THE MODERATING IMPACT OF CORRUPTION: UNDERSTANDING SMEs GROWTH AND CREDIT ACCESSIBILITY FROM BANKS

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Abstract

Universally, SMEs have been acknowledged to be engines of growth and development given their contributions to employment and reduction in abject poverty while on the other hand, corruption generally is seen as one of the causes of poverty. Accordingly, this paper focused on moderating the role of corruption in Deposit Money Banks' Credit accessibility and SMEs' growth in Nigeria. Methodologically, an Ex-post facto research design was adopted through sourcing data from annual reports of companies coupled with relevant publications The outcome of the data analysis revealed that corruption has a positive and significant effect on the relationship between Deposit money Bank credit accessibility and SMEs' growth in Nigeria, since the P-value is greater than 5%. The study recommended that even though corruption has a positive and significant effect as a moderating role in Nigeria, there is a global cry against it as corruption practices cause distortions in the economic system. It also impairs hard work, diligence and efficiency. It can diversify resources meant for society's development to private and personal use and a burden to borrowers. Hence, the recommendation was crafted to eradicate corruption attitudes among loan seekers, bankers and the government.

***Keywords**: Deposit Money Banks, Corruption, SMEs, Growth, Nigeria*

Introduction

It has been discovered that the operations of Small and Medium Enterprises (SMEs) in many countries especially developing countries are characterized by corruption even though they are noted to be the driving forces of economic development (Olubiyi, 2024; Olawale& David, 2010), and that their roles cannot be overemphasized especially in the areas of employment generation, innovation, income generation and poverty alleviation (Sandy, 2003; Liedholm& Mead, 1999; Ayyagari, Demirguc-Kunt, &Maksimovic, 2011; Urban & Naidoo, 2012). Also, some researchers found that SMEs are very vulnerable to the negative effects of corruption, which is considered to be the most constraining factor for successful SMEs as it raises the cost of their business operations (Adeoye, et al. 2023; Beck &Demirguc- Kunt 2005 &Aterido, Hallward-Driemeier, Pagés, 2007 & 2009). In Nigeria, it is no longer any news that corruption is a cankerworm that has eaten deeply into our systems. It is considered to be ubiquitous in the day-to-day functioning of our societies. However, its consequences are very conspicuous as money meant for growth and development is diverted into private pockets. Iyanda (2012) submitted that corruption is a culture in Nigeria as well as in other parts of the World. Its entrenchment is common to all segments of the society with deep involvement of many people. Therefore, corruption in its social context is devoid of human intelligibility as a global devil. As revealed by Chatam House (2017), close to $400 billion was estimated to have been stolen from the treasury in Nigeria from 1960 to 1999 and $182 billion was lost between 2005 and 2014 through illicit financial flows from the country all of which have resulted to investment gap in building and equipping modern hospitals to reduce Nigeria's exceptionally high maternal mortality rates - estimated at two out of every 10 global maternal deaths in 2015 and reduce the effort to expand and upgrade our educational system that is currently failing millions of children and the expected vaccinations that would have been procured to prevent regular outbreaks of diseases.

According to the United Nations Industrial Development Organization (UNIDO), the importance of SMEs and their contribution to the GDP and economic growth are widely accepted in both developed and developing countries (UNIDO, 2001). However, despite various initiatives undertaken by the Nigerian government and non-governmental organizations to encourage SME growth across the country, their growth is still stunted as it is the case across the continent. Thus, lack of finance is a major problem confronting small-scale ventures, especially new ones. In a survey conducted by the National Bureau of Statistics/SMEDAN, 73.24% of Micro, Small and Medium Enterprises (MSMEs) cited financial assistance as their number one priority. According to the findings, only 4.2% of 17.2m MSMEs were able to access loans or overdrafts from financial institutions (Tom, Glory & Alfred, 2016). However, most of the research conducted in developing economies like Nigeria that focused on financing did not emphasize the effect of corruption as a moderating variable on the relationship between Deposit money banks' credit accessibility and SMEs' growth. In addition, most of their findings are not consistent. It is in this context that this paper attempts to bridge the gap by showing the empirical evidence of the moderating effects of corruption on the relationship between Deposit money banks' credit accessibility and SMEs' growth in Nigeria covering 1980 to 2015. As a sequel to the foregoing, this study examined the moderating effect of corruption on the relationship between deposit money banks' credit accessibility and SMEs' growth in Nigeria.

