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CORRUPTION PERCEPTION AND NET INTEREST MARGIN OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract
The study examined how corruption affects bank performance in Nigeria. It specifically, understudied the effect of CPI on NIM of DMBs in Nigeria. To achieve this, the study adopted the ex-post facto research design and collated secondary data spanning 1996 to 2022 for the error correction estimation. The findings from the analyses indicate corruption perception index (CPI) exerts a significant effect on the NIM of DMBs in Nigeria. This affirms the grease the wheel theory of corruption which posits that corruption spurs economic activity, hence corporate performance. Following this, the study concludes that corruption grease the corporate performance of DMBs in Nigeria. The study recommends the need to put in place internal control measures to curtail excessive corrupt practices in the banking industry that could derail their financial performance.

Key Words: *Bank Performance, Corruption, Deposit Money Banks, Nigeria.*

Introduction
Corruption is a widespread issue, affecting countries globally. Even historically corrupt nations like Sweden have made progress in combating corruption (Xie et al., 2017). However, many countries today still struggle to address this problem, leading to severe economic, social, and political crises (Corrado & Rossetti, 2018). The need to mitigate corruption and its debilitating effect on corporations and the society at large is a continuum. One can x-ray the concept of unethical and dishonest practices from asocial, moral, political, economic, and structural view points in the Nigerian context. This is particularly so because corruption in Nigeria shows the potential to be corrupt in multiple ways and dimensions in every facet of society. Corruption would therefore be described as the abuse or unethical use of power and authority purposely and knowingly for self-gratification or group benefit (Canare, 2017). There is a mutual connection between politics, the machinery of governance, and dishonest or corrupt practices in Nigeria (Hatti et al., 2010). For instance, to weaken the quality of the legal framework, legislators could be bribed to make phony laws that make it difficult to prosecute corruption-related crimes against the system (Dike & Victor, 2003). This makes the system inefficient and further makes it impervious to torch alleged corruption offenders both in the public and private sectors (Krygier, 2009).

This transcends into the private and affects business practices in private corporations. Studies have shown that corrupt practices could adversely affect the financial performance of businesses as well. For instance, a dishonesty practice by corrupt people impedes the level of effectiveness and efficiency of financial intermediaries and the macro economy at large (Yaroson, 2013). This means that as the perception of corruption and bribe-taking increases in the epicentre of financial transactions, so does financial disintermediation, loss of FDI, inequality, and poverty in the system (AHDR, 2016). These factors severely affect businesses especially the financial system and the economy. Research has shown that mitigating bribe-taking and dishonest practices in business transactions exerts a positive consequence on the operations of businesses. These studies posit that when the perception of corruption and corrupt behaviours are lessened, it could enhance profitability and the performance market capitalisation and all-share index of corporations in the exchange and that of the entire private sector (Kereke & Kurotamunobaraomi, 2016). This empirical evidence is further supported by the "sand the wheel theory", which posits that bribe-taking and sleaze impedes the progress and corporate performance. Conversely, the "grease the wheel theory" posits that in economies with poor legal and regulatory frameworks, corruption spurs progress and corporate performance through speedily conclusion of business deals by bypassing public bureaucratic blockages (Anaere, 2014).

This study investigates show corruption affects the NIMs of DMBs in Nigeria. Previous studies have shown unethical loan administration practices poses a debilitating threat to the performance of credit facilities granted under corrupt practices (Anaere, 2014).Irrespective, the findings have been inconclusive. Theoretical expositions on corruption and firm efficiency remain unclear (Hasan & Ashfaq, 2021). This gives impetus to examine the topic of discourse further.

Empirical Review

Hasan and Ashfaq, (2021) observed the how unethical lending practices affects risk of deposit taking institutions of 178 countries using GMM. The findings portend that unethical lending practices exacerbate the credit risk of intermediaries and compound the volume of NPLs in the balance sheets of these institutions.

Ayaydn and Hayaloglu (2014) used data from forty-one DMBs from 2008 to 2011 to ascertain unethical banking practices in Turkey. The results showed that unethical banking practices are endemic in the country, and that these practices and CPI incumber corporate progress. Thus, empirically affirming the "grease the wheel theory of corruption" in Turkey. The study also affirmed that profit is a determinant of company size proxied by asset growth.

Kereke and Kurotamunobaraomi (2016) examined how corrupt practices in DMBs affect the Nigerian economy using OLS. The findings empirically affirm the long-held belief that, in nations were the rules of law is ineffective, corrupt practices facilitate transactions and corporate profits. Thus, the results specifically reported that ill gotten wealth held in accounts domicile in DMBs exerts an encouraging influence of Nigeria's GDP.

Muritala et al (2020) used data from 2000 to 2016 to examine how bank fraud affects their performance. The study conducted acausality test. The study concluded that incidence of fraud and losses impede the ROA DMBs in Nigeria.

