo State, Nigeria, Olutunla and Obamuyi (2008) examined the relationship between profitability, bank loans, age of business and the size of SMEs. Their results show that there is interdependence between bank loans and the profitability of SMEs, and a significant relationship between profitability and the size of business. Ihua (2009) on his own part compared SMEs' key failure-factors between the UK and Nigeria by developing a survey instrument testing ten key variables generated through sampling of key informants. The results indicated that while internal factors are responsible for SMEs failures in the UK, in Nigeria, external factors are the major factors responsible for SMEs failure.

SMES AND CREDIT IN THE CONSOLIDATION ERA

One popular argument in the literature on the persistence of SMEs perennial financial problems even after consolidation is the cost of intermediation. Olutunla and Obamuyi (2008) indicated that banks in Nigeria still lend at terrible interest rates of about 20 per cent as against zero per cent, 5 per cent and 3 per cent interest rates in China, Japan and Malaysia respectively. The study of Berger and Udell (2006) on SMEs financing using US data revealed that on the supply side, banks are not expanding SMEs loans due to inadequate capital, imperfect information, high transaction cost of dealing with small loans, geographical dispersion of the SMEs and large number of borrowers and low returns from investment; and on the demand side, SMEs are reluctant to obtain loans because of the collateral security, high interest rate, untimely delivery of credit etc. Thus, while consolidation has resulted in mega banks in Nigeria with sound capital base and relative stability in service delivery, it is however, argued that for the banks, it has not translated into a deepening of the quality of financial intermediation because while it can be argued that recapitalization has helped to build and foster a competitive and a more stable banking environment, it is debatable if the structure of their portfolio investments has the capacity to support the desired economic development aspiration of the proponents of banking consolidation.

One reason put forward as to why consolidated banks are less likely to lend to some businesses particularly those in need of working capital financing is that large banks tend to rely on formal, formulaic methods of determining whether to lend or not and the amount to give (Cole, 1998; Berger and Udell, 2002; Craig and Hardee, 2004; Berger *et al*, 2007). To the extent businesses are able to fulfil these requirements; they may be less likely to obtain credit from mega banks. On the other hand, one of the reasons underlying consolidation of banks is the cost savings, both through technological advancement and greater risk diversification. To the extent that borrowers have these costs savings passed on to them, businesses may be said to have benefited from banking consolidation (Ely and Robinson, 2001).

Empirical literature has documented the effect of bank consolidation on SMEs financing with mixed result. On the whole, available findings seem to be consistent with the theoretical predictions, suggesting that larger banking institutions find gathering soft information relatively more costly and lending to informationally unclear borrowers less profitable and thus develop a phobia for lending to SMEs. According to Alessandrini *et al* (2008), there is robust evidence from the studies of Berger and Udell (1996), Peek and Rosengren (1998) and Strahan and Weston (1998) on many countries that big banks allocate a lower share of their lending to small firms, just as large banks involved in consolidation deals reduce loans to small businesses, which in turn suggest that large and informationally transparent firms appear to be more likely to borrow from large banks (Berger *et al*, 2007).

Beck *et al* (2009) posit that greater concentration results in reduced credit access through any lending technology, which may occur in several ways: they may choose to raise profits through higher interest rates or fees on loans to SMEs; or reduce risk or supervisory burden by tightening credit standards for SMEs; and/or they may choose to be less aggressive in finding or serving creditworthy SMEs. Notwithstanding the above however, concentrated banks may increase SME access to credit using one of the lending technologies, relationship lending. The study of Scott (2003) cited in Ganbold (2008) on the one hand, found that most small firms that experienced M&A neither report satisfaction with their new banking partners in services received and additional fees nor decline in competition in the banking market that served them. On the other hand, study by Craig and Hardee (2004) found that increased banking consolidation in local markets led to a decline in lending limits and in the amount of actual credit granted to small firms.

