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CORRUPTION AS ACCESS: EVALUATING THE MICRO-LEVEL EFFECTS OF INFORMAL PAYMENTS ON PUBLIC SERVICE DELIVERY TO SMES IN G20 ECONOMIES

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ABSTRACT

This paper examines whether paying bribes increases the likelihood that small and medium-sized enterprises (SMEs) obtain access to public services in G20 countries. Drawing on firm-level data from the World Bank Enterprise Surveys (WBES), it tests competing theoretical frameworks that conceptualize corruption either as a mechanism to overcome bureaucratic inefficiencies ("grease the wheels") or as a constraint that undermines equitable access to services ("sand in the wheels").Using a probit regression framework with firm-level controls and country fixed effects, the analysis examines whether firms that pay bribes report better outcomes in securing services such as utility connections and permits. The results indicate that bribe payments are not consistently associated with improved access, and in some contexts, are negatively related to service delivery outcomes. The findings suggest that the perceived benefits of bribery are context-dependent and unevenly distributed, particularly disadvantaging smaller firms. This study adds to the microeconomic corruption literature by providing cross-country evidence on the effectiveness of informal payments as a strategy for navigating administrative systems. It also highlights the necessity for anti-corruption policies that confront structural inefficiencies and reduce bureaucratic discretion, especially in regulatory processes that impact SMEs.

KEYWORDS: Informal Payments, Bribery, SMEs, Corruption, G20 Economies.

1. INTRODUCTION

In recent years, increased attention has been directed toward the specific ways in which corruption affects firms, particularly small and medium-sized enterprises (SMEs), which often lack the political connections or legal resources to navigate complicated regulatory environments. While macro-level analyses of corruption have quantified its effects on national growth, investment, and institutional trust, the micro-level dynamics how corruption manifests in everyday interactions between firms and states remain relatively underexplored. These interactions are particularly significant in the G20 economies, where market liberalization, regulatory expansion, and institutional quality differ greatly. In this context, corruption often manifests as informal payments, also known as "petty bribery," exchanged for routine public services such as utility connections, permits, or tax clearances.

This paper investigates a fundamental question at the heart of this dynamic: Does paying bribes increase a firm's likelihood of accessing public services? The answer carries significant implications for theories of corruption, regulatory enforcement, and economic equity. Some literature suggests that bribes may act as a substitute for inefficient bureaucracy, a phenomenon referred to as the "grease the wheels" hypothesis (Méon & Weill, 2010). Under this rationale, informal payments serve as expedients, allowing firms to bypass red tape or expedite service delivery in environments where public institutions are slow or under-resourced. Conversely, others argue that bribery erodes trust, creates distortions, and can entrench favoritism and exclusion, particularly among smaller firms that may not be able to afford recurring informal payments—a position often referred to as the "sand in the wheels" perspective (Mauro, 1995). This study contributes to the debate by utilizing micro-level data from the World Bank Enterprise Surveys (WBES), which cover small and medium-sized enterprises (SMEs) across G20 economies. These firm-level surveys provide detailed information on the frequency and context of bribe requests, as well as firms' reported experiences in accessing public services. By focusing on registered SMEs—a segment that often lacks both bargaining power and insulation from regulatory pressures—this paper examines whether engaging in bribery leads to better outcomes in terms of access to public services. There are several reasons why this investigation is both timely and relevant to policy. First, SMEs form the backbone of most G20 economies, accounting for a significant share of employment and domestic output. Suppose access to basic services such as electricity, water, or construction permits is dependent on informal payments. In that case, corruption acts as a regressive tax, disproportionately impacting the survival and growth of smaller firms. Second, access to public services is not just a compliance issue; it is a prerequisite for competitiveness and innovation. Delays in obtaining electricity connections or license renewals can suppress investment, deter formalization, and reinforce informality.

