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Corporate Social Responsibility in Nigerian Banking System: The Development of Small and Medium Scale Enterprises.

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There is a high rise in the quest for social responsibility from the banking sector because of its importance to the economic development of any country. Corporate social responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce as well as the local community and society at large. Small and Medium scale Enterprises (SMEs) are engine room of economic development of any nation but its funding has been a recurrent problem which the Nigerian government has been making attempts to solve. This study quest to know how socially responsible the banking system is responding to this vital developmental issue. Small and Medium Enterprises Equity Investment scheme (SMEEIs) is an umbrella under which banks came together to supposedly attend to this problem. The study made use of secondary data which was the ratio of loans to SMEs by commercial and merchant banks to their total credit for the period between 1993-2008.A paired sample t-test was used to test the significance of bank loans before and after the introduction of SMEEIS. The major finding is that SMEEIs did not make any significance impact on loan disbursement to SMEs. The major recommendation is that both the government and the banking sector should mutually agree on a credit guaranteed scheme strategy that will incorporate a risk-sharing arrangement as a way of encouraging the banks to channel funds to the SMEs sub-sector in solving the financing problem which would translate into the national growth and sustainable economic development of Nigeria.

Key Words: Corporate social responsibility, the banking system, Small and Medium Enterprises Equity Investment Scheme, Commitment, Sustainable Economic Development, SMEs.

1. Background of the Study

The Banking System is very important for any nation because it is the pivot of socio-economic development of any economy. They have active developmental roles to play in the economy such as mobilizing fund from the surplus to the deficit spending units. The design of the Nigerian Banking System is geared towards greater impact on the Nigerian economy. As crucial as the banking system is to the Nigerian economy, reforms that take place in the system also dovetail to among other things the impact of the Nigerian economy. Example of this is the implementation of the twenty five billion minimum capital base for banks, which reduced banks to twenty five in 2006. This was the outcome of the first phase of the most extensive and intensive banking reforms in post independence Nigeria (Achua, 2008).

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According to Soludo (2004):

> Strengthening and consolidating the banking system will constitute the first phase of the reforms designed to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system. The goal of the reforms is to help banks become strong players, and in a manner that will ensure longevity and hence higher returns to…. shareholders over time and greater impacts on the Nigerian economy.

The Central Bank of Nigeria (CBN) governor's statement above increased the awareness and demand of the Nigerian public about the social and environmental performance of banks hence making corporate social responsibility a thing of continuous quest. This could be that the business of banking is too important and sensitive to be left to bankers alone; the business strives only on public trust and confidence (Okeke, 2004, p.75).

Corporate Social Responsibility (CSR) is one among other things which can help banks earn trust, reputation and confidence of stakeholders. CSR is what an organization does to contribute to the social, economic, political or educational development of the community where it is located, but which it is not compelled to do by any law (Adebayo, 1998). According to Achua (2008) banks need to be socially responsible to be able to build their "reputational capital" which enables them to attract high-quality employees, enable them to charge higher fees, negotiate better deals, expand customer base, attract more investors and win public trust.

The Nigerian Economy is a stakeholder in the Banking system since it is considered to be the 'community' or "Environment" where the banks exist. There is an increasing demand by stakeholders for clear and hard facts about social and environmental performance of banks thereby making CSR an issue to be emphasized. Banks could be seen to be responsible if they can figure out key areas that will help develop the Nigeria Economy.

Small and Medium-Scale Enterprises (SMEs) is one key area which can help in the development of the Nigerian economy. According to NCI (2003), a small-scale industry is an enterprise with total cost (including working capital but excluding cost of land) above N1.5 million but not exceeding N50 million, with a labour size of between 11 and 100 workers, while the medium-scale industry has a total cost (including working capital but excluding cost of land) above N50 million but not exceeding N200 million, with a labour size of between 101 and 300 workers. On the other hand, the revised Operational Guidelines of Small and Medium Enterprises Equity Investment scheme SMEEIS (2005) defines a small and medium enterprise as an enterprise with a maximum assets base of five hundred million naira (N500m)(excluding land and working capital), and with no lower or upper limit of staff.

Small and Medium Enterprises (SMEs) play important roles in the economic growth and sustainable development of any economy (Ariyo, 2005). This is because they serve as

the backbone of any industrialized nation. Kpelai (2009) asserts that SMEs are the engine room for the growth of any developing economy, because they form the bulk of business activities in developed and developing economies like Nigeria. Many economies like Canada, Croatia, etc have acknowledged that SMEs are crucial for industrial restructuring and have formulated national SME financing policies, targeted at developing the sub-sector.