Whether banking consolidation adversely affects availability of credit to small business or not is less definitive. However, it seems to be somehow accepted in the literature that the degree of competition in small business loan markets has much to do with the outcome, that is, in a competitive small business loan market; the gap created by the retreat of large banks in funding is usually filled by other banks, new banks, and non-bank lenders. Craig and Hardee (2004) indicated that in markets where large bank lending was found to have declined there is often increased borrowing from the non-bank financial institutions.

Studies that have tried to examine the effects of banking market concentration and other indicators of market power such as regulatory restrictions on competition on SMEs and general economic performance ended up with mixed empirical results. According to Berger *et al* (2009), some of the studies found unfavourable effects from high banking market concentration and restrictions on competition (Jayaratne and Strahan 1998), others found favourable effects of bank concentration (Petersen and Rajan, 1995), and still others found that the effects may differ with the lending infrastructure or economic environment (Beck *et al*, 2008).

The empirical evidence on the effects of bank consolidation on credit availability to SMEs based on data largely from the US and UK experience is also mixed. In Nigeria, most of the studies focused on government financing policy for SMEs and not really the implication of the banking reform on the sector.

DATASET AND TECHNIQUE OF DATA ANALYSIS

The population of this study was the entire Deposit Money Banks (DMBs) in Nigeria. As at the end of 2008, the number of banks in Nigeria had further reduced to 24 from the 25 that met the N25 billion minimum capitalisation of 31st December 2005 deadline. The entire population of the study also constituted the study sample. The choice of the whole census as sample was predicated upon the nature of the data available. Data on loans and advances contained in individual bank's financial statements are not disaggregated to show the amount given to each sector or type of borrower as a result of which, CBN's aggregated data for all the DMBs based on sectors and type of borrowers had to be used. To account for the SMEs sector, CBN provides the year-by-year percentage given to SMEs from the total loans and advances contained in the aggregated data.

Although, a number of surrogates could be used to represent bank consolidation in relation to credit availability since a number of factors determine the volume of loans banks give, capitalisation and deposits are considered the most important as articulated by Kahn (1991), Jackson *et al* (1999), Hensa (2000) and Deutsche Bundes Bank (2005). Following the study of Schmitz (2005), this study examines the functional relationship between capital size and credit size on the one hand, and on the other hand, deposits size and credit size in order to assess the impact of consolidation on credit size to SMEs.

The paper therefore, uses two different sets of independent and one dependent variable. The two separate independent variables, bank consolidation and deposits are proxied by *LCAPITAL* (log of capital size) and *LDEPOSITS* (log of deposits) while the corresponding dependent variable in each case namely credit size is represented by *LSIZECRE* (log of credit size).

The study employs the ordinary least squares (OLS) regression to estimate the parameter of the following model:

$LSIZECRED = \alpha + \beta LCONSOL + u_t$ (1)

Where:

LSIZECRE Size of credit

LCONSOL Consolidation, proxied by capital size (LCAPITAL) and size of deposits (LDEPOSIT)

α, β Parameters of the model to be estimated

u_t Error term, assumed to be white noise.

The paper expects that the parameter of the model might have changed after consolidation. To examine this proposition, a dummy variable is introduced (taking a value of 0 before consolidation, and 1 afterwards) to obtain both the intercept and the slope dummies in line with Gujarati (2004). The model given in Equation 1 above is therefore modified as follows:

$LSIZECRED = \alpha + \beta_1 D + \beta_2 LCONSOL + \beta_3 D{*}LCONSOL + u_t$ (2)

Where the variables are as defined previously, and α *and* β_i to be estimated. Constant and slope dummies are represented by LCAPD/LDEPD and LCAPDUM/LDEPDUM for capital size and deposit size respectively.