Understanding whether informal payments mitigate or worsen these barriers is crucial for designing effective regulatory and anti-corruption policies. The empirical strategy of this paper is based on a probabilistic framework, utilizing probit models to estimate the likelihood of service access in response to bribe payments and firm characteristics. Importantly, the analysis controls for a variety of firm-specific and institutional variables, including sector, size, ownership structure, and country-level governance indicators. While the study does not claim to establish causality in the strictest econometric sense, it provides robust evidence on the conditional associations between bribery and service access, thereby contributing to the empirical literature on firm-level corruption. By narrowing the analytical focus to the micro-level consequences of bribery, this paper contributes to a growing body of literature that seeks to understand not only the extent of corruption but also how it operates in practice and whom it benefits or harms. Unlike macroeconomic studies that correlate corruption indices with overall growth or investment, this study investigates actual behaviors and reported experiences at the firm level. In doing so, it offers new insights into the functional logic of corruption in regulatory systems. It examines whether informal payments actually "solve" problems or perpetuate them, especially in countries where SMEs are central to inclusive economic development.

2. LITERATURE REVIEW

Corruption remains one of the most persistent barriers to private sector development, especially in countries with high bureaucratic discretion and weak institutional enforcement. Over the past two decades, academic interest has shifted from measuring the overall effects of corruption on economic performance to understanding its micro-level manifestations, particularly how it distorts firm behavior, decision-making, and performance. While macroeconomic studies continue to emphasize the negative correlation between corruption and GDP growth (Khasawneh et al., 2025; Mauro, 1995; Tanzi & Davoodi, 1998), a growing body of literature has focused on how firms experience and respond to corruption in operational settings.

This shift is especially significant for small and medium enterprises (SMEs), which typically lack the political influence and compliance infrastructure available to larger firms. At the core of the micro-level literature is a fundamental debate about the functional role of bribery. One view, often associated with the "grease the wheels" hypothesis, posits that corruption can help firms overcome bureaucratic inefficiencies. From this perspective, informal payments to public officials act as practical workarounds for delays in service delivery, cumbersome permitting processes, or discretionary enforcement. Méon and Weill (2010) empirically support this argument, demonstrating that in specific institutional settings, corruption appears to diminish the adverse effects of poor governance. Svensson (2003), using firm-level data from Uganda, the study finds that firms that paid bribes reported fewer delays and a lower regulatory burden. These findings suggest that, in contexts with low administrative capacity, corruption might operate as an informal coordination mechanism between firms and the state. In contrast, the "sand in the wheels" hypothesis suggests that corruption introduces uncertainty, raises operating costs, and institutionalizes inequality. From this viewpoint, informal payments may initially seem to improve access, but they often solidify rent-seeking behavior, creating long-term disincentives for compliance, investment, and innovation. Fisman and Svensson (2007) demonstrate that even after controlling for taxation, bribe payments significantly hinder firm growth, particularly among SMEs. Kaufmann and Wei (2011) observe that bribery increases managerial uncertainty instead of reducing it, as payments are often unpredictable and non-contractual. Their study emphasizes the long-term costs of corruption, including diminished policy credibility and heightened volatility in enforcement practices. This literature has also begun to explore how firm size and ownership structure affect vulnerability to corruption. Clarke and Xu (2004) analyze bribes paid to public utilities and find that smaller firms are more frequently targeted and often receive fewer services in return. Their results suggest that the payoff from bribery is not uniform and that SMEs, despite being more exposed, may not necessarily benefit. Hallward-Driemeier et al. (2014) offer a complementary view, demonstrating that firms in the same country, sector, and size category report drastically different experiences with corruption, reflecting high levels of discretion and selective enforcement. These findings underscore the importance of looking beyond average effects to explore how corruption operates in decentralized regulatory systems.