Review of Related Literature

Concept of Corruption.

Corruption is not exclusively peculiar to any nation or society or race of the World, it is a global phenomenon (Iyanda, 2002). Different societies view corruption in different ways because what is considered as corruption in one society differs from another. In this view, Wraag, Payne and Connor (2009, p. 5), defined corruption as "the abuse of entrusted power for private gain", "an inducement to show favour", "the perversion of destruction of integrity in the discharge of public duties by bribery of favour" and "the use or existence of corrupt practices especially in a state or public corporation". These authors further defined bribery as “the payment in money or in kind that is given or taken in a corrupt relationship. In another dimension, World Bank (2000) defines corruption as the abuse of public office for private gain. This definition considers the cause of corruption in public authority and its abuse, and links corruption to the state, its activities, state intervention on the market and the existence of the public sector. This definition excludes the possibility of corruption in the private sector. Its focus is exclusively on corruption in the public sector. In Nigeria, Corruption has become an endemic malaise to the extent that it has been nicknamed most especially in the three major languages. According to Ndokwu (2004), the Igbos call it Igbuozu, the Yorubas call it Egunje while the Hausas call it Chuachua. Surprisingly, its deep penetration into the system has been so much to the extent that people no longer view it as a shameful act as it is requested even in the open. Its peculiarity is so much in Nigeria among government officials as they are found to be enriching themselves by converting government money in their custody to their personal use through the habit of offering and collecting of bribes forcefully to speed up requests (Iyanda, 2012).

Empirical Evidence of Corruption and its Impact on SMEs

The fact Although many developing countries have in many ways offered highly attractive markets to foreign investors, the business environments in such countries are still found to be characterised by systemic levels of administrative corruption. This is noted to be a type of corruption that constitutes investment barriers thereby limiting the prospects for SMEs growth. No wonder why many researchers see SMEs as companies that suffer mostly from corruption in view of their limited resources and capability coupled with their liability of size. Corruption as a phenomenon has been attracting the attention of people. History has it that more than two thousand years ago, Kautilya, the prime minister of an Indian kingdom, wrote a book, Arthashastra that discussed corruption. More than seven centuries ago, records have it that Dante placed bribers in the deepest parts of Hell which signifies medieval distaste for corruption (Tanzi, 1998). Further research stated that Shakespeare also gave corruption a prominent role in some of his plays, and the American Constitution made bribery and treason the two explicitly mentioned crimes that could justify the impeachment of a U.S. president. As found by Igwe, Amaugo, Egere, Ogundana, and Anigbo (2018), UNIDO (2007), Kanu (2015) and Aterido, Hallward-Driemeier and Pagés (2009), corruption is the liability of size, short-term vision and perspective, restricted financial resources, failure to exercise a strong influence on government officials and institutions, capital structure and the inability to shun it.

As concluded by Johnson, Kaufman, and Zoido-Lobatan (1998), corruption distorts the development of enterprises and favours the emergence of an unofficial or underground economy. It favours the growth of non-official economy and reduces the fiscal income (Sumah, 2018). The reduction in fiscal income return affects the capacity of the state in supplying important public goods such as laws and principles of ethics and this favours the more, underground economy to the detriment of public finance which is damaging to any economy. The finding of Bliss and Di Tella (1997) aligns with the above. Their study on the relationship between corruption and competition showed that if bureaucrats have the power to extract money from firms under their control, they will drive the most inefficient firms out of business, thereby enhancing the profitability of remaining firms, which, in turn, makes it possible to demand larger bribes.