STATISTICAL DESCRIPTION OF DATA

The descriptive statistics for the dataset of the dependent and independent variables computed from various CBN Statistical Bulletins and Banking Supervision Reports is given as follows:

TABLE 1: DESCRIPTIVE STATISTICS FOR INDEPENDENT AND DEPENDENT VARIABLES

VARIABLES	*LCAPITAL*	*LDEPOSIT*	*LSIZECRE*
Mean	6.349467901	7.807827332	4.495845726
Standard Error	0.353418588	0.265906887	0.186872774
Median	6.090075994	7.668593126	4.426399438
Mode	#N/A	#N/A	#N/A
Standard Deviation	0.999618719	0.752098251	0.528556022
Sample Variance	0.999237584	0.56565178	0.279371469
Kurtosis	-1.178310396	-0.744619202	3.849756696
Skewness	0.507725739	0.596393265	1.695221898
Range	2.783909677	2.163892155	1.702840592
Minimum	5.150351369	6.908471579	3.95931711
Maximum	7.934261046	9.072363734	5.662157703
Sum	50.79574321	62.46261866	35.96676581
Count	8	8	8

Source: Author's computation using SPSS

From the above table, the mean of the two independent variables, *LCAPITAL* and *LDEPOSIT*, and the dependent variable, *LSIZECRE*, are 6.35, 7.81 and 4.49 respectively and their respective coefficients of variation are 0.157, 0.096 and 0.117 indicating high level of variability in the observations within the variables. As for the extent of dispersion, *LCAPITAL* has the largest standard deviation. In all cases, mean is greater than the median, which depicts the presence of outliers and mild skewness in the observations.

A cursory look at the observations in all the variables discloses very little data non-normality distribution. This can be buttressed from both the kurtosis and the level of the descriptive statistics. Although, kurtosis for *LCAPITAL* and *LDEPOSIT* is less than 3, which is the value generally considered moderate, it is slightly above 3 for *LSIZECRE*. A further diagnosis of the dataset using *Shapiro-Wilk* normality test reveals a *p*-value of 0.591, 0.693 and 0.054 respectively. The rule in this test is that significant *p*-values imply that the sample is from a non-normally distributed population. Looking at the *p*-values in this case, except for *LSIZECRE*, they are not significant and at the same time not too insignificant indicating very slight non-normality.

The level of the variables during the period of the study lies between 5.15 and 7.93, 6.90 and 9.07, and 3.96 and 5.66 for *LCAPITAL*, *LDEPOSIT* and *LSIZECRE* respectively. This clearly indicates percentage growth anomaly in banks' capitalization and deposits. The dataset also reveals three outliers in *LCAPITAL* and one outlier in *LSIZECRE*.

It should be noted that the observable dataset computed from the various sources indicated above had even provided a clue on the cause of the data non-normality and the presence of outliers. The sudden jump in the total capitalisation of banks at the end of 2005 could have been responsible for the non-normality of the data distribution. Between 2001 and 2004, banks in Nigeria had recorded percentage growth of between 20 percent and 36 percent in their total capitalisation. However, at the deadline expiration of 31st December 2005 given by the CBN for banks to have minimum capital base of N25 billion each, total capitalisation suddenly jumped to N554.5 billion from N351 billion in 2004, thereby recording 58 percent growth.

Total capitalisation further increased by 88 percent in 2006 largely due to the quick return of some banks to the capital market to raise more money barely two months after the deadline. The percentage growth however, fell to 64 percent and 63 percent in 2007 and 2008 respectively. This skyrocketed increase in the capital base of banks in Nigeria from 2005 to 2008 is far away from the average percentage growth of 43 for all the observations within the 8-year period.

The dependent variable also contains an outlier. The average growth of the observations shows 40 percent. However, in 2005, 423 percent increase was recorded from 39 percent in 2004, thereby, causing credit size to jump from N55 billion to N287.6.

RESULT AND DISCUSSION OF FINDING

In this section, the result of the regression equation of the independent variable, *LCAPITAL*, and dependent variable, *LSIZECRE* is presented. The full results are contained in the appendix.