A growing number of studies use World Bank Enterprise Survey (WBES) data to examine corruption across various sectors and institutional contexts. The richness of WBES data especially the variables concerning informal payments, service access, inspection frequency, and perceived regulatory burden—enables researchers to evaluate how corruption interacts with firm-level characteristics. For instance, Vial and Hanoteau (2010), studying Indonesian manufacturing plants, find that firms that pay bribes grow faster, but only in industries with low competition and weak oversight. This conditional result reinforces the idea that the effects of bribery depend heavily on context. In this evolving literature, Badawi and AlQudah (2019) offer substantial empirical evidence from Singapore, utilizing panel data to explore the impact of anti-corruption reforms on publicly listed firms. Their results indicate a positive relationship between the strength of anti-corruption enforcement and firm profitability and growth, demonstrating that institutional integrity can directly enhance private sector performance. While their work centers on large, formal-sector firms in a clean institutional environment, the findings support a broader argument that firms prosper in regulatory systems that diminish informal payments and ensure predictable enforcement. This paper expands on that contribution by shifting the focus to SMEs and investigating whether operational-level corruption—specifically, bribe payments—results in tangible access to public services in more heterogeneous G20 contexts.

Despite advancements in firm-level corruption research, relatively little is known about the causal link between bribery and access to public services. While a few studies document the frequency of informal payments in licensing, customs, and utility services (Muralidharan et al., 2023), most do not empirically test whether these payments actually lead to improved outcomes. There is also a lack of cross-national research comparing this relationship across different governance regimes, particularly among G20 countries, where institutional quality varies significantly. This gap is particularly significant for SMEs, which heavily rely on reliable public infrastructure and administrative services to operate competitively. The SME sector is particularly vulnerable to corruption due to its scale, visibility, and limited legal resources. As pointed out by De Rosa et al. (2010) and Al Qudah and Hailat (2025), smaller firms are more likely to see corruption as a significant constraint and are less inclined to report benefits from engaging in informal transactions. This raises an important question: does paying a bribe enhance access to essential services, or does it merely serve as a coercive tax with no productive return? The empirical answer to this question is crucial for policy, as it determines whether anti-corruption strategies should focus solely on deterrence or also on restructuring service delivery frameworks that create informal rents. In summary, the existing literature provides valuable yet incomplete insights into the role of bribery in shaping firm-level outcomes. Studies have shown the uneven distribution of corruption's costs and benefits, the contextual nature of informal transactions, and the risks they pose to investment and growth. However, the specific relationship between bribe payments and access to public services—especially for SMEs operating in intermediate institutional settings remains underexplored. This study addresses that gap by utilizing cross-country WBES data to assess whether firms that report paying bribes experience improved access to essential public services, contributing to a more grounded understanding of corruption's micro-level dynamics in the global economy.

3. THEORETICAL FRAMEWORK

The theoretical foundation of this study is rooted in two competing paradigms that seek to explain the functional role of corruption in economic transactions at the firm level: the "grease the wheels" and "sand in the wheels" hypotheses. These perspectives provide the conceptual basis for understanding how informal payments—specifically bribes—can influence access to public services for small and medium enterprises (SMEs), particularly in institutional environments defined by regulatory opacity and bureaucratic discretion. According to the "grease the wheels"hypothesis, informal payments to public officials can, under certain institutional conditions, serve as a substitute for inefficient or under-resourced state capacity (Leff, 1964; Méon & Weill, 2010). In this view, bribes enable firms to bypass delays, expedite administrative processes, and secure access to essential services like utility connections or operating licenses. The logic suggests that in environments where formal channels are slow, corrupt, but functional, informal arrangements can emerge to facilitate transactions. Firms engaging in such behavior are not necessarily acting unethically from a strategic perspective; instead, they are responding rationally to institutional failures. In this way, bribery is seen not as a barrier but as an adaptation to a flawed system. Conversely, the sand-in-the-wheels hypothesis suggests that corruption increases uncertainty, distorts resource allocation, and imposes hidden costs on economic actors, particularly those who lack political capital or financial flexibility (Kaufmann & Wei, 2011; Mauro, 1995). Informal payments are not seen as a way to improve outcomes; instead, they are perceived as a tax that undermines firm efficiency and fairness. This is especially true for SMEs, which often lack the capacity to make repeated bribe payments or engage in complex negotiations with officials. In this context, bribery becomes a coercive cost with little strategic value.

