BANK CONSOLIDATION AND THE PROVISION OF BANKING SERVICES TO SMALL CUSTOMERS [FIRMS] IN ABUJA, NIGERIA.

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ABSTRACT: *This research examines bank consolidation and the provision of banking services to small [firms] customers. The research used descriptive methods of analysis in examining the short run effect of banking consolidation on banking services rendered to SMEs in Nigeria. The study concluded that banking consolidation in Nigeria had little or no short run impact on banking services rendered to the SMEs. The research recommends that in other to create confidence on the policy, government should cushion the short-term effect by providing basic necessities that will keep SMEs on track.*

KEYWORDS: Bank Consolidation, Banking Services, SMEs, Bank, Nigeria.

INTRODUCTION

Small enterprises have always had limited access to financial services, affordable credit, and investment capital. The problem has multiple causes, including historical patterns of racial and ethnic discrimination, banks' and thrifts' concerns about profitability, and the restructuring of the financial services industry Melvin and Shapiro (1995) and Squires and O'Connor (2001).

The challenge of access means making financial services available to small enterprise, thereby spreading equality of opportunity and tapping the full potential in an economy. This challenge is greater than ensuring that as many people as possible have access to basic financial services. It is just as much about enhancing the quality and reach of credit, savings, payments, insurance, and other risk management products in order to facilitate sustained growth and productivity, especially for small and medium scale enterprises. Although the formal financial sector in a few countries has achieved essentially universal coverage of the population, at least for basic services, some financial exclusion persists in many developing countries (and, because small enterprise finds it difficult to participate fully in those economies, financial exclusion can be an even more serious handicap for those affected). The expectation over time is that a well consolidated financial firm in the developing economy has what it takes to effectively absolve this exclusion.

In line with the above statement the study has the following questions unanswered:

- Has bank consolidation in Nigeria resulted in efficiency of banking services to the small costumers in the short run and to what extent has this been achieved?

- How effective has lending services to the small customers been since consolidation?

- What is the rate of patronage earned from small customers by the newly consolidated banks?

Objectives of the Paper

In general, this research examines bank consolidation and the provision of banking services to small firms [customers]. The study assessed banking sector strength and reliability in the provision of banking services to small customers and the active roles they played in the Nigerian Economic Development immediately after consolidation.

Therefore, specific objectives of the study are to examine:

- The extent banking consolidation in Nigeria has in improvement in efficiency of banking services to the small customers in the short run.

- To evaluate the effect of lending services to the small customers since consolidation.

- The rate of patronage from small customers by the newly consolidated banks.

Hypotheses

H_o: Banking consolidation has led to high level of efficiency of banking services to small customers in the short run.

H_a: Banking consolidation has not achieved much efficiency of banking services to small customers in the short run.

H_o: lending services has been effective after banking consolidation.

H_a: lending services has not been effective after banking consolidation.

THEORETICAL FRAMEWORK

The theoretical effect of competition on banking outcomes has been addressed by a number of models. The Structure-Conduct-Performance (SCP) model predicts that more market power or concentration will negatively affect credit supply and cost (e.g. Bain, 1951, Hannan, 1991 for a banking application). Cetorelli (1999), however, gives examples of how the use of market structure (e.g., concentration ratios) to infer conduct may be misleading and discusses alternative methodologies based on demand and cost functions. Shaffer (2004) likewise notes that other definitions of equilibrium may give a different association between conduct and concentration (e.g. contestable markets).

Another model of the relationship between competition and market outcomes is the asymmetric information hypothesis (Petersen and Rajan, 1995). In this model, increased market power is positively related to credit supply because lenders are able to capture a larger share of future surpluses from the borrower. Because banks can charge a higher rate later and a lower rate earlier, the adverse selection (credit rationing) situation is mitigated resulting in more low-quality firms receiving credit. Boot and Thakor (2000) derive a model that predicts a non-linear relationship between competition and credit availability for relationship loans. In their model, a bank can make both transaction (or "arms-length") loans and relationship loans that require the production of soft information resulting in what they call sector specialization. An initial increase in inter-bank competition gives the same result as the

asymmetric information models, a reduction in the benefits from investing in sector specialization. However, in their model, profits from transactions lending are more affected by competition than profits from relationship lending. Thus, inter-bank competition will cause banks to allocate more credit to its captured borrowers. Dell'Ariccia and Marquez (2004) produce a similar prediction in their model, where informed banks increase lending to information captured borrowers when faced with greater competition.