Mawutor et al (2019) used OLS to appraised banking performance by critically examining the role of fraud for a 10-year period, 2006 to 2016 in Nigeria. The OLS results specify that increase in incidence of fraud causes a decline in the ROA of banks in the country.

Anaere (2014) examined loan granting procedures were followed by loan officers of DMBs in SSA using OLS. The findings indicate that the CPI in the lending operations of deposit-taking institutions reduce access to credit and bears a negative effect on loan performance via credit misallocation in the sub-continent.

Ojeka et al (2019) used data 135 firms from 2013 to 2017 to examine how regulatory variables and CPI affects the performance of these corporations in Nigeria. The GMM estimates found that CPI and poor regulatory environment collectively hinders the market value of the corporations considered in the study.

Park (2012) found that CPI increases NPLs of banks and therefore causes a detrimental effect on the loan portfolios of DMBs. According to the analysis, poor lending decisions due unethical credit administration invariably causes a decline in the GDP growth. The study further adduced that practices like that, in the long-run, is detrimental to financial stability.

Materials and Methods

The Vector Error Correction Mechanism (VECM) was applied to examine the data (1999 to 2022) to ascertain the effect of CPI on NIM of DMBs in Nigeria. The study adopted the affect-effect research design to collate the data and further examine the variables in retrospect. The secondary data was collated from the CBN, NDIC, and Transparency International data repositories. Furthermore, the study used mean, median, standard deviation and other descriptive to understand the attributes of the raw data and deploy how best to smooth the data before estimation. Unit root and co-integration tests were also conducted.

The model is specified as follows;

$NIM_t = \alpha_0 + \alpha_1 CPI_t + \alpha_2 TD_t + \alpha_3 NPL_t + \varepsilon_{1t}$ ……Eqn 1

Where; NIM is net interest margin, CPI is corruption perception index, NPLs is non-performing Loan, and TD is total deposit.

Results and Discussion

Descriptive Statistics

The descriptive results are shown below;

Table 1: Descriptive Statistical Results

	NIM	CPI	NPL	TD
Mean	17.89	21.14	14.40	4143.60
Median	18.27	24.00	14.70	1661.48
Max	34.22	28.00	37.30	10094.57
Min	3.47	6.90	3.00	75.050
Std. Dev.	9.34	6.09	8.73	4298.59
Skewness	0.19	-0.76	0.51	0.46
Kurtosis	1.89	2.47	2.84	1.37
JB Stat	1.42	2.75	1.12	3.65
Prob.	0.48	0.25	0.56	0.16
Sum	447.46	528.50	360.00	103590.2

Source*: E-views 10.0 output*

The results indicate that aside TD with an average value of 4143.60, all the other variables had average values above their standard deviations. The average values of the variables are NIM (17.89), CPI (21.14), and NPL (14.40). These values are below their respective maximum values. Furthermore, the JB stat indicates that the variables are distributed normally because all the p-values are above the 5 per cent chosen level of significance.

Unit Root Test Results

The ADF test results are presented below;

Table 2: ADF Results at Level

Measures	**ADFStat**	**95% Critical value**	**P-values**
NIM	-0.67	-3.78	0.83
CPI	-1.12	-3.75	0.69
TD	-1.09	-3.75	0.69
NPLs	-2.55	-3.74	0.11

Source: E-views 10.0 output

The results indicate that the measures emloyed are not stationary at level, as the test statistics (ADF stats) are all below the critical values.

Table 3: ADF Results 1st Difference

Variables	ADF Stat	95% Critical value	P-values
NIM	-5.48	-3.75	0.00
CPI	-6.24	-3.75	0.00
TD	-3.78	-3.77	0.01
NPL	-5.06	-3.75	0.00

Source: E-views 10.0 output

The above results indicate that NIM, CPI, TD, and NPL became stationary at order 1(I). This is because all the ADF stat values are above the critical values. This gives impetus for the Johansen Co-integration test.

Co-integration Test

The test results are presented in the following table;

Table 4: Co-integration Test Results

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.97	159.37	95.75	0.00
At most 1 *	0.74	75.89	69.81	0.01
At most 2	0.55	44.15	47.85	0.10
At most 3	0.48	25.51	29.79	0.14
At most 4	0.34	10.12	15.49	0.27
At most 5	0.01	0.23	3.84	0.62

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.97	83.47	40.07	0.00
At most 1	0.74	31.74	33.87	0.08
At most 2	0.55	18.63	27.58	0.44
At most 3	0.48	15.38	21.13	0.26
At most 4	0.34	9.89	14.26	0.21
At most 5	0.01	0.23	3.84	0.62

Source*: E-views 10.0 output*

The above states the existence of 2 co-integrating relationships in the trace test. The results further indicated the existence of 1 co-integrating relationship in the Maximum Eigenvalue test. These results gave econometric impetus to estimate the VECM model.