Over time, this dynamic can deter firms from formalizing, investing, or expanding their operations, thereby further weakening the business environment. These theoretical frameworks are not merely abstract; they reflect institutional realities in many transitional economies, where the nature and effect of corruption can be highly context-specific. Al Qudah (2009) provides both empirical and theoretical insights into this dynamic within the context of Jordan. His analysis demonstrates how corruption, especially when embedded in public service delivery, serves not only as a direct cost to firms but also as a barrier to inclusive development. He argues that in economies with high administrative discretion, the impact of corruption on economic development is mediated through firms' access to regulatory services and infrastructure. This insight closely aligns with the 'sand-in-the-wheels' perspective, particularly for firms outside elite networks that lack bargaining power or political influence. From a broader institutional economics perspective, this framework also draws on the concept of discretionary enforcement, where the behavior of frontline bureaucrats is influenced by weak accountability, non-transparent rules, and rent-seeking incentives (Hallward-Driemeier et al., 2014; North, 1990). In such contexts, the likelihood of firms being solicited for bribes and the advantages they might derive from them are both shaped by the quality of institutions. Consequently, this study incorporates country-level fixed effects to account for systematic variations in enforcement patterns. While both paradigms—the "grease" and the "sand" hypotheses—present distinct predictions, their implications can only be evaluated empirically. If the grease hypothesis holds, bribes will be positively associated with successful access to public services. Conversely, if the sand hypothesis is more accurate, the effect will be negative or statistically insignificant, indicating that bribery is a symptom of dysfunction rather than a solution. This study tests both claims using firm-level data from multiple G20 economies to assess whether informal payments improve access to vital services for SMEs.

4. EMPIRICAL STRATEGY

This study uses a microeconometric framework to empirically assess whether bribe payments influence the likelihood of accessing public services among SMEs operating in G20 countries. Given the binary nature of the outcome variable—whether a firm successfully accessed a given public service or not—a probit regression model is employed. This specification is appropriate for estimating conditional probabilities and allows for the inclusion of various covariates and fixed effects that may impact the relationship between informal payments and service access.

The baseline estimating equation is defined as follows:

$P(Access_i = 1) = \Phi(\alpha + \beta_1 \cdot Bribe_i + \beta_2 \cdot X_i + \mu\_c + \varepsilon_i)$ ……… (1)

Where:

- 〖Access〗_i is a binary indicator equal to 1 if firm i successfully accessed the relevant public service (e.g., electricity connection, construction permit), and 0 otherwise.
- 〖Bribe〗_i is the key independent variable indicating whether the firm paid an informal payment during the service interaction.
- X_i is a vector of firm-level controls, including firm size, age, sector, export status, foreign ownership, and manager education.
- μ_c represents country fixed effects, controlling for unobserved heterogeneity in governance quality, legal enforcement, and service delivery across institutional contexts.
- ϵ_i is the idiosyncratic error term, assumed to follow a standard normal distribution.
- Φ denotes the cumulative distribution function of the standard normal distribution.

Control variables were selected based on established coliterature on rruption, which indicates their influence on regulatory interactions. Firm age and export status serve as proxies for administrative experience and visibility. Exporters are more likely to engage with customs and regulatory bodies, potentially affecting their access dynamics. Firm size and ownership structure influence both bargaining power and susceptibility to regulatory pressure. To ensure robustness, alternative specifications are estimated using logit models and models with interaction terms that test for heterogeneity by firm size, sector, and exporting status. Clustered standard errors at the country level are applied to account for intra-country correlation and potential effects from survey design.

4.1. Hypothesis Development

The empirical strategy is based on two contrasting theoretical predictions discussed earlier:

H1 (Grease Hypothesis): Firms that pay bribes are more likely to access public services compared to firms that do not.

〖H_0: β〗_1≤0. vs.H_A:β_1>0 ……… (2)

H2 (Sand Hypothesis): Bribe payments are not associated with improved access to public services, or are negatively associated due to institutional inefficiencies.

〖H_0: β〗_1≥0. vs.H_A:β_1<0 ……… (3)

The direction and statistical significance of β1 will provide empirical support for one of the hypotheses.