Given these differing theoretical predictions about the association between concentration, conduct, and banking outcomes for small firms, the empirical tests of the relationship between concentration and pricing using bank level data are, not surprisingly, inconclusive. Some evidence is found of market power in the pricing of deposits (e.g., Hannan and Liang, 1993), but not for loan pricing, even in highly concentrated markets such as Canada (e.g., Nathan and Nieve, 1989) or markets with a banking duopoly (Shaffer and DiSalvo, 1994). The size of the market used may also complicate the detection of a relationship between concentration and pricing. For example, Radecki (1998) examined the relationship between retail deposit rates and market concentration between the mid-1980s and mid-1990s and concluded that changes in the supply side of retail banking have created markets at least as large as a state.

To further complicate the empirical association between outcomes and concentration, Brevoort and Hannan (2006) note that competition from out-of-market lenders would not be included in a typical concentration ratio computation. Improvements in technology facilitate the entry of these out-of-market lenders, for example, by using credit scoring for business credit card lines. Over time the increased usage of these facilities by small firms could further weaken the link between the number or size of competitors within a local market and the intensity of competition Theoretical from a small firm's perspective.

Using firm-level data from the Board of Governors' 1987 Survey of Small Business Finance (SSBF), Petersen and Rajan (1995) found evidence in favor of the asymmetric information hypothesis. Firms in more concentrated markets were less credit constrained and had a lower initial cost of funds compared to firms in less concentrated markets. Over time, however, the cost of funds was higher, reflecting the recovery of the higher cost of the investment in private information for information-opaque firms. Jayarantne and Wolken (1999), however, found no significant relationship between a measure of deposit concentration and the amount of trade credit paid late (a proxy for credit availability) using the Board of Governors' 1993 SSBF. Yet, DeYoung, Goldberg and White (1999) found a positive association between concentration and the amount of small business lending in urban markets, but a negative association in rural markets. Beck, Kunt and Maksimovic (2004), using firm-level data from 74 countries, found a negative association between concentration and financing obstacles for firms of all size, although the relation turned insignificant in countries with high levels of GDP and well-developed financial institutions. Zarutskie (2006) analyzed a panel of U.S. corporate tax returns from 1987 to 1998 to assess the effect of competition on credit availability for small firms and found that higher concentration resulted in an increased chance of receiving a loan and more timely receipt of that credit. Elsas (2005), using German data, found a non-linear relationship between concentration or malite probability of using a Hausbank (banks associated with relationship lending). For low values of concentration, small firms were more likely to use a Hausbank as concentration decreases. And finally, Berger, Rosen and Udell (2007) failed to find any association between deposit concentration

and the probability of small firms having a line of credit but did find a positive association between concentration and the credit spread on lines of credit.

Given the unsettled state of knowledge about how deposit concentration as a proxy for competition affects small firm banking outcomes, this paper takes a different approach to the empirical investigation. By using a measure of competition that reflects the actions of market participants, we make two contributions to the literature related to bank structure, competition and banking outcomes: 1) how lender contact is related to traditional measures of competition, e.g. deposit concentration, as well as improved measures of local market structure, such as size-structure measures proposed by Berger, Udell, and Rosen (2007); whether the actions of banks in local markets, market structure, or both influence small firm banking outcomes. To the extent that lender contact is associated with certain types of market structure and not others, regulators and analysts may obtain a better understanding of the linkages between the numbers and distribution of lenders in a market and their actions. In addition, the scope of outcomes reported by small firms in the survey permits a more in-depth analysis of the effects of lender contact versus market structure on information-captured small firms.

METHOD OF DATA ANALYSIS

The researcher used descriptive analyses in answering the research question. The descriptive analysis was meant to give an analytical picture of the effect of banking consolidation on small & medium enterprises in Nigeria in the short run. Scales were outlined in order to grade preferences on agreement to the statement on the questionnaire administered. Such as:

(5)   Strongly Agree =**SA**

(4)   Agree =**A**

(3)   Undecided =**U**

(2)   Disagree =**D**

(1)   Strongly Disagree **SD**

Inferential statistics was used. The sums mean scores of the banks administration and small medium enterprises were calculated and compared with respect to each of the areas of bank services that were examined.