Determination of the Lag Length

Table 5: NIMODMB Lag Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-117.85	NA	456.42	11.79	12.09	11.86
1	-104.66	20.09*	193.07	10.92	11.41*	11.02
2	-100.31	5.76	193.33	10.88	11.58	11.03
3	-94.16	7.02	168.18	10.68	11.57	10.87
4	-88.19	5.68	156.09*	10.49*	11.58	10.73*

Source*: E-views 10.0 output*

Table 5 shows a mixed result. The sequential modified LR test statistic and Schwarz information criterion show 2 lags, while the remaining criteria (Final prediction error (FPE), Akaike Information Criterion (AIC), and Hannan-Quin information criterion) show 4 lags; so, the study adopts 4 lags for this model.

Error Correction Estimates

Table 6 presents the ECM estimates of the study.

Table 6: Error Correction Results
Dependent Variable: NIM
Method: OLS

Variable	Coefficient	Std. Error	t-Stats	Prob.
C	-30.80	11.01	-2.79	0.01
NIM	-0.74	0.32	-2.26	0.04
CPI	1.44	0.46	3.12	0.00
CPI	-0.26	0.41	-0.64	0.53
NPL	0.19	0.18	1.05	0.31
TD	-0.00	0.00	-1.58	0.14
TD	-0.00	0.00	-0.37	0.71
ECM (-1)	2.035	1.81	1.12	0.28
R^2	0.57	DW stat		2.29
Adj R^2	0.29			
Fisher ratio	2.10			
Prob	0.13			

Source*: E-views 10.0 output*

The OLS estimates that the R^2 has a coefficient of 57%. This implies that 57% of changes in the NIM were a product of CPI, NPL, and TD in the period considered. The result further indicates that the adjusted R^2 caused 30% variation in the NIM of DMBs in Nigeria. ECM coefficient did not meet the expected a priori expectation. This implies that the model is incapable self-adjustment and there is not long-run nexus. Fisher's statistics reported the insignificance of the model. The DW stats indicate that there no first order autocorrelation in the model.

The coefficients of CPI (1.44) and NPL (0.19) were all positive. This means that CPI and NPL exert a beneficial effect on the operations of DMBs in Nigeria. This means that increase in corrupt practices and the volume of NPLs causes an incremental upsurge on the NIM of deposit-taking institutions in the country. The result affirms "the grease the wheel theory of corruption". The t-test results further reported that CPI exerts a meaning influence on NIM, while that NPL is not momentous.

The coefficient of TD (-0.00) is negative. This means that TD (total deposits) exerts a detrimental effect on NIM of DMBs in Nigeria. This mean that increase in the volume of

deposits impede the NIM of DMBs in the study locale. The effect is statistically insignificant.

Discussion of Findings

The findings indicate that the CPI is positive and telling role on the NIM of DMBs in Nigeria. CPI has a 1.14 incremental effect on the NIM of deposit-taking institutions in the country. The effect of CPI on NIM is statistically significant. Irrespective of the endemic nature of unethical banking practices in the country, the findings indicate that these practices and CPI enhance corporate progress. Thus, empirically affirming the "grease the wheel theory of corruption". This result is in agreement with previous empirical findings by Kereke and Kurotamunobaraomi (2016) and Ayaydn and Hayaloglu (2014).

The coefficient of NPL is positive and exerts a beneficial effect on the operations of DMBs in Nigeria. Further indicating that an increase in the volume of NPLs causes an incremental and beneficial to the NIM of deposit-taking institutions in Nigeria. The effect of NPL on NIM is not significant.

The coefficient of TD is negative and exerts a detrimental effect on NIM of DMBs in Nigeria. This means that an increase in the volume of deposits causes a decrease on the NIM of DMBs in the study locale. The effect is statistically insignificant.

Conclusion and Recommendations

The study examines how corruption affects the NIM of DMBs in Nigeria. It specifically, understudied the effect of CPI on NIM of DMBs in the country. To achieve this, the study collated secondary data spanning 1996 to 2022 for the error correction estimation. The findings suggest that CPI has a significant impact on NIM of the DMBs in Nigeria. This result provides empirical evidence in support of the "grease the wheel theory of corruption". However, the total deposit of DMBs and NPLs do not significantly affect net interest margin (NIM). Additionally, the overall nexus between CPI and NIM is not statistically significant. There is also no evidence of a long-run equilibrium relationship among the variables. The study concludes that corruption is a growth factor of the NIM of DMBs in Nigeria. The study recommends the need to put in place internal control measures to curtail excessive corrupt practices in the banking industry that could derail their financial performance.

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