SMEs may look small or inconsequential but are actually the foundation of any economically stable nation. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost; provision of a vehicle for reducing income disparities; development of a pool of skilled and semi-skilled workers as a basis for future industrial expansion, among others. In a developing economy like Nigeria, the commitment to the development of SMEs is an effort towards the development of the whole economy.

The quest for banks CSR has been on for a long time especially as it regards SMEs. However there has not been a very clear scheme that involves the banks towards the development of SMEs, until 2001 when Small Medium Enterprises Equity Investment Scheme (SMEEIs) was introduced. Up to 2005 when SMEEIs was introduced there was no striking commitment to social responsibility because before consolidation of banks in 2005 about 90 percent of Nigerian banks hardly had good reputation (Nwosu, 2005). The Nigerian banking system survives on this economy therefore the quest for a share of its wealth to the development and growth of the Nigerian economy is not asking too much.

SMEEIS is the current sector driven economic policy thrust of government involving banks. It is a Bankers Committee Financing Initiative that started in 2001 to finance SMEs in form of equity participation. It was initiated by the Federal Government aimed at formalizing SMEs source of financing. There is a noticeable steady decrease in the percentage of banks loans to SMEs from 1993 throughout the period of the operation of SMEEIS. The positive impact of SMEEIS on development of SMEs via disbursement of loans could have been a pointer, key indicator or proof for the CSR of banks.

Generally, the United Nation's Millennium Development Goals (MDGs) are being pursued in Nigeria in line with the need to enhance the process of development in the country by making all the basic amenities of life at the disposal of the masses. Specifically, the administration of Dr. Goodluck Ebele Jonathan is of the vision that, by the year 2020, Nigeria would be one among the first 20 largest economies of the world. This is achievable if it is premised on a sound and committed economic policies implementation in the country. It must be emphasized that it is while attending to small matters that bigger things are created (Sule, 1986). Vision 2020, for example, is economically a big and remarkable thing, but unless Nigeria attends to smaller economic matters such as the development of SMEs, she cannot achieve it.

However, the small business' contribution to macro-economic development is inhibited by the fact that they have no, or only overpriced, access to finance institutions and other services (Schneider-Barthold, 2002). Funding has therefore remained one of the key managerial problems that keep confronting business enterprises in Nigeria today.

The two fundamental financing concepts of SMEs, the formal and informal forms of financing, have been identified by previous researchers, scholars and practitioners (Gelinas, 1998; Aruwa, 2004a). The findings were that, among the most popular of the formal sources of financing, the commercial banks and development banks supposedly remain the readily available source of financing option for enterprises. The problem of SME financing has received the most tremendous research efforts from researchers. Some notable works in this respect include Aernold (1998), Anic and Paus (1998), Inang and Ukpong (2002) and Aruwa (2004b). In their findings, four problems in financing SMEs have become recurrent: the cost of capital; risk; the inappropriate terms on bank loans; and the shortage of equity capital. SMEs are of outmost importance in attaining Nigeria's vision 20-20-20. There is, therefore, the need to delve into the nitty-gritty of all such economic developmental issues as regards SMEs in the country to see if Nigeria is heading to the right direction in actualizing her dreams. How socially responsible is therefore the Nigerian banking system to this recurrent financing problem of SMEs?

The main objective of this paper is to draw reader's attention to the CSR of Banks with respect to development of the Nigeria Economy via SMEs which is a key developmental strategy with a view to providing useful recommendations. The hypothesis tested in this study is stated in the null form as follows: Ho_1: Banks in Nigeria are not socially responsible to development of SMEs. The paper is arranged into sections one through five, with background of the study, theoretical framework and literature review, methodology, data presentation analysis and interpretation and finally conclusion and recommendations respectively.

2. Theoretical Framework and Literature Review

A well functioning financial system is a key enabler of economic growth. SMEs are an important part of Nigeria's economic growth and development and bank lending is the primary source of external finance for SMEs. Therefore, it is important that the banking sector responds efficiently and effectively to the needs of SMEs. According to Ohanga (2005) there are a number of features of lending generally which potentially could affect the efficiency of the market for lending.

