Credit to Private Sector, Corruption Perception and Economic Growth of Comesa Countries
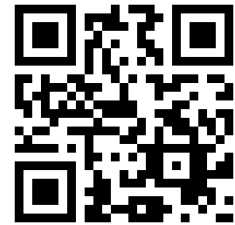
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ABSTRACT: Credit to Sector private is known as financial resources given to the private sector, including loans and advances, non-equity securities purchases, trade credits, and other receivables, that establish a claim for recovery. In a variety of ways, financial institutions contribute significantly to people's socio-economic development. The relationship between economic growth and credit to private sector has attracted attention among scholars in the recent past who have articulated empirical and theoretical studies on the relationship between economic growth and credit to private sector. Corruption has been rampant among COMESA counties. This article incorporated the moderation effect of corruption in the private sector access to credit and found that, tough positive, corruption does not influence credit to private sector. This can be alluded to the fact that, any investor not necessarily bribe to get credit for the business. To improve credit access, the cost of credit must be reduced, the interest rate cap removed, and the collateral registry must be expedited. The insufficiency of credit expansion had a negative impact on economic growth in countries in COMESA trading bloc.

KEYWORDS: Corruption Perception, Credit To Private Sector, Gdp And Comesa

1. BACKGROUND INFORMATION

Economic growth refers to an economy's ability to increase its output of goods and services over a set period by utilizing available factor inputs such as capital and labor (Joshi, 2016). Financial development is beneficial in increasing demand for goods and services, and so plays an important part in sustaining a country's economic prosperity (Dinh & Nguyen (2019). As the banking sector collects little savings from ordinary citizens and provides loans to them for a variety of objectives. Most notably, it provides direct financial assistance to the business and agricultural communities. As a result of the increased role of the banking sector in the economy, demand for products and services is likely to rise. Thus, financial institutions help to keep money flowing and contribute to the creation of tangible assets in the economy (Haralayya & Aithal, 2021). According to Spratt (2013), growth of private sector has positive effects on growth for developing countries up to a threshold of 80 per cent of private sector credit to GDP ratio, beyond which further development of the sector becomes detrimental due to increased resource misallocation and instability.

Credit availability allows firms to make investments that they would not have made with their own funds (Kiriga, B., Chacha, T., & Omany, D. (2020). They also show the macroeconomic impact of increased credit availability; as credit availability increases, so does consumption and investment demand, raising output and employment. Griffith-Jones et al. (2014) support this view by noting that rapid growth of financial sector can have adverse effects on growth and output volatility. Olowofeso, Adeleke & Udoji, (2015) investigated the impacts of credit to private sector on economic growth using Gregory Hansen cointegration test. The study accounted for structural breaks the problems associated with endogeneity. Five covariates were defined by specifying the model as a function of five independent variable including credit to private sector.

The relationship between economic growth and credit to private sector has attracted attention among scholars in the recent past who have articulated empirical and theoretical studies on the relationship between economic growth and credit to private sector. Athanasios & Antonios (2010). Investigated the relationship between economic growth and credit market in Italy for the period 1965-2007 by applying vector error correction model. It further the short-run and the long-run relationship between bank lending, gross domestic product and inflation rate applying the Johansen cointegration analysis. Results showed that the error correction term is negative indicating that there is long-term relationship between economic growth and credit to private

sector. It suggested there is a positive relationship between economic growth and credit to private sector. A one percent increase in credit to private was found to cause a 0.4 percent increase in economic growth.

An increase in credit to private sector spurs economic growth. This is because investors are willing to invest in more risky venture while encouraging safe borrowers to be more effective. Duican & Pop (2015) aimed at investigating implications of credit activity on economic growth in eight development regions of Romania for the period 2000-2014, namely Northeast, Southeast, South, Southwest, West, Northwest, Centre and Bucharest Ilfov. It was found out that credit to private sector has a positive influence on gross domestic product. The study concluded that it is important to a strong legal framework that would inject more funds toward innovative and profitable products in economy and that the population should have adequate knowledge not only on the benefits of credit but also on risks associated with credits. Armeanu *et al.,* (2015) in more recent study affirms that an increase in credit corresponds to increase in gross domestic product.

These results were based on data obtained from the National Bank of Romania sites and from Eurostat for the period of 2007-2013, quarterly data, accumulating a total number of 28 observations. The author argued that in order to capture the effects of credit it was important to split gross domestic product into certain components using either expenditure or income method. Olowofeso Adeleke & Udoji, (2015) investigated the impacts of credit to private sector on economic growth using Gregory Hansen cointegration test. The study accounted for structural breaks the problems associated with endogeneity. Five covariates were defined by specifying the model as a function of five independent variable including credit to private sector. The variables included credit to private sector, nominal exchange rate, prime lending rate, real gross domestic product, and gross fixed capital formation. This study applied quarterly data spanning 2000: Q1 to 2014: Q4, while the fully modified ordinary least squares procedure was employed to estimate the model coefficients. The study found a cointegrating relationship between the independent variables and with selected determinants.