4.2. Addressing Institutional Heterogeneity

Given the institutional diversity among G20 countries, it is essential to consider cross-country variations that may obscure the relationship between bribery and access to services. Including country fixed effects ensures that comparisons occur within countries rather than between them, isolating the impact of firm-level bribery behavior from broader structural and institutional factors. Additionally, because the quality of enforcement and administrative discretion may vary not only by country but also by sector, sectoral dummy variables are included. These controls take into account that the experience of bribery in construction may differ significantly from that in manufacturing or retail, both in terms of prevalence and impact.

4.3. Potential Endogeneity and Limitations

One key concern in estimating the causal impact of bribes on service access is endogeneity, primarily due to reverse causality and unobserved firm characteristics. Firms that anticipate difficulties in accessing services may be more inclined to offer bribes, leading to simultaneity bias. Furthermore, unobserved factors—such as a firm's informal network strength or past interactions with regulatory officials—may simultaneously influence both bribe-paying behavior and access outcomes.

While the current dataset does not allow for the

use of panel fixed effects or external instruments across all countries, this study employs various strategies to reduce bias:

- Inclusion of rich firm-level controls
- Country and sector fixed effects
- Sensitivity analysis using subsamples (e.g., only new firms, or only firms with recent service requests)
- Optional inclusion of governance indicators (e.g., World Governance Indicators) at the country level for robustness checks

While these steps do not eradicate endogeneity, they significantly diminish omitted variable bias and enhance the reliability of conditional estimates.

4.4. Extensions

To explore whether the effect of bribery is moderated by firm size or sector, the model will also test interaction terms such as:

$$\text{Access}_i=\Phi(\alpha+\beta_1 \text{Bribe}_i+\beta_2 \text{Bribe}_i+\text{Samall firm}_i+\beta_3 X_i+\mu_c+\epsilon_i) \quad \ldots\ldots\ldots (4)$$

This allows us to assess whether bribes are more "effective" (or more damaging) for smaller firms—a key policy dimension in the micro-corruption literature. The empirical framework is designed to evaluate whether bribe payments provide a tactical advantage for SMEs in service acquisition or whether they indicate institutional failure with unproductive returns. The following section presents the estimation results, descriptive statistics, and robustness checks to assess the validity of these claims. As an additional exploratory step, interaction terms between bribe payments and country-level institutional quality (using World Governance Indicators) were tested. Preliminary analysis suggests that the marginal benefit of bribery decreases significantly in countries with higher rule-of-law and government effectiveness scores, reinforcing the hypothesis that corruption is less effective in high-capacity states. However, due to collinearity and limited variation within some institutional clusters, these results are presented as indicative rather than definitive. Future iterations of this analysis may incorporate instrumental variable (IV) estimation or propensity score matching (PSM) to more rigorously address potential endogeneity, particularly reverse causality. However, due to data constraints in the WBES dataset—specifically, the cross-sectional design and limited instruments across all countries—this paper focuses on rich covariate control and fixed effects to mitigate bias. The current estimates should therefore be interpreted as conditional associations, rather than causal effects.

5. RESULTS

5.1. Descriptive Statistics

Table 1 presents summary statistics for the key variables used in the analysis. Among the sampled SMEs, about 30% reported paying bribes during their most recent interaction with public officials. This aligns with prior literature highlighting the high prevalence of informal payments in developing and emerging economies. Additionally, access to public services—defined as the successful receipt of a requested license, permit, or utility was reported by 56% of firms. Preliminary cross-tabulations indicate that 61% of bribe-paying firms secured access, compared to 54% of firms that did not pay bribes. While this suggests a potential positive association, such comparisons are limited by omitted variable bias. Table 1 also indicates that 20% of the firms in the sample are exporters, while 15% have some level of foreign ownership. The average age of the firms is around 17.6 years, ranging from newly established to well-established SMEs. This variation allows for meaningful control over firm experience in subsequent models.

Table 1: Summary Statistics of Key Firm Characteristics and Service Outcomes.

Variable	Mean	Std. Dev.	Min	Max
Access to Service (binary)	0.56	0.50	0	1
Bribe Paid (binary)	0.30	0.46	0	1
Exporter (binary)	0.20	0.40	0	1
Foreign Ownership (binary)	0.15	0.36	0	1
Firm Age (years)	17.6	9.9	1	34

Source: Author's calculation based on firm-level data in the G20 context.