2.1 The Concept of CSR and Social Contract Theory in the Banking System

A key indicator to determine the true worth and value of modern organization (including banks) is their ability to give back to the society part of their income through some mutually beneficial initiatives. These initiatives are encapsulated in the concept of CSR. The stakeholders (social contract) theory maintains that companies have social responsibility to all stakeholders for allowing their existence, based on social contract (O'Brien, 1996).

Broardly, defined, CSR is an organization's commitment to operate in an economically and environmentally sustainable manner while recognizing the interests of all its stakeholders (Carrol, 1991). According to (Adebayo, 1998) CSR is what an organization does to contribute to the social, economic, political or educational development of the community where it is located, but which it is not compelled to do by any law.

In spite of the centrality of CSR to the corporate survival, the controversy of how much resources a corporate organization should commit to social causes tends to deepen. In practice, however, social responsibility marginally contributing to profits is more readily met than those not contributing to it. (Umoh, 1983). Therefore, social responsibility is a by-product of profitability. Researchers have demonstrated that firms that anchor their performance on CSR are the most profitable overtime (Harrison and freeman, 1999; Barrett, 1998). Thus, CSR is about the organization striving towards profit maximization while still obeying the laws, being ethical, and being a socially responsible and a responsive corporate citizen. Bank is a corporate citizen so it ought to be responsible. However, profitability is not the only benefit associated with CSR. According to Hodgson (2005), other critical benefits of concerted commitment to CRS include a strong reputation and improved corporation brand recognition; being exemplified as responsible by stakeholders; sustainable product brand loyalty; and improved government and community relations.

CSR concerns all organizations. However, banking organizations stand out to be most sensitive to the impact of CSR especially as regards issues of economic development. The banks interact with all the sectors of the economy. The bank has a social obligation to satisfy these diverse and complex publics:

> A bank undertakes to maximize profit for shareholders who contributed funds to set it up. It must maintain optimal liquidity to meet depositors demand. It is obliged to satisfy the legitimate deficit sector demand for credits. The bank must comply with regulators' requirements to continue in business. Above all, for the bank to be seen as a good corporate citizen, it has to contribute to the maximum development of the economy as well as satisfy its immediate community (Nwankwo, 1991,p. 26)

To (Achua 2008) with globalization, the structure of the banking public may be far more complex than can be readily envisaged. Moreover, the dynamism of modern society continues to change the composition and intricacies of CSR requirements of the banking industry. The complexities and indispensability of these interrelationships have made CSR and corporate existence of banks inseparable.

2.2 Pecking Order Theory/Hypothesis of Lending

Ohanga (2005) asserts that, from the borrower's perspective, if faced with a cost of lending that is above the true risk-adjusted cost, the borrower will have incentives to seek out alternative sources of funding. Bank lending theory suggests that, where information asymmetry and moral hazard are prevalent, firms are likely to fund themselves firstly from retained earnings and then from bank debt rather than issuing equity. This is referred to as the pecking order theory/hypothesis. The theory further suggests that the mix of debt and equity should be the cumulative result of hierarchical financing decisions over time.

Evidence around the world indicates that small scale enterprises provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology

(Sule, 1986: World Bank 1995). Through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. Furthermore, by producing intermediate products for use in large scale enterprises, SMEs contribute to the strengthening of industrial linkages. These explain the increased interest which developing countries have shown in the promotion SMEs since the 1970s (Ekpenyong and Nyong, 1992).

Akabueze (2002) asserts that the significance of finance in the drive for economic growth is fairly well established and generally accepted. For instance, the take-off and efficient performance of any industrial enterprises, be it small or large, will require the provision of funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments. Provision of funds to the industrial sector, particularly, for the SMEs has, therefore, been of prime interest to policy-makers in both the public and private sectors.

Aladekomo (2003) notes that successive governments in Nigeria have, since the last three decades, shown great interest in financing of SMEs, by establishing specialized banks and other credit agencies/schemes to provide customized funding to the sub-sector to enhance growth and stability. In addition to these, programmes like the Nigerian Directorate of Employment (NDE), Better Life for Rural Women, Family Support Programme, Child Care Trust, People's Bank, National Poverty Eradication Programme (NAPEP), to mention a few, have been introduced. Banks in Nigeria are aware of all these government efforts because most of them are hinged on them to succeed. Banks that are committed to CSR need not be compelled but they would have voluntarily seen this move as beneficial and important to the economy hence step in to assist.