The findings showed a significant relationship between private to credit and economic growth in Nigeria. The findings of the study further supported the Nigeria's efforts of the Central Bank of Nigeria (CBN) in promoting a sound and real sector-friendly financial system and gradual reduction of interest rate to increase economic growth. Aliero Ibrahim Shuaibu (2013) studied the relationship between economic growth and credit to private sector by applying autoregressive distributed lag. It was concluded that there exists a long-term relationship between credit to private and economic growth. They found a positive relationship. It recommended comprehensive policies and strong legal framework to facilitate the disbursement and recovery of private sector credit. Similar findings were obtained by Emecheta and Ibe (2014) also confirmed a positive effect of bank credit on economic growth using a vector autoregressive methodology.

Corruption not only has an impact on the economic growth in terms of effectiveness and growth, but it also has an impact on equal and fair resource distribution across the citizenry, increasing income disparities, weakening the efficacy of social welfare programs, and eventually leading to decreased living standards (Song, Chang, & Gong 2021). It is a serious phenomenon that affects all nations, but data demonstrates that it disproportionately affects impoverished people, impedes economic growth, and deflects cash from education, healthcare, and other government services (Gründler & Potrafke, 2019). The authors further found that the causality is from corruption index to economic growth. Similarly, Shabbir & Anwar (2007) investigated the effect of corruption in developing and established that corruption has a negative relationship between corruption index and economic freedom. The study confirmed that increased economic freedom reduces corruption of a country. Alfada (2019) assessed the effect of corruption on economic growth by applying nonlinear to determine the intensity of corruption by analyzing the effect of corruption on economic growth for the period 2004 – 2015 in Indonesia. The study examined whether corruption index is beneficial to economic growth. It concluded that corruption worsens economic growth process in Indonesian provinces if it exceeds certain threshold. Corruption threshold effect is assessed using a sample-splitting and threshold model developed by Hansen (2000), and the endogeneity issue is addressed using the instrumental variable two-stage least squares estimator.

Ahmad, Ullah & Arfeen (2012) in their study used panel data from the International Country Risk Guide, corruption index, institutional quality and political stability indices and several state variables for developed and developing countries to show the relation between corruption and economic growth using generalized method of moments. This study controlled for trade openness, the ration of government spending to GDP, risk of investment, gross growth, and lag of GDP per worker. The results indicated there is a negative linear relationship between economic and corruption index among countries. Similarly, Hoinaru, Buda, Borlea, Văidean, & Achim, (2020) in their study entitled. The Impact of Corruption and Shadow Economy on the Economic and Sustainable Development. Do They 'Sand the Wheels' or 'Grease the Wheels'? using a cross section of 185 countries showed that there is negative relationship between corruption and economic growth.

Corruption is a common phenomenon among low-income countries. Contrary the study also showed that corruption acts a way in which institution and individuals circumvent the laws to achieve to achieve economic benefits that will in turn lead to higher economic growth. Smits (2019) did a study on corruption and economic growth in Africa. The study was motivated by

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contradicting statements concerning corruption. While other studies showed that corruption is an impediment to economic growth while others contented that corruption is a device that saves a troublesome nation. The study used four different empirical models, estimated using data from 46 African countries, to show that between 2000 and 2017, corruption was a negative variable on economic growth within Africa. This implied that there is a strong negative correlation between corruption and economic growth and that countries that are more corrupt, tend to grow slower than countries that are less corrupt. Additionally, the results showed that the effect was weaker in poorer economies.

2. OBJECTIVES OF THE STUDY

i. To establish the influence of credit to private sector on economic growth among COMESA Countries.
ii. To establish whether corruption has a significant influence on economic growth among COMESA Countries.
iii. To find out the moderating role of corruption on the relationship between credit to private sector and economic growth among COMESA Countries.

3. RESEARCH METHODOLOGY

Stationarity: Panel data are trending in nature that they contain unit root and therefore prior to undertaking estimation the trending effect must be removed. The conventional way of de-trending a non-stationary panel data performing is differencing, and this removes unit root (Wasal and Saunders 2000). Unit root in Panel data have both time series and cross-sectional properties. Regressing panel data variables that have unit root gives spurious regression results. Therefore, before doing regression analysis the data was tested for the presence of unit root. Greene (2012) recommends use of different panel unit root test to check for consistency and robustness. Therefore, the following panel unit root tests were used to test for unit root.