TABLE 2: LSIZECRE AGAINST LCAPITAL

Variables	*Coefficients and t-values*
Intercept	3.103
	(0.796
LCAPITAL	0.204
	(0.290)
LCAPD	6.995
	(1.556)
LCAPDUM	-0.946
	(-1.231)
R^2	0.72
Adjusted R^2	0.51
F-Start	3.396

Source: Author's computation using SPSS

T-values are reported in parentheses

Table 2 relates *LSIZECRE* (dependent variable) to *LCAPITAL* (independent variable). The estimated regression relationship for *LSIZECRE* model is:

LSIZECRE = 3.103 + 0.204 *LCAPITAL* + 6.995 *LCAPD* – 0.946 *LCAPDUM*

The equation shows that the independent variable (capital size) has no significant impact on the size of credit. That is, increase in the level of capital base does not guarantee increase in the size of credit to SMEs. The *t*-statistics in the regression show that *LCAPD* has the highest *t*-value 1.556 with no significance at all, while the adjusted coefficient of determination (R^2) offers somehow a good explanation of the variations in LSIZECRE, as the value is slightly above 50 percent and the unadjusted R^2 is 72 percent. Also, the value of the F-statistics is 3.396 with a *p*-value of 0.134. This indicates lack of fitness of the model. The unfitness of the model may not be unconnected with the non-normality and the presence of outlier and skewness in the data. Both the *LCAPD* and *LCAPDUM* show no positive impact. Their *t*-values are 1.556 and -0.231 with *p*-values that are only significant at 20 and 30 percent respectively.

From the result, the null hypothesis cannot be rejected. In other words, the result provides evidence that capital base of banks has no significant impact on the size of credit available to SMEs in Nigeria. That is, mere increase in capital base of banks does not translate into increase in credit size to SMEs.

The result provides support to the studies of Goldberg and De Young (1999), Sapienza (2002), Bonaccorsi di Patti and Gobbi (2003), Craig and Hardee (2004) and Carow *et al* (2005) that bank consolidation has no positive impact on the size of credit to SMEs. The result however, contradicts the finding of Avery and Samolyk (2000) who found that bank consolidation leads to an increase in credit size to SMEs. Further, given the relatively small size and ownership structure of banks in Nigeria prior to consolidation, the result of this study did not support findings from the studies of Peek and Rosengren (1998), Strahan and Weston (1998) and Berger *et al* (1999) that consolidation among small and medium-size banks increases credit to SMEs. On the other hand, it finds support for the view expressed in the literature that well capitalized banks are more likely to concentrate on big-ticket transactions rather than small ones as contained in the report of G10 (2001).

LCAPITAL was further replaced with *LDEPOSIT* based on the argument that capital size is not a correct measure of credit size, since banks do not give loans and advances from shareholders funds but use it for acquiring of assets and expanding branch network, which consequently enable banks to mobilize more deposits for lending activities, and thus, deposit is the correct measure of credit size. The summary of the result is presented below while the full results are contained in the appendix.

TABLE 3: LSIZECRE AGAINST LDEPOSIT

Variables	*Coefficients and t-values*
Intercept	3.416
	(0.470)
LDEPOSIT	0.112
	(0.111)
LDEPD	8.509
	(1.037)
LDEPDUM	-0.962
	(-0.871)
R^2	0.63
Adjusted R^2	0.36
F-Start	2.291

Source: Author's computation using SPSS

T-values are reported in parentheses

The estimated regression relationship for *LSIZECRE* model is:

LSIZECRE = 3.414 + 0.112 *LDEPOSIT* + 8.509 *LDEPD* – 0.962 *LDEPDUM*

The above table relates *LSIZECRE* to *LDEPOSIT*. From the table, *LDEPD* has the highest value of *t*-value 1.037 with no significance, while the adjusted coefficient of determination (R^2) offers little explanation of the variations in *LSIZECRE*, as the value is just 36 percent even though the unadjusted R^2 is up to 63 percent. Also, the value of the F-statistics is 2.291 with a *p*-value of 0.220. Both the *LDEPD* and *LDEPDUM* show no positive impact. Their *t*-values are 1.037 and -0.962 with *p*-values that are only significant at 36 and 43 percent respectively.