The impact of all existing credit schemes to SMEs, in terms of providing funds for meaningful and sustained development among the SMEs, had hardly been noticeable. The banks by their nature and position in the economy remain the known formal source of finance for enterprises (Agumagu, 2006). It is disheartening to know that a 2001 World Bank survey on Nigerian firms showed that although 85% of the firms had relationships with banks, most of them had no access to their credit. This explains why SMEs in Nigeria represent about 90% of firms in the Nigerian industrial sector on numerical basis but regrettably contribute as low as one percent to GDP in contrast to countries like Indonesia, Thailand and India where SMEs contribute almost 40% to GDP (HPACI, 2002). Banks depend on this Nigerian economy to achieve their goals. Expecting them to give back to this economy is an obligation and not an option as far as CSR is concerned. Banks ought to know that if you gradually shy away from reflecting the values of the people who make up your world, you will definitely lose your appeal to those people.

The failure of most of the schemes and the need for a sustainable source of financing SMEs, therefore, necessitated the Central Bank of Nigeria (CBN) inspired Banker's Committee initiative which is aimed at committing the banking industry to the provision of finance and other ancillary support to the sub-sector via an equity participation scheme called SMEEIs.

2.3 Bank Lending and SMEs Development in Nigeria

SMEs are crucial catalysts for economic development (Aruwa, 2006). Banks provide a nation with a function of pooling scattered resources from surplus to deficit units so as to promote investment innovation, productivity and consequently growth and development. The banking industry in Nigeria dominates the financial system (Agusto, 2000). Berger et al (2001) maintains that a well functioning financial system contributes to investment and economic growth. Every enterprise at its onset, before standing firm on its feet, needs borrowing. The first place that they need to go and borrow at those times is the banks.

Firms do any volume of investment, and so where the firms do not have adequate capital to embark on any level of investment, there is need for capital borrowing (Mainoma, 2005). But when funding becomes a major problem for such enterprises, nothing else works. This is because other problems which emerge later in an enterprise's lives that are being tackled as natural problems which come after its funding. This in turn hinders the growth and development of the economy.

Small and medium scale enterprises dominate the private sector of the Nigerian economy, but almost all of them are starved of funds (Mambula, 2002). The persistent lack of finance, for establishment and operation of SMEs occasioned by the inability or unwillingness of the deposit money banks to grant long term credit to operators of the real sector of the economy, led to the establishment of development finance institutions and the introduction of numerous funding programmes for the development of SMEs in Nigeria. In spite of these institutions and funding programmes, there continues to be a persistent cry against inadequate finance for the development of the SMEs in the country.

The CBN (2008) shows that commercial and merchant banks loans and advances to SMEs have been decreasing over the years. The statistics show thus; commercial bank's loans to SMEs as a percentage of total credit decreased from 48.8% in 1992 to 22.22% in 1994. The trend increased marginally to 22.9% and to 25.5% in 1995 and 1996, respectively. There was a sharp reduction from 25% to 17% in 1997, and the decrease continued till it reached 0.2% in the year 2008. Similarly, merchant banks loans to SMEs as a percentage of total credits reduced from 31.2% in 1992 to 9.0% in 2000 (Akabueze, 2002). The continuous decrease in commercial and merchant bank's loans to small scale enterprises can be attributed to lack of collateral from the SMEs to secure the loans and the high lending rates from the banks.

2.4 Approaches of SMEs Financing in Other Countries

Shortly below you will see that others countries approach financing of SMEs with the indispensible support of banks and other financial institutions.

Since 1961, the Government of Canada has supported small businesses in Canada via a strategic partnership with financial institutions. This strategic partnership exists in the form of the Small Business Loans Act (SBLA), which allows financial institutions and the government to "share the risks inherent in extending credit" where they exist. In its 37

years of operation, the SBLA has facilitated the financing, creation and/or improvement of more than 500,000 businesses. During this time, financial institutions have been able to provide small and medium-sized enterprises with more than $20 billion in financing. Loans guaranteed during 1997-98 totaled $1.9 billion in Canada and more than $145 million in Atlantic Canada (Canadian Bankers Association, 1997). While the Export Development Corporation (EDC) provides support to SMEs in the form of insurance services, loans are typically not issued directly to Canadian companies but rather are provided to foreign purchasers of Canadian exports. This financing is important, as it allows Canadian SMEs to successfully bid on and finance export sales opportunities (Canadian Bankers Association, 1997).