The Research Design

The main focus of the research was to examine the services offered to small customers by the consolidated commercial banks in Nigeria. In line with the objective, the researcher related the services offered by consolidated commercial banks to small customers operating any form of transaction with these banks. A questionnaire was administered to sample of small customers transacting business with the consolidated banks.

Population /Area of Study

The research population covers Abuja as a whole which present Nigeria. The research was interested in examining the short-term effect of banking consolidation on the Nigeria commercial bank customers and the relationship that exist between banking consolidation and banking services to the small customers. To achieve the objective of the research, commercial banks in Abuja were used as a study area where the research was conducted.

Sampling Procedure

Since the research was aimed at looking at the short-term effect, questionnaire method of data collection was used. Abuja the federal capital of Nigeria was considered as an ideal place to conduct the research being that it is the federal capital of Nigeria having all various classes of customers cutting across the country and having wide range of banks. We viewed Abuja as a Summary of other States in Nigeria since all the states are represented there. A sample of 10 small medium enterprises (SME) customers was picked randomly and 10 consolidated banks located in Abuja were also picked randomly for the research. The SME selected for the study were randomly selected. Two each were selected from four area councils namely municipal area council, Bwari area council, gwagwalada area council, and kuje area council while one each were selected from kwali and abaji area council. The selection was based on the area council's attestation of the firms as remarkable in their activities. In the case of the banks, the basic criterion for their selection was that they were able to meet up with the consolidation criteria. The banks were randomly selected. Ten questionnaires were posted to the banks selected to be served to ten of their customers.

Presentation of Data

The respondents to the questionnaire were made up of 22 small medium entrepreneurs. Twenty-two entrepreneurs were selected from the streets of Abuja randomly. From the answers proffered by these entrepreneurs, it was coincidentally discovered that each of the small & medium enterprises patronized different bank independent of the other. It was also discovered that two of the SMEs' were as old as 20 yrs and above in existence, nine were not up to 20 years old but were more than 10 years of existence, and eleven were below 10 years of existence (Table 4.1).

Table 4.1: small medium enterprises (SME) patronage of banks

Names of the Firms	Banks Patronized for Business	Age (Years) of the SME
SME1	UBA	20 years above
SME2	Diamond	not up to 20 years but more than 10 years
SME3	Union	Below 10 years
SME4	First bank	not up to 20 years but more than 10 years
SME5	Fidelity bank	Below 10 years
SME6	Unity	20 years above
SME7	Oceanic bank	Below 10 years

SME8	Stanbic IBTC Bank	Below 10 years
SME9	Guarantee trust	not up to 20 years but more than 10 years
SME10	FCMB	Below 10 years
SME11	Access bank	Below 10 years
SME12	FCMB	not up to 20 years but more than 10 years
SME13	First bank	not up to 20 years but more than 10 years
SME14	diamond bank	not up to 20 years but more than 10 years
SME15	Sky bank	not up to 20 years but more than 10 years
SME16	Keystone bank	Below 10 years
SME17	FCMB	Below 10 years
SME18	Ecobank	not up to 20 years but more than 10 years
SME19	Stanbic IBTC bank	not up to 20 years but more than 10 years
SME20	Sterlin bank	Below 10 years
SME21	Zenith	Below 10 years
SME22	`Zenith	Below 10 years

Source: questionnaire

In furtherance to the explanations on the firms, we discovered that eight of the firms were agriculturally based; five were technologically based, while nine were trading based.

It was also discovered that the first SME had the oldest years of bank patronage while SME 5 had the least years of patronage. The firms also specified their growth rate as follows; nine have attended above 50% increase while thirteen experienced below 50% growth rate. The Table Below (Table 4.2) further gives details of the firms' historical trend.