Similarly, a model was also used by Choi and Thum (2005) to study the effects of repeated extortion. Hellman et al (2000) and Igwe (2018) demonstrated that corruption favors the monopoly of the state by certain groups of privileged population that give bribes to state agents and the police, hence sapping the growth of production and private sector investments. In the same vein, the finding of a study conducted by Akinboade (2014), on regulation, growth and performance of SMEs showed that trade regulation and company law hurt small and medium-sized businesses, while corruption (paying bribes to tax regulators), age of business owner and business location impact negatively on trading volumes (Arokodare, & Olubiyi, 2023).Complementary to the above, Kauffman and Wei (1999) researched to examine whether bribery offers enterprises the possibility of avoiding excessive bureaucracy, by comparing the average time wasted with bureaucratic negotiations and the level of bribery with conclusion that corrupt officials may instead of speeding up economic activities, actually cause administrative delays in order to attract more bribes. Corroborating the above is also the study on the relationship between corruption and competition that showed that the use of bureaucratic power to extract money from firms under their control will drive the most inefficient firms out of business, thereby enhancing the profitability of remaining firms which in turn, makes it possible to demand larger bribes (Olubiyi 2022b; Bliss & Di Tella 1997). This position was reinforced by Choi and Thum (1999) that use a similar model to study the effects of repeated extortion. Suleimenova, et al (2018) studied the corruption perception and the involvement of SMEs in corruption practices with results that showed the presence of "gap" between the perception of corruption and degree of the respondents' involvement in corrupt practices.

Small and Medium Enterprises

There is no consensus among researchers on a simple and single definition of SMEs. Afolabi (2016) noted that the definitions of SMEs vary among countries and continents. It is defined in terms of annual turnover and the number of paid employees. An enterprise is measured through gathering of information about the changes in both the environment and the performance of the enterprise. As a result, the outputs of the enterprise, the products, the services, the operational performance and the financial performance are changed. Small businesses comprise sole proprietorship or entrepreneurship, family businesses and partnerships, and may be incorporated or unincorporated. The term also includes professionals such as accountants, lawyers, doctors, engineers, and self-employed architects. Also included are repairmen and roadside auto servicemen known generally as "roadside mechanics" in Nigeria (Olubiyi 2022a; Justin, 2014).

Abiola (2012) defined SMEs as firms which employ a total of 10 to 200 employees. On the other hand, the government classified SMEs as firms that employ up to 300 employees with a capital base of N100 million. Osei (1993) as cited in Andy (2014), SMEs are classified into four main categories that include micro-enterprises that employ less than 6 individuals, very small enterprises that employ 6-9 workers, small enterprises that employ 10– 29 employees and medium enterprises that employs 29-50 individuals. Small and Medium enterprises according to the definition above are identified based on employee size as compared to other definitions that take into account fixed assets and other factors. SMEs play a major role in Nigeria's economy in terms of job creation and income distribution (Olubiyi, 2023; Justin, 2014). SMEs are the bedrock that micro-enterprises thrive on. According to Olutoye (2015), the future of Nigeria lies more in the leverage of SMEs because they contribute more in terms of investments.

Methodology

To measure the relationship between deposit money banks' credit accessibility and SME growth and the moderating effect of corruption on both variables, an ex-post facto research design was adopted to analyze the research data. The main type of data used was secondary data sourced from Central Bank of Nigeria annual reports, statistical bulletin, Banks' Annual Report, National Bureau of Statistics and Transparency International for over a period (1980-2015). The choice of the period under review has to do with the availability of data, and the political, economic and policy reforms. The choice of the use of the data from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics was informed by their legal power to warehouse national data which enables the researcher to sift through the large volumes of data as a means of eliciting data from secondary sources. The validity of the data was ascribed to the legal framework that established the institutions and the audited financial reports of the banks which validated their dependability. The sourced data were subjected to pre and post diagnostic tests and were analyzed using hierarchical regression analysis

$Yt= f\ (XtZt)$

Y = SMEs Growth.