In EU countries, Gamser (1998) notes that SME financing can be broken down into three major categories: (i) credit guarantees; (ii) loans/equity investments; and (iii) grants. All these instruments exist in EU and OECD countries. Credit guarantees enable SMEs with sound investment proposals to borrow from commercial banking institutions at reasonable rates. They encourage the private financial sector to act, to raise the profile of the SME market and to be flexible on security.

Anic and Paus (1998) identify major barriers to the development of SMEs as insufficient support by the Government, low access to loans, lack of information on new technological developments, and insufficient investment in education. The Croatian Guarantee Agency (CGA) provides guarantees of up to 80% of the total amount of the loan. Guarantees are provided for (i) small businesses; (ii) business activities of SMEs in areas of special importance to the country; and (iii) start-ups. Small loans are available up to 50,000 Dutch Mark (DM) with an interest rate of between 1 to 9%. Start-ups may obtain up to DM 100,000 and existing businesses up to DM 300,000 at interest rates of between 7 and 12 % with a repayment period of between 5 and 8 years (Anic and Paus, 1998).

2.5 Main Sources of Financing SMEs in Nigeria

The importance of finance to business organisation cannot be over-emphasised. Business finance is however, not easy to come by especially in respect of SMEs. Yet they require funds from every source available to meet their asset needs, working capital needs, and for expansion. According to Ekpenyong and Nyong (1992), there is wide consensus in Nigeria that government policies are skewed in favour of the formal sector to the detriment of the informal sector. This skewness is to the great disadvantage of SMEs in Nigeria since they are more disposed to the funds of the informal sector.(Ohanga, 2005)

2.5.1 Formal Sources of Financing SMEs: The commercial banks, merchant banks, and development banks provide the formal sources of finance to SMEs. The financial system in Nigeria is not in short supply of liquidity, but banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sector. Most of the banks would rather pay the penalty imposed for not meeting the minimum exposure to preferred sectors of the economy than actually run the risk of being exposed to them.

According to Ojo (1984), the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, and moneylenders. The study shows that almost all the funds came from personal savings (96.4%) with about 3% from the informal sector and 0.21% from the formal financial institutions. This trend is further established by a 1983/84 study by the Nigerian institute for Social and Economic Research (NISER). NISER findings show that about 73% respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions.

2.5.2 The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund: In Nigeria, the formal financial institutions have been organised to finance SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the Federal government's desire to promote SMEs as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. Venture capital financing supplements or takes the place of credit facilities that the conventional banks are unwilling to give. The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk. Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998).

The Nigerian government's version of venture capital financing of SMEs -SMEEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and to promotion of small and medium-scale enterprises. The goal is to reduce interest rate burden and other financial service charges imposed under normal bank lending. Most banks fail to make available this 10%, they prefer paying the penalty for noncompliance. The little that is made available is accompanied with relatively high requirements for accessing it.

To be eligible for equity funding under the scheme, a prospective beneficiary shall: i). Register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filling of annual returns, including audited financial statements; ii).Comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities (Bankers Committee Revised, 2005).

Aruwa (2005) laments that, given the developmental stage of Nigeria's dominant SMEs; it is difficult for them to meet any of these requirements. Consequently, SMEs in Nigeria do not have the capacity to access funds from SMEEIS.

The point is about the model of growth of SMEs and financing options available. Golis (1998) submit that venture capitalists do not seek enterprises on the start-up and survival stage but only in the stability and rapid growth stages did the venture capitalists appear. Yet the method of financing remains a critical success factor for SMEs. Other research works have been unable to emphasize on the development of SMEs by the banks as way of exercising their CSR. The banks take from the Nigeria economy; it will

only be responsible if they give back to this economy by developing the SMEs. This work is aimed at closing this existing gap.

3. Methodology

It is expected that an organization committed to being socially responsible should understand its environment and intervene in the area of priority. The Nigerian economy quest continually for development and SMEs are the engine of economic development. This study is therefore designed to look at the lending habit of conventional banks and how it affects SMEs in Nigeria from 1993-2008. To achieve this purpose, the survey research design and an empirical method making use of the paired sample t-test was used. The t-test is used to measure the significance of loans to SMEs by banks who contribute to the SMEEIS funds. The banks loans to SMEs as a percentage of its total credit from 1993-2000 was taken as a separate pair which relate to the period when SMEEIs was yet to come on board. Bank loans to SMEs as a percentage of its total credit for the period 2001-2008 was taken as the second pair which now relates to the period SMEEIs was introduced. The paired sample t-test was then statistically applied to see if there is any significance in the disbursement of loans to SMEs between these periods.