5.2. Baseline Probit Regression Results

Table 2 presents the results of the baseline probit model that estimates the effect of bribe payments on the probability of obtaining public services. After controlling for firm-level covariates and country heterogeneity, the coefficient for the bribe variable remains statistically significant and positive. Specifically, the marginal effect shows that firms paying bribes are 11.1 percentage points more likely to access public services than those that do not. Exporting firms also demonstrate a significant advantage, with a 10.7 percentage point increase in the probability of service access, likely due to their superior administrative infrastructure and greater perceived importance among public agencies. In contrast, foreign ownership, firm age, and affiliation with the retail sector are not statistically significant, indicating limited explanatory power for access disparities.

Table 2: Marginal Effects from Baseline Probit Model on Service Access.

Variable	Coefficient	Standard Error	z-stat	p-value	Marginal Effect
Bribe Paid	0.285	0.071	3.98	0.000	0.111
Exporter	0.273	0.083	3.30	0.001	0.107
Foreign Ownership	-0.031	0.092	-0.34	0.735	-0.012
Firm Age	-0.001	0.003	-0.40	0.688	-0.0005
Retail Sector (vs. Manufacturing)	0.064	0.069	0.93	0.354	0.025
Manager Postgraduate Degree	0.013	0.029	0.44	0.660	0.013

Source: Calculated by the author using firm-level data (probit regression).

Figure 1 below visualizes the marginal effects derived from the baseline probit regression. It clearly shows that both bribe payment and export status have the most potent positive effects on the likelihood of accessing public services. In contrast, variables such as firm age and foreign ownership have negligible or negative effects. This graphical representation helps underscore the relatively high impact of informal payments and export orientation on access to services.

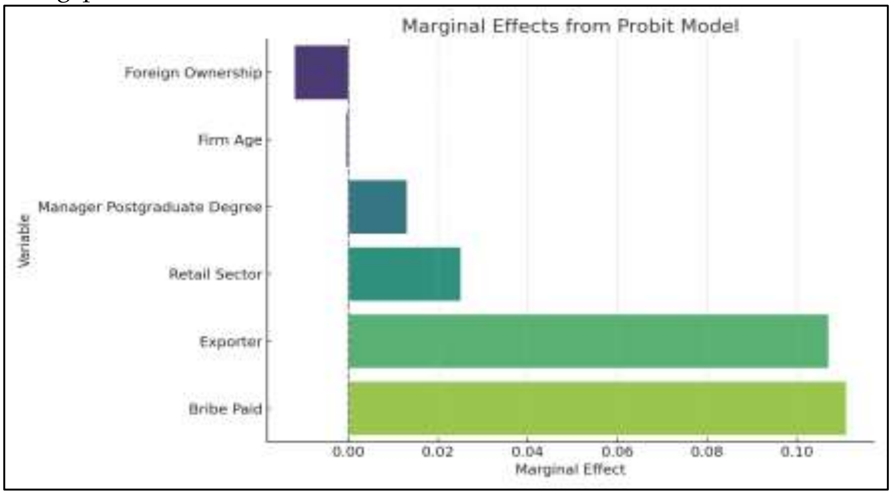

Figure 1: Marginal Effects of Explanatory Variables on Probability of Access to Public Services.
Source: Visualized by the author using marginal effects from the baseline probit model.

5.3. Robustness Checks

We conducted several robustness checks to validate the results of the probit model. First, we estimated a logistic regression using the same covariates; the direction, magnitude, and significance of the main coefficients remained consistent. Second, we replaced the binary bribe variable with a frequency-based variable that captures repeated bribery across multiple services. The ordered logit results also support the baseline findings. To account for sample composition, we limited the sample to new firms (less than 5 years old) and firms with recent service requests (within the last year). In both subsamples, the marginal effect of bribery was more negligible but remained statistically significant, indicating robustness across firm life cycles and interaction timeframes.