Table 4.2:

Years of Bank Patronage by SME	Nature of Your Enterprise	Growth Rate of the Firms
24	Agriculture	above 50%
12	Trading incline	below 50%
7	Technological incline	above 50%

11	Agriculture	below 50%
2	Technological incline	below 50%
23	Agriculture	below 50%
7	Technological incline	below 50%
6	Agriculture	above 50%
14	Agriculture	below 50%
5	Trading incline	above 50%
3	Agriculture	below 50%
11	Trading incline	below 50%
12	Technological incline	below 50%
12	Agriculture	above 50%
15	Trading incline	below 50%
5	Trading incline	above 50%
7	Agriculture	above 50%
12	Trading incline	below 50%
13	Trading incline	above 50%
8	Technological incline	below 50%
7	Trading incline	above 50%
9	Trading incline	below 50%

Sources: Questionnaires and interview

Descriptive Analysis

The research was essentially meant to describe the short run banking services after consolidation. Based on the above fact, the answers provided by the SME and the banks enabled us to make this analysis. The Mean, standard deviation, maximum, minimum, range, median, mode and normal probability plot of each of the 11 questions for small medium enterprise and 9 for banks were analyzed from the answers to the questions in **Appendix 3 table 1 and 2 respectively**. **NCSS Software** packaged was used for the computation. These simple statistics shaded light on the views of the people concerning the short run services provided by the banks after consolidation. In line with these views, the following tables 3 and

4 showed the summary of the questions answered by both the SME and the Banks. **Appendix 4 and 5** gave the summery of the normal probability plot for each question asked.

The normal probability plot is a plot of the inverse of the standard normal cumulative versus the ordered observations. If the underlying distribution of the data is normal, the points will fall along a straight line. Deviations from this line correspond to various types of non-normality. Stragglers at either end of the normal probability plot indicate outliers. Curvature at both ends of the plot indicates long or short distribution tails. Convex, or concave, curvature indicates a lack of symmetry. Gaps, plateaus, or segmentation in the plot indicate certain phenomenon that needs closer scrutiny.

Confidence bands serve as a visual reference for departures from normality. If any of the observations fall outside the confidence bands, the data are not normal. The numerical normality tests will usually confirm this fact statistically. If only one observation falls outside the confidence limits, it may be an outlier. Note that these confidence bands are based on large sample formulas.

From the Martinez-Iglewicz normality test conducted the data were 10% Critical 5% Critical Decision was not rejected. This gave confidence for the descriptive analysis to be conducted. Appendix 6 and 7

TABLE 4.3: summary of SME answers

	Mean	Standard Deviation	Minimum	Maximum	Range	Median	Mode
question 1	3.545455	0.9116846	2	5	3	4	4
question 2	4.045455	0.72225	3	5	2	4	4
question 3	4.318182	0.4767313	4	5	1	4	4
question 4	3.636364	1.093071	2	5	3	4	4
question 5	3.818182	0.5884899	3	5	2	4	4
question 6	3.818182	0.9579921	2	5	3	4	4
question 7	3.409091	1.007547	2	5	3	4	4
question 8	3.363636	0.789542	2	4	2	4	4
question 9	2.636364	0.789542	2	4	2	2	2
question 10	4	0	4	4	0	4	4
question 11	3.590909	.9591212	2	5	3	4	4

Source: questionnaire

TABLE 4.4: summary of BANK answers

	Mean	Standard Deviation	Minimum	Maximum	Range	Median	Mode
Question 1	4.4	0.5026247	4	5	1	4.5	4
question 2	3.95	0.7591547	2	5	3	4	4
Question 3	4.15	0.3663476	4	5	1	4	4
Question 4	4.4	0.5026247	4	5	1	4	4
Question 5	4.5	0.5129892	4.5	5	1	4.5	4
Question 6	5	0	5	5	0	5	5
Question 7	3.85	0.4893605	3	5	2	4	4
Question 8	4	0	4	4	0	4	4
Question 9	4	0.3244428	3	5	2	4	4

Source: questionnaire

Interpretation of Findings

Contrary to the assertion made by the SMEs that banking services rendered were neither agreed as satisfactory nor disagreed as satisfactory (mean of table 3), the questionnaire answered by the banks showed that the bulk of services rendered to the SMEs was overwhelmingly agreed to have exhibited some levels of increases after consolidation (mean of table 4). For instance, comparing the mean of table 3 to the mean of table 4 we realized that almost all the means in column two of table 4 ranging from the first question to last question showed that banks accepted that their services have increase significantly after consolidation. This answer validated the H_o that banking consolidation has led to high level of efficiency of banking services to the small customers in the short run.

Whereas there is an overwhelming agreement by the banks on the positive increase in all the services rendered that were put up in the questionnaire, the SMEs are of the view that these services rendered are not too satisfactory (table 3 and 4).