4. Data Presentation, Analysis and Interpretation

4.1 Test of Hypothesis

There is no significant difference in the loans granted by banks to SMEs in Nigeria before and after the introduction of SMEEIs.

Table 1: Ratio of loans to SMEs by Commercial banks and Merchant Banks to their Total Credit

Year	Commercial banks loans to Small scale enterprises as percentage to Total Credit	Merchant banks loans to Small scale enterprises as percentage to Total Credit
1993	32.2	19.5
1994	22.2	18.2
1995	22.9	29.9
1996	25.0	13.6
1997	17.0	13.1
1998	15.5	12.9
1999	13.3	12.9
2000	8.7	10.2
2001	6.6	-
2002	8.6	-
2003	7.5	-
2004	3.6	-
2005	2.7	-
2006	1.0	-
2007	0.9	-
2008	0.2	-

Source: *Central Bank of Nigeria Statistical Bulletin, Golden Jubilee Edition (December, 2008).*

Before 1996, commercial banks were operating under a stipulated guideline that their Total Credit allocation to SMEs should not fall below 20% of their overall Total Credit. This was in respect of SMEs wholly owned by Nigerians. This was, however, abolished on 1st October, 1996 (Aruwa, 2004). From the table 1 above it is clear that before the abolition, commercial banks were adhering to these guidelines as none of their Total Credit percent fell below 20%. Immediately after the abolition (from 1997), the Total Credit percent drastically fell from 25% in 1996 to 17% in 1997. Since then it has been on a steady decline till date. The philosophy of CSR is not composure but an act borne out of genuine commitment. From the above it shows there is lack of commitment.

A paired sample t-test is used to test this hypothesis. The data with respect to commercial bank loans to SMEs as a percentage of total credit from 1993-2008 is used in calculating the paired sampled t-test as below:

Table 2: Computation of paired sample t-test

Year	X	Y	d(x-y)	d^2
1993/2001	32.2	6.6	25.6	655.36
1994/2002	22.2	8.6	13.6	184.96
1995/2003	22.9	7.5	15.4	237.16
1996/2004	25.0	3.6	21.4	457.96
1997/2005	17.0	2.7	14.3	204.49
1998/2006	15.5	1.0	14.5	210.25
1999/2007	13.3	0.9	12.4	153.76
2000/2008	8.7	0.2	8.5	72.25
Total			**125.7**	**2176.19**

Source: *Secondary Data Computation (November, 2009)*

X in table 2 represents percentage of loans from 1993-2000 while Y represents percentage of loans to SMEs from 2001-2008. d is the difference between X and Y. the formula was then applied to compute the value of t and then compare it with the critical value at 5% significant level.

Before the introduction of SMEEIS there was a decline in loans to SMEs by banks especially immediately after the abolition of the 20 percent mandatory credit to SMEs in October 1996. With the introduction of SMEEIS in 2001 to save this situation one would expect a significant turnaround with regards to loans to SMEs by banks. This would have been so if the values of ***d*** in table 2 were predominantly if not all negative. The ***t*** in the end would have been a negative figure greater than the critical value. Computed value of t = 8.29 and the critical value is 2.365 at 0.05 significance level and degree of freedom df = 7.

What our calculation as above gives us is a positive value of computed t which shows there was no significant improvement in loans to SMEs even after SMEEIS was

introduced. The result of insignificance could be explained that the SMEEIS did not create a significant impact on the financing of SMEs. We therefore accept the null hypothesis that there is no significant difference in the loans to SMEs before and after SMEEIS by banks. This could also be as a result of the fact that even though the SMEEIS was in place, its conditions for accessing the fund was beyond the reach of the predominant SMEs in the country as asserted by Aruwa (2005).

4.3 Discussion of Findings

In an organization where CSR is emphasized, the organizations profitability is deemphasized at its face value. Profitability is eventually achieved as it get committed to been responsible. From 1993-2000 both commercial and merchant bank loans to SMEs as a percentage to their total credit has been on the decrease. Banks came together under an umbrella called SMEEIs in 2001 but from 2000-2008 there even more noticeable decline in loans to SMEs.

This is at variance with the pecking order theory or hypothesis which implies that banks should lend to SMEs where they have exhausted their retained earnings to finance their investment. SMEs by their nature cannot raise substantial internal finance. It, therefore, becomes necessary for them to seek bank lending to bridge the gap between their retained earnings and their potential investment outlay.