X = Deposit Money Banks' Credit Accessibility Factors (x1, x2)

Where X1 = Internal factors

X2 = External factors

X1= (x1a, x1b, x1c   x1d)

Where:

x1a = Bank Size (BS)

x1b = Interest Rate (IR)

x1c = Liquidity Ratio (LR)

x1d = Credit Risk (CR)

x2= (x2a, x2b, x2c)

Where:

x2a = Cash Reserve Requirement (CRR)

x2b = Exchange Rate (ER)

x2c = Inflation Rate INF)

Moderating Variable = Z

Where Z= Corruption (CO)

SMEG t = α + β1DMBCBt+ β1COt + β1DMBCAF*COt+ et (eq.1)

Where: β0 = Constant term

β1 = Coefficient of Deposit money banks' credit accessibility factors

βz= Coefficient of corruption

β1z=Coefficient of the interaction of Deposit Money Banks' Credit Accessibility and Corruption

et= Error term Therefore, the research null hypothesis states that corruption has no significant moderating effect on the relationship between Deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria between 1980 and 2015. This implies that the apriori is rejected if $\beta 1 \geq 0$ and $\rho \leq 0.05$; otherwise do not reject. The data used were made to undergo treatment to establish their authenticity both in results and interpretations.

4.0 Analysis, Results and Findings

Table 4:1 Regression (OLS) Results for Moderating effect of Corruption on the relationship between Deposit money banks' Internal and External factors of credit accessibility and SMEs growth in Nigeria

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.211[a]	.044	-.013	1.322	.044	.768	2	33	.472
2	.437[b]	.191	.116	1.235	.147	5.811	1	32	.022
3	.464[c]	.215	.114	1.236	.024	3.950	1	31	.038

a. Predictors: (Constant), External Factor, Internal Factor

b. Predictors: (Constant), External Factor, Internal Factor, Corruption

c. Predictors: (Constant), External Factor, Internal Factor, Corruption, Internal Factor*External Factor*Corruption

Source: Researchers' Computation (2024)

Table 4.24 outlines hierarchical multiple regression results of the moderating effect of corruption on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria. From the results in Table 4 Model 1 shows that R = 0.211, R^2 = 0.044 and [F (2/33) = 0.768, p = 0.472]. The value of R^2 indicates that 4% of the variance in the SME growth in Nigeria can be accounted for by Deposit money banks' internal and external factors of credit accessibility. Model 2 in Table 4.23 shows that R = 0.437, R^2 = 0.191 and [F (1/32) = 5.811, p = 0.022]. The value of R^2 indicates that 19.1% of the variance in the SME growth in Nigeria can be accounted for by deposit money banks' internal and external factors of credit accessibility and corruption. Model 3 in Table 4.23, shows the results after the interaction term (deposit money banks' internal and external factors of credit accessibility and corruption) was added to the model. Table 4.23 also indicates that the inclusion of the interaction term resulted in an R^2 change of .024, [F Change = 3.950, p = 0.038] showing the presence of a significant moderating effect.

From the analysis, the moderating effect of corruption produces a 0.024% variance in the SME growth in Nigeria, slightly below the variance by deposit money banks' internal and external factors of credit accessibility and corruption. For decision-making in moderation analysis, the amount of change in R2 is a measure of the increase in predictive power of a particular dependent variable or variables, given the dependent variable or variables already in the model. The result shows that corruption has a significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria. Further, Table 4.24 presents the regression estimate of the model.