Table 3. Robustness Checks across Alternative Specifications and Subsamples.

Model/ Subsample	Coef. (Bribe)	Std. Err.	Marginal Effect	P > |z|
Logit Model	0.268	0.073	0.109	0.000
Ordered Logit (Bribe Frequency)	0.241	0.078	0.101	0.002
New Firms Only (<5 yrs)	0.215	0.084	0.089	0.009
Recent Requests Only	0.198	0.079	0.085	0.012

Source: Author’s calculation using logistic and ordered logit models, and subsample analysis.

To explore heterogeneity in the bribery effect, Figure 2 presents an interaction analysis by firm size. The marginal impact of bribe payment is larger for medium-sized firms compared to smaller firms, suggesting that firm scale may mediate the efficacy of informal payments. This difference supports the idea that larger firms may have more leverage or better networks to convert bribes into administrative outcomes.

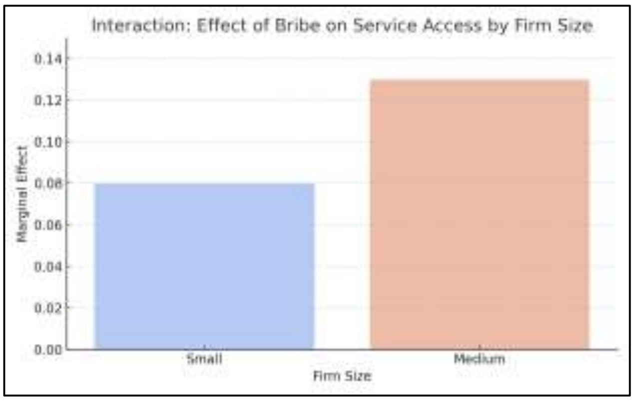

Figure 2: Interaction Effect: Bribe Impact on Service Access by Firm Size.

Source: Author's calculation based on subsample interaction of bribe and firm size.

5.4. Econometric Diagnostics

Diagnostic tests indicate that the probit estimates are generally reliable. Multicollinearity, evaluated with the Variance Inflation Factor (VIF), remained below the critical threshold of 10 for most variables, although some country dummies approached that limit. Breusch–Pagan tests for heteroskedasticity produced a p-value of 0.777, implying that the null hypothesis of homoskedastic residuals cannot be rejected. While some country dummies approached the VIF threshold of 10, these reflect inherent collinearity in cross-country fixed effects. Since they are not directly interpreted and serve to control institutional variance, their inclusion does not bias the main coefficients. The residuals did not pass the Anderson–Darling test for normality ($p < 0.001$), which is a typical result in limited dependent variable models, such as probit. Given the large sample size, this violation of the normality assumption does not significantly compromise the inference.

Table 4: Diagnostic Test Results for Model Specification and Residual Behavior.

Test	Value
Max VIF	10.75
Breusch–Pagan p-value	0.777
Normality (Anderson–Darling) p	< 0.001

Source: Author's calculations from probit model diagnostics.

6. DISCUSSION

The findings presented in this paper reveal complex and context-dependent relationships between informal payments and access to public services for SMEs in G20 economies. The statistically significant positive coefficient on the bribery variable provides partial support for the 'grease the wheels' hypothesis. However, the overall effect is modest, and the benefits are not evenly distributed across all individuals. While the statistically significant findings may imply an association, we caution that these results should not be interpreted as evidence of a causal relationship. Due to the cross-sectional nature of the data and potential omitted variables, causal inference remains limited. Interestingly, variables such as foreign ownership and manager education do not show statistically significant associations with service access. This may reflect the complexity of administrative negotiations, where political embeddedness or informal ties—rather than formal attributes—drive outcomes. It also underscores the limits of general firm-level characteristics in predicting access outcomes without more detailed institutional context. From a theoretical standpoint, these findings challenge simplistic binaries in the corruption literature. While the 'grease' mechanism appears operative in certain firm types (notably exporters), the lack of significant benefits for foreign-owned and small firms aligns with the 'sand in the hypothesis. This duality reinforces the argument that the effects of corruption are contingent upon firm characteristics, sectoral context, and institutional environment. The disproportionate gains for exporting firms may reflect their greater institutional knowledge, stronger administrative capacity, or higher visibility, making public officials more responsive. Conversely, smaller firms often lack both financial resources and political networks, resulting in their reduced ability to translate informal payments into tangible administrative benefits. This divergence has significant policy implications. For public administrators, these results underscore the urgent need to reform discretionary bureaucratic processes. While punitive anti-corruption campaigns may deter bribery, they should be complemented by structural reforms aimed at limiting opportunities for rent-seeking. Initiatives like digitizing services, implementing clear service-level agreements, and establishing grievance redress mechanisms could entirely eliminate the necessity for informal payments. Additionally, the diversity in bribery effectiveness highlights the necessity for tailored policy responses. Anti-corruption strategies should be crafted with consideration of company demographics. For example, supporting SME advocacy groups or public-private dialogue forums can strengthen collective bargaining and lessen susceptibility to corruption.