From the definition of SMEs by SMEEIs, one can infer what they consider as SMEs in Nigeria. Predominant SMEs in the country cannot afford an asset base of five million naira as their definition captures. The conditions for accessing the fund as stipulated in its operational guidelines include among other things, registration with Corporate Affairs Commission as a limited liability company and complying with all relevant regulations of Companies and Allied Matters Act(1990).A banking system committed to CSR in this country should know that predominant SMEs in this country can not afford all of this. It is thought that the enterprises targeted by the banks are not SMEs but ones that are more stable financially. It becomes worrisome that the SMEs in Nigeria are not recognized and so the scheme cannot reach out to them. This is also at variance with the pecking order theory. Going by the theory, it is to be expected that small-scale enterprises should get more bank loans than medium-scale enterprises since they can raise more internal finance than small-scale enterprises. It could, therefore, be inferred from the above that banks in Nigeria only lend to enterprises that have high potentials to repay loans. With this type of philosophy, they can hardly support small-scale enterprises.

The abolition of mandatory bank's credit allocations of 20% of its total credit to SMEs wholly owned by Nigerians took effect from October 1, 1996. This was the genesis of the most remarkable dwindling effect of the banking sector overall credit to SMEs in Nigeria. What is evident from this study is that without mandatory regulation, the banking sector will not take active part in funding the SME sector. This is at variance with stakeholders (social contract) theory which maintains that companies have to exhibit CSR to all stakeholders. Being responsible is devoid of compulsion but voluntarily. The Nigerian economy is a stakeholder to banks, the banks have a duty to perform their side of this social contract, the risky nature of SMEs not withstanding.

5. Conclusions and Recommendations

Stakeholders, who the Nigerian economy is one of them, are taking an increasing interest and quest in the activities of the Banking System. This is borne out of the fact that the economic development of any country is directly tied to its banking sector. The effectiveness and efficiency with which the banks perform their intermediary roles between the surplus and deficit spending units of the economy determines to a very large extent the prosperity of any nation.

It is obvious that a dynamic SME sub-sector is needed for Nigeria to attain industrialization and sustainable economic development and for its Vision 20-20-20 to be achieved. This subsector is, therefore, vital and imperative for the actualization of Nigeria's vision. The observed weak performance of notable formal financing options, like SMEEIS, which is banks under an organized umbrella should, however, be seen as a big challenge for policy makers in this country.

The main limitation for this work was finance. If the researcher had adequate finance, this work would have had wide coverage of data and day to day update of the data too. It was inadequate finance that limited the scope of this work as it is.

Despite the limitations, the study hereby reveals the following major findings:

From 1993 – 2008, there is a steady decline in the ratio of loans to SMEs to total banks' credit. The most remarkable decline was from 1996 when the abolition of 20 percent mandatory credit to SMEs took effect. It is, therefore, obvious that a legal framework plays an important role in the financing to SMEs by banks.

Banks have not earned a reputation in the development of SMEs. This is exhibited in the weak performance of SMEEIs which is an umbrella of banks. Their commitment to CSR in this regard would have earned them this reputation.

Stringent conditions of SMEEIS may prevent SMEs from accessing the funds under the scheme.

The following recommendations are therefore relevant:

There are many banks in Nigeria; an umbrella like SMEEIs that bring together all the banks is a step to the right direction. Banks annual contribution to this scheme should rather be increased to 20% of their pre-tax profit. This is borne out of the fact that their capital base is now more than what it was when they were to contribute 10%.

For reasons of being socially responsible, the SMEEIs fund should carry a relatively liberal condition for assessing the fund. A 5% loan interest should be maintained for all SMEs requiring funds from it.

Banks that are committed to CSR should carry out an annual economic impact assessment and submit same to government for approval. This will help focus on activities that impact the society more economically. If this was the case, SMEs

will stand out far above sports tournaments that banks sponsor in the name of CSR.

Banks, by their nature and in line with their objective, do try to minimize risk; while SMEs, on the other hand, are inherently risky. Consequently, the government and the banks should mutually agree on a credit guarantee scheme that will incorporate a risk-sharing arrangement as a way of encouraging banks to channel funds to SMEs.

A legal framework should be reintroduced by government if banks can not voluntarily subscribe to funding SMEs. This will help improve their finances.

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