From the above answer, it showed that although banks were of the view that they have attended some level of achievement on services rendered to SMEs. The answers shed light on the fact that SMEs are still expecting much from the consolidated banks later.

Although the mean value of all questions answered by SMEs shows mid points between (agree and undecided), in contrast the mode on the SMEs table (table 3) shows that the bulk of majority clearly agree on the fact that there has been a significant improvement on services rendered by the banks except for question 9 that clearly shows disagreement on the issue of Pricing of credit facility increasing from 21% per annum before consolidation to 25% per annum. The mode on the banks table (table 4) is also of the same view of agreement on services rendered to the SMEs by the banks as it is applicable with the mean on the banks table (table 4)

In the case of provision of credit facilities, question 4 (table 3) while the mode shows a simple majority agreeing to the fact that Banks are being more considerate in the provision of Credit facilities to small medium enterprises after consolidation, the mean to the question showed that SMEs are indifferent on the same issue. The act of being indifferent dose not validates the H_o hypothesis that lending services has been effective after banking consolidation.

There is also an overwhelming indifference in the case of the issue of simplified procedures of getting access to loan. Implying that either the banks are likely not to have changed the process of loan acquisition or that the improved processes are likely not too clear for the SMEs

In line with the issue of credit facilities, it is also agreed by the SMEs that the loan tenor is too short question 10 (Table 3)

On the issue of patronage, in table 2 we realized that the firms have to some extend showed high level of patronage of the banks. However, we discovered that while some of the firms have patronized their banks for longer time, some are quite young. In table 1 we realized that the age of the banks are also reason for the diversity of patronage by these firms.

The mode of Question 11 table 3 further shows that majority keep money in the bank not for the purpose of interest but for easy accessibility of the funds. The mean of this question showed almost contrasting opinion on the question.

From normal probability plot (appendix 4 and 5 respectively) we realized that the answers to the entire question except for normal probability plot 10 for the SME 4,5,6,7,and 9 for the banks were not linear this implied that while there was massive coincidental agreement on the answers proffered by the banks, the case was different with the SME's we realized that much of the answers given by the banks are in line with the expected answers graphically depicted in appendix 4 and 5 this demonstrated the probability that banks answers in line with the expected answers for most of the questions. On the other hand, we realized that most of the answers given by the SME are not in line with the expected answers.

Policy Implication of Findings

The thoughts behind banking consolidation in Nigeria to SMEs advantage are that banks will be strengthened to give quality services such as, financing for the construction of affordable houses, and provision of mortgage finance of medium-term tenors at affordable interest rates; provision of start-up and working capital for SMEs; provision of micro-credits to strengthen the informal sector, increase in productivity and reduced poverty. The financing of the above requests to be at single digit interest rates - Bernard (2006)

From our findings we realized that there is little or no such impact of banking consolidation on SMEs activities in the short run. The views express from the findings went contrary to those of the findings from the bank's perspectives. This showed that banking consolidation has not been felt in the short run by the SMEs.

SUMMARY OF THE STUDY

The outcome of the study shows that banking services rendered were neither agreed as satisfactory nor disagreed as satisfactory. The answers by the banks showed that the bulk of services rendered to the SMEs was overwhelmingly agreed to have exhibited some levels of increases after consolidation. From the foregoing, it shows that although banks were of the view that they have attended some level of achievement on services rendered to SMEs. The SMEs were indifferent as to how effective these services have been after consolidation.

While the banks were of the view that they have improved their services to the SMEs, there was disagreement amongst them on the issue of pricing of credit facility. The price increased from 21% per annum before consolidation to 25% per annum after consolidation. This shows that banks are indifferent in the pricing of their credit facilities to SMEs.

There was also an overwhelming difference on the issue of simplified procedures of getting access to loan by the SMEs. This implied that some banks are likely to have imbibed simpler procedure than others.

It was agreed by the SMEs that the loan tenor is too short. This means that government has to intervene so as to ensure that the loan tenor for the SMEs is increased.

CONCLUSION OF THE STUDY

In conclusion the answers given by the SMEs depict that banking consolidation in Nigeria had little or no short run impact on banking services rendered to the SMEs. It further showed that the impact of a policy in the short run is hardly felt in the entire system of the economy at the same time.