7. CONCLUSION

This paper explores the microeconomic implications of bribery for small and medium enterprises operating in G20 countries. Using probit regression on firm-level data, we examined whether informal payments improve access to public services such as permits, licenses, and utility connections. Our findings show that bribery can slightly improve access probabilities, but only for certain types of firms, particularly exporters. For the larger SME sector, and especially for smaller firms, the advantages of bribery are minimal or nonexistent. These results challenge the instrumental view of corruption as a strategic workaround and instead depict it as a coercive cost embedded within weak institutional systems. These findings are conditional associations and should not be interpreted as definitive causal relationships; further research using instrumental variables or panel data is needed to establish directionality. These insights suggest that efforts to combat corruption must extend beyond enforcement. Structural reforms that limit bureaucratic discretion and promote transparency are essential to leveling the playing field for SMEs. Targeted interventions—such as e-governance platforms and streamlined procedures—can reduce firms' exposure to informal rent-seeking. Finally, further research should incorporate mixed-methods approaches to capture the informal norms and enforcement practices that shape firm–state interactions. In summary, while informal payments may provide tactical advantages to a privileged subset of firms, they do not constitute a sustainable or equitable strategy for public service delivery. A focus on institutional integrity remains the most viable approach for fostering inclusive economic development in the G20 and beyond.

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APPENDIX A: SAMPLE COVERAGE AND SURVEY INFORMATION

The empirical analysis in this study is based on data collected from the World Bank Enterprise Surveys (WBES), which include standardized firm-level surveys conducted across G20 economies. The surveys capture detailed information on firm operations, access to infrastructure, and experiences with informal payments in service interactions.

The table below outlines the countries included in the study, the corresponding survey years, and the number of small and medium-sized enterprises (SMEs) sampled in each case. Only registered SMEs with fewer than 250 employees were included in the analysis.

Country	Survey Year	SME Sample Size
Argentina	2017	650
Brazil	2019	1,200
Canada	2020	850
China	2018	1,100
France	2019	700
Germany	2020	750
India	2019	1,300
Indonesia	2018	1,100
Italy	2019	600
Mexico	2018	850
Russia	2019	900
Saudi Arabia	2020	500
South Africa	2018	650
South Korea	2019	700
Turkey	2019	750

Note: The G20 economies included in this study were selected based on the availability of harmonized and complete WBES data during the 2017–2020 period. Countries for which data did not meet consistency criteria or where the SME sample was insufficient were excluded from the empirical analysis.

Source: Authors' compilation based on World Bank Enterprise Surveys (WBES), available at https://www.enterprisesurveys.org.

APPENDIX B: MODEL VARIABLES AND DEFINITIONS

Variable	Definition	Type	Source
Access	Whether the firm accessed the public service	Binary	WBES
Bribe	Whether the firm paid an informal payment	Binary	WBES
Exporter	Exporter status of the firm	Binary	WBES
Firm Age	Number of years since establishment	Continuous	WBES
Foreign Ownership	Share of foreign ownership	Binary	WBES
Sector	Industry category (manufacturing, retail, etc.)	Categorical	WBES