Table 4.2: Regression Coefficients

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	13.326	1.193		11.169	.000
	Internal Factor	.006	.011	.092	.532	.598
	External Factor	.004	.004	.207	1.195	.241
2	(Constant)	11.984	1.246		9.618	.000
	Internal Factor	.021	.012	.327	1.735	.092
	External Factor	-.005	.005	-.245	-.990	.329
	Corruption	.037	.015	.666	2.411	.022
3	(Constant)	11.530	1.331		8.663	.000
	Internal Factor	.022	.012	.347	1.828	.077
	External Factor	.000	.007	-.019	-.057	.955
	Corruption	.073	.040	1.318	1.820	.078
	Internal Factor*External Factor*Corruption	3.431	.060	.839	.975	.037
a. Dependent Variable: SMEs Growth						

Source: Researchers' Computation (2024)

Model 3 shows the regression estimates of the moderating effect of corruption on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria. The regression estimates of the interaction term ($\beta = 3.431$, $p<0.05$) show that corruption has a positive and significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SMEs growth in Nigeria since the p-value is greater than 5%. Based on the findings, the hypothesis which states that corruption has no significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria is rejected.

Discussion of Findings

Great controversies still exist in the literature on the moderating effect of corruption on the relationship between deposit money banks' internal and external factors of credit accessibility and SMEs growth in Nigeria. This finding validates the finding of Igwe (2018) and Helmen at el, (2000). They demonstrated that corruption favours the monopoly of the state by certain groups of privileged populations that give bribes to state agents and the police, hence sapping growth of production and private sector investments. However, the proponents of "efficient corruption" did not agree with this. According to some researchers Ayaydın (2014) which supports the finding of this study, the effect of corruption level, profitability and financial leverage on the growth of the firms is significantly positive in all cases, but financial risk rating is negative. As such, Ayaydın (2014) specifically found a significantly positive relation between the growth of private firms and corruption level.

To also support the finding of this study, recent research conducted by Igweet al (2018) asserted that through corruption, uncertainty will be reduced and the rate of investment will increase with a more predictable government behaviour, especially in the presence of an irrational style of decision-making. Corruption is also deemed to enable innovators to bypass entrenched economic interests (Ayaydin, 2014). Finally, corruption introduces an element of competition in market allocation and thereby increases overall efficiency of the economy.

Contrary to the result of this study, Kanu (2015) studied the effect of corruption on small and medium enterprises: the perspective from a developing country and the result revealed that corruption is negatively related to price and positively associated with SMEs growth and productivity. It was also indicated that a large number of the respondents perceived corruption as a practice that leads to extortion by government officials only and has nothing to do with credit accessibility and SME growth. To further support the effect of corruption, Aliyu and Elijah (2008) investigated the impact of corruption on economic growth in Nigeria from 1986-2007. Barro-type endogenous growth model was used to estimate the relationship between government capital expenditure, human capital development and total employment. The study found that corruption exerts a negative effect on economic growth where about 20% of the increase in government capital expenditure ends up in private pockets. However, the study also found that corruption exerts a positive effect of corruption on capital expenditure. Overall, this paper discovers that corruption exerts both direct and indirect negative effects on economic growth in Nigeria. Based on the findings and supporting literature, the hypothesis which states that corruption has no significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria is rejected.

Conclusion and Recommendations

This paper examined the moderating effect of corruption on the deposit money banks' credit accessibility on SMEs' growth in Nigeria (1980-2015). The hypothesis was tested on the sourced Data which covered the period under examination. The regression estimate of the interaction term ($\beta = 3.431$, $p<0.05$) shows that corruption has a positive and significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SMEs growth in Nigeria since the p-value is greater than 5%. Based on the findings, the hypothesis which states that corruption has no significant moderating effect on the relationship between deposit money banks' internal and external factors of credit accessibility and SME growth in Nigeria is rejected. Although the finding indicated that corruption had a positive and significant moderating effect on the relationship between deposit money banks and SME growth, it impedes operational efficiency and is a burden to borrowers. Hence, the recommendation was crafted along the eradication of corrupt attitudes among loan seekers, bankers and the government.

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