Financial development and inclusion; a panacea to household level corruption? [An econometric Proposition]

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ABSTRACT

The devastating consequence of corrupt practices has made most researchers focus on assessing the extent of corruption among public office-holders often to the neglect of the micro-level causes. Mostly limiting corruption to only the public officials has led to academic pursuit of the one of the fundamental causes of the phenomenon among non-public officials; what is being referred to as the *'household-level corruption'*. This study, contrary to the existing literature, attempts to find the linkage between corruption, poverty and financial exclusion by carefully formulating an econometric model to explain the *incentive* for the deficit spending household units to indulge in corrupt practices, even sometimes against their wishes. Hypothesis being postulated is that an aspect of corruption in the developing economies can be attributed to a *missing or malfunctioning credit market* which compels the household to engage in corrupt practices as a means to financing their deficits, in much the same way other economic agents (governments and business firms) do finance their budget deficit. Using generalised least square (GLS) method of estimation, the model conceptually hypothesized that an aspect of incentive to indulge in corruption among poverty-stricken households could be eliminated with a well functioning and more accessible credit market.

Key Words: ***heteroschedasticity, Corruption, Credit market, deficit spending household unit***