From the result, the null hypothesis cannot be rejected, that is, deposit, which is positively correlated with capitalisation, has no significant impact on the size of credit to SMEs in Nigeria. In other words, the result provides evidence that although the new capital base has impacted positively on banks' total deposits; these have not translated into additional lending to the SMEs sector in Nigeria. The result provides support to the study of Schmitz (2005) and Finger and Hesse (2009) that well capitalized banks may shift their huge deposits to lending to large firms at the expense of small businesses.

The result however, contradicts the prediction of Gupta (2003) that since liquid liabilities include deposits made by customers at banks, policies, which increase the deposits ceteris paribus, should have a positive influence on bank lending to all businesses. The assumption of Gupta might have been impaired by the scepticism of the capitalized banks about lending to the SMEs sector due to its risky nature or due to the absence of non-banking institutions that lend to SMEs or other smaller or even specialised banks in the country as indicated by the study Craig and Hardee (2004).

CONCLUSION AND RECOMMENDATIONS

SMEs not only contribute significantly to improved living standards and serve not only as a catalyst in the process of development, but also bring about substantial local capital formation and achieve high levels of productivity and capability. They are also the main agents for achieving equitable and sustainable industrial diversification and distribution; and in most countries, they account for well over half of the total share of employment, sales, and value added.

The result of this study provides information on the true nature of relationship between bank capitalization and credit size to SMEs in Nigeria. It further debunks the notion by the CBN that mere increase in bank capital base means automatic increase in the size of credit to SMEs. In view of the finding, the paper concludes that so far, bank consolidation in Nigeria has no positive impact on the size of credit available to SMEs. Based on the conclusion, the paper recommends that the Federal Government should come up with more realistic and realisable schemes that will enhance accessibility of SMEs to finance, taking into consideration the peculiarities of the sector and the reasons responsible for the failure of previous financing schemes. The CBN on her part should review the minimum capital base of N25 billion for banks and classify banks into international, national and regional to enable the emergence of small and medium-sized banks that will concentrate on SMEs financing.

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APPENDIX

```
REGRESSION
/MISSING LISTWISE
/STATISTICS COEFF OUTS R ANOVA
/CRITERIA=PIN(.05) POUT(.10)
/NOORIGIN
/DEPENDENT LSIZECRE
/METHOD=ENTER LCAPITAL LCAPD LCAPDUM.
```

REGRESSION

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LCAPDUM, LCAPITAL, LCAPD [a]	.	Enter

a. All requested variables entered.
b. Dependent Variable: LSIZECRE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.718	.507	.37123

a. Predictors: (Constant), LCAPDUM, LCAPITAL, LCAPD

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.404	3	.468	3.396	.134[a]
	Residual	.551	4	.138		
	Total	1.955	7			

a. Predictors: (Constant), LCAPDUM, LCAPITAL, LCAPD
b. Dependent Variable: LSIZECRE

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.093	3.886		.796	.471
	LCAPITAL	.204	.701	.385	.290	.786
	LCAPD	6.995	4.491	7.075	1.558	.194
	LCAPDUM	-.946	.768	-6.900	-1.231	.286

a. Dependent Variable: LSIZECRE

```
REGRESSION
/MISSING LISTWISE
/STATISTICS COEFF OUTS R ANOVA
/CRITERIA=PIN(.05) POUT(.10)
/NOORIGIN
/DEPENDENT LSIZECRE
/METHOD=ENTER LDEPOSIT LDEPD LDEPDUM .
```

REGRESSION

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LDEPDUM, LDEPOSIT, LDEPD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: LSIZECRE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795[a]	.632	.356	.42410

a. Predictors: (Constant), LDEPDUM, LDEPOSIT, LDEPD

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.236	3	.412	2.291	.220[a]
	Residual	.719	4	.180		
	Total	1.955	7			

a. Predictors: (Constant), LDEPDUM, LDEPOSIT, LDEPD

b. Dependent Variable: LSIZECRE

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.414	7.270		.470	.663
	LDEPOSIT	.112	1.009	.159	.111	.917
	LDEPD	8.509	8.201	8.605	1.037	.358
	LDEPDUM	-.962	1.105	-8.210	-.871	.433

a. Dependent Variable: LSIZECRE

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