Econometric Model: Contemporaneous correlation Generalized Least Squares regression with correlated disturbances was fitted as per Baltagi (2008). The equation from which the estimation model was developed is as follows.

$$Y_{it} = \beta X_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad 1$$

Where $i = 1,2,3,\cdots,18$ is the number of countries in COMESA trading block, Y_{it} is growth rate, $t = 2000,\cdots,2020$, X_{it} are the independent variables. This is stated as

$$\begin{bmatrix} Y_1 \\ Y_2 \\ \vdots \\ Y_n \end{bmatrix} = \begin{bmatrix} X_1 \\ X_2 \\ \vdots \\ X_n \end{bmatrix} \beta + \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_n \end{bmatrix} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad 2$$

$Y_1, Y_2, \cdots, Y_n$ is the dependent variable for each country under study. $X_1, X_2, \cdots, X_n$ are the independent variables, β is matrix of parameters that is estimated and $\varepsilon_1, \varepsilon_2, \cdots, n$ is a matrix of random error term assumed to *i.i.d* $(0, \delta^2)$ that is a white noise process.

Model Specification: The specifications of econometric model based on econometric theory and on any information relating to the phenomenon being stated. Econometric model for this study the econometric specified as.

$$ECG_{it} = \beta_0 + \beta_1 CPS_{it} + \beta_2 CPE_{it} + \beta_3 CPS * CPE + \nu_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots \quad 3$$

where: ECG_{it}= economic growth which is dependent variable; β_0 = intercept while CPS_{it}= credit to private sector; CPE_{it} = corruption perception; $\nu_{it} =$ Individual specific effects and ε_{it} = Stochastic error term. The coefficient $\beta_1, \dots, \beta_3$ are the slope parameters to be estimated by panel regression analysis. β_3 tests an interaction term which is a moderating role of corruption.

In this study, moderation was tested whether the effect of the credit to private sector on economic growth differs across all levels of corruption. According to Hayes (2013), if the effect of independent variable (X) on dependent (Y) varies in relation to variation in moderating variable (W) then moderation is deemed to have occurred. Figure 1 conceptualize this relationship in a path diagram according to Hayes (2013).

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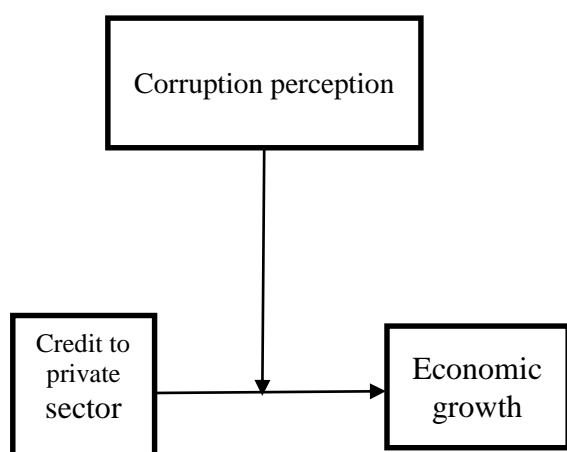

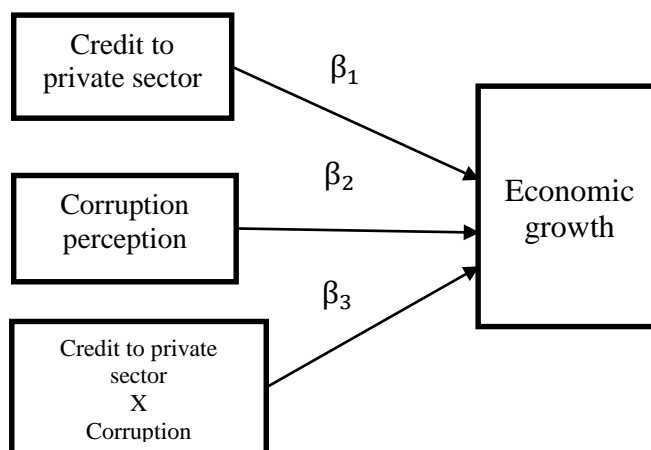**Figure 1: Conceptual Framework**   **Figure 2: Statistical Model**

4. RESULTS

The role of a moderator as explained by Hayes (2012) is either to strengthen or weaken the relationship between the independent variable and the dependent variable. Moderation analysis is used when testing whether the magnitude of a variable's effect on some outcome variable of interest is dependent on a third variable or set of variables. Results in Table 1 show corruption has negative and significant influence on economic growth. The relatively simple moderation is depicted conceptually in Figure 3. In this form, credit to private sector is shown to have a causal influence on GDP. However, CPE is proposed to influence or moderate this effect, hence the results indicates that interaction of credit to private sector and corruption has positive though insignificant effect economic growth while corrupt without interaction had a negative and significant relationship on the economic growth. The study proposes that those financial resources should target financial reforms that boosts development in the financial sector to increase economic growth.