We realized that while it is easier for policy impact to be directly felt by those that are executing the policy, it might take longer time for other sectors not directly involved to feel the impact of the policy.

The study further showed that there is a wide range of expectations of better services as a result of the recent consolidation from the banking sector.

RECOMMENDATIONS OF THE STUDY

In other to create confidence on the policy, we hereby recommend that government should cushion the short-term effect by providing basic necessities that will keep SMEs on track. Consequently, financial regulatory body should ensure that credit facilities to the SMEs are pegged at an affordable price. Incentives in terms of tax concessions are recommended for banks that grant credit facilities to small and medium scales businesses. Other recommendations made by the study are; that special services rendered by banks to SMEs are clearly spelt out for the benefit of the SMEs; microfinance banks should be strengthened to provide financial services that are crucial to the growth of small and medium enterprises in Nigeria. ATM and other electronic services should be expanded to the grassroots' areas so that more customers will be encouraged to establish business relationships with the banks.

Finally, more research should be conducted so that banking consolidation policy will be kept on track in the long run.

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APPENDIX 1

SECTION A: Please tick (✓) in the appropriate box or space.

Academic qualification: (tick your highest)

(i) How long have you been running your enterprise?

(a) 20 years and above ☐ (b) not up to 20years but more than 10 years ☐ (c) Below 10 years ☐

(ii) What is the nature of your enterprise? ☐

(a) Agriculturally incline ☐ (b) Technological incline ☐

(c)Trading incline ☐ (d) other ☐

(iii) Which of the banks do you patronize for your business transactions? (State the name)

(iv) How long have you operated account with the bank mentioned? _____

(a) 20 years and above ☐ (b) not up to 20 years but more than 10 years ☐ (c) Below 10 years ☐

(v) What is the likely growth rate of profit of business from the time you started transaction with your bank?

(a) Annual profit improved by over 50% ☐ (b) Annual profit reduced by over 50% ☐

Key for Responses on the items below:

(5) Strongly Agree
(4) Agree
(3) Undecided
(2) Disagree
(1) Strongly Disagree
You are expected to tick only one number against each variable as it relates to your view.

SECTION B: Questionnaire on Banking Services to Small Medium Scale Enterprise

S/NO.	STATEMENT	R E S P O N S E S				
		5	4	3	2	1
1.	Over the counter cash transaction has improved annually after consolidation					
2.	Due to the increase in the number of branches access to funds via ATM has improved by a ratio of one ATM to hundred people consolidation					
3.	The establishment and payment of standing orders have improved by over 5% annually from 2006					
4.	Banks are more considerate in the provision of Credit facilities small medium enterprises after consolidation.					
5.	The provisions of bank drafts to small customers are faster and easier.					
6.	Bank statements are easily accessible now by small scale enterprises.					
7.	I get access to my bank account through internet now than before consolidation					
8.	Procedures of getting access to loan have been simplified by the day					
9	Pricing of credit facility has increased from 21%par annum before consolidation to 25%par annum.					
10	Tight to the risk associated to the credit facility the loan tenor is too short (usually one year)					
11	I keep my money in my account with the bank not for the purpose of interest but for easy accessibility of the funds thanks to the online real-time					

SECTION A: Questionnaire on Banking the Rate of Efficient Services Provided to the Small Customers

S/NO.	STATEMENT	R E S P O N S E S				
		5	**4**	**3**	**2**	**1**
1.	Number of staffs Over the counter have increased by 50%					
2.	With the increase in number of branches and on-line real-time over the counter transaction has improved by 50%					
3.	Small medium enterprise desk is established in the bank after consolidation					
4.	Fund transfer services have improved by 50% due to the on-line real-time and the increase in number of branches					
5.	Provisions of a debit card for the withdrawal of cash from a business current account at ATMs operated by the Banks have improved by 50% after consolidation					
6.	Foreign exchange services to small scale customers especially bureau de change have improved by 50% after consolidation					
7.	The rate of efficiency in the provision of manager cheques have improved by over 50% after consolidation					
8.	In view of the increase number of branches and the provision of on-line real-time services, bank statement availability is very fast.					
9.	Due to increase awareness by the small and medium scale enterprise, banking relationship with them has improved as more SME are establishing banking relationship with us					