ISSN: 2278-3369

International Journal of Advances in Management and Economics
Available online at: www.managementjournal.info

RESEARCH ARTICLE

Bank Consolidation and Small Business Financing in Nigeria

Babajide Abiola A*, Olokoyo Felicia O, Taiwo Joseph N

Department o f Banking and Finance, Covenant University, Ota, Ogun State, Nigeria.

*Corresponding author Email: ***abiola.babajide@covenantuniversity.edu.ng, abiolababajide@gmail.com***

Abstract

Prior to the 2004 reform in the Nigerian banking sector, banks neglected the small and medium class saver and concentrated more on big corporate savers. Many banks abandoned their essential intermediation role of mobilizing savings and inculcating banking habit at the household and micro enterprise levels. This paper presents empirical findings on the effects of the 2005 bank consolidation on small business finance in Nigeria. The main objective of this paper is to assess the response of flow of credit from the banking sector to small and medium enterprises in Nigeria. Data for the study were sourced from the list of the 25 post consolidation banks in Nigeria. Panel data covering a period from 2004 to 2011 were analysed using the Levin, Lin and Chu panel unit root test analysis to ascertain the authenticity and accuracy of the data series as well as its reliability on policy issues. The study adopts panel regression approach comprising of fixed and random effect models and used Hausman Taylor option in selection of a more efficient estimator for the model equation. The study shows a percentage increase in post consolidation asset base by over 9 percent for the banks and profit maximization increases by 72 percent which could translate to increased bank propensity and readiness to lend. There is also a significant increase in SME credit supply accessible by firms resulting to increase investment and consolidated effort to encourage the development of more SME driving enterprise. The study therefore recommends that credit policy effect should ensure that banks reorganize their asset portfolios so as to create more provision for lending to small firms rather than implementing policies that allow for more stringent conditions and requirements that discourage future development of SME investments in the economy.

Keywords: *Bank Consolidation, Intermediation, SMEs Financing.*

Introduction

The banking sector plays the important role of promoting economic growth and development through the process of financial intermediation by channeling funds from the surplus unit to the deficit unit of the economy. It is well acknowledged in literature that the financial system with the banks as its major component provides linkages for the different sectors of the economy and encourage high level of specialization, expertise, economies of scale and a conducive environment for the implementation of various government economic policies such as non-inflationary growth, exchange rate, stability, balance of payments equilibrium and high levels of employment. Schumpeter [1] put the role of financial intermediation at the center of economic development. In his argument he inferred that financial intermediation through the banking system played a pivotal role in economic development by affecting the allocation of savings, thereby improving productivity, enhance technical change and accelerate the rate of economic growth. He believed that efficient allocation of savings through identification and funding of entrepreneurial activities with the best chances of successful implementation of innovative products with cost efficient production processes are tools to achieve accelerated economic growth. A well functioning financial system is able to mobilize household savings, allocate resources efficiently, diversify risk, and enhance the flow of liquidity, reduce information asymmetry and transaction cost and provide an alternative to raising funds through individual savings and retained earnings. This is a pointer to the fact that financial development has a positive impact on economic growth.

About a decade ago, the Nigerian government embarked on an unusual bank consolidation exercise that resulted in reducing the number of commercial banks in the Nigerian economy from 89 to 25, then to 24. The 2004 consolidation exercise was predicated on convincing evidences that suggested that the Nigerian financial sector, particularly the banks were not performing the