From this analysis, corruption modifies government goals and diverts resources from public purposes to private ones, thereby resulting in a deadweight loss to society which supports the 'grease the wheels hypothesis' The findings of this study are in line with previous findings of Mo (2001). It further contradicts theoretical predictions about how corruption influences economic growth. The "grease the wheels" hypothesis predicts that corruption increases economic growth. Efficient grease' hypothesis argues that corruption enhances efficiency in the economy, where bribes serve as a lubricant that reduces delays and transaction costs and thus leads. Further, results from the study concurs with the findings of Hefeker (2010) and Huang and Wei (2006) that economic growth can be influenced by corruption, or, more precisely, corruption can have a positive or negative impact on economic growth. Several arguments have been advanced to support the research work that the relationship between corruption and growth is negative on a direct effect. This can be explained by either an adverse effect on investment, a reduction in the efficiency of public expenditures (Del Monte and Papagni, 2001), or misgovernance (Blackburn and Forgues-Puccio, 2007).
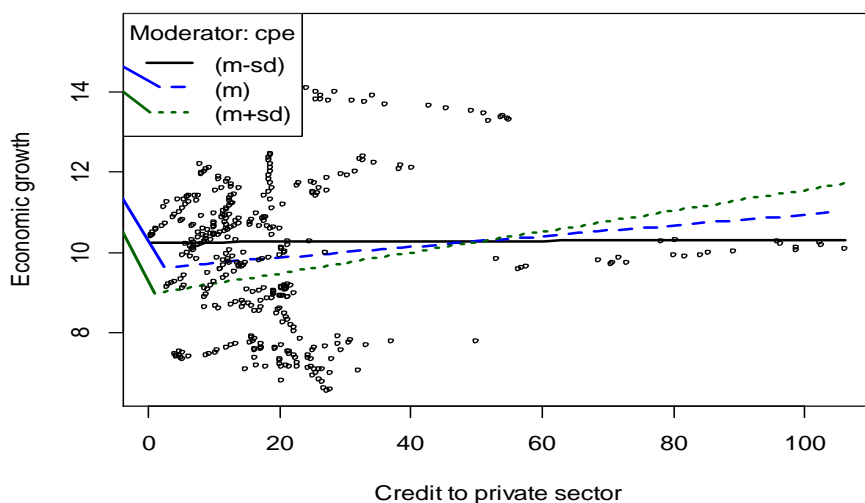

Figure 3: Moderation of Corruption on Credit to private and Economic growth
Source: Researcher Analysis, 2022

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The intuitive explanation for the assumption that corruption has a positive impact on output is straightforward. Corruption, defined as a lack of institutional quality, can be used by businesses to avoid paying taxes. Because taxes are distortive, corruption can be used to compensate for the distortion caused by the tax burden. The hypothesis of "efficient corruption" is not new. Corruption is thus viewed as "grease money" that can lubricate the wheels of commerce or authoritarian rule (Coppier and Michetti, 2006). In general, several different mechanisms have been identified through which corruption may have a positive impact on growth. For example, if existing government rules and procedures are harmful to growth, or if their slow implementation causes transactions to be delayed, reducing efficiency (Batabyal and Yoo, 2007), circumventing them through corruption may benefit economic growth. However, rather than tolerating corruption, which always has negative effects on general trust in the government and its legitimacy, as well as adverse effects on income distribution, the correct policy response would be to remove or modify the inefficient rules.
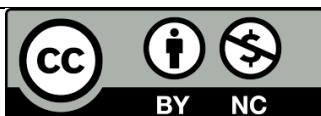
5. CONCLUSION AND RECOMMEDATION

Credit to private sector have shown a significant effect on economic growth, there need to facilitate and strengthen credit growth to respective small and medium-sized enterprises in each nation, which are the engine of the country's economy. Corruption negatively influenced economic growth. The insignificance imply that you don't need to bribe to get credit for your business in this COMESA region. To improve credit access, the cost of credit must be reduced, the interest rate cap removed, and the collateral registry must be expedited. The insufficiency of credit expansion had a negative impact on economic growth. In theory, the adoption of new innovations and policy developments in the financial sector is expected to create a favorable environment for borrowers, thereby increasing private sector credit demand.

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