

TI, "Reducing bureaucracy and corruption affecting SMEs"

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Bureaucracy or red tape, as it is often referred to, is a "derisive term for excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and hinders or prevents action or decision-making". There is broad consensus that bureaucracy and red tape offer both incentives and opportunities for bribery and corruption. Institutional barriers provide an opportunity for rent-seeking as individuals and businesses may be willing to make illegal payments to circumvent these barriers.

SMEs are more susceptible to bureaucratic corruption than larger companies due to their structure (e.g. there is often a greater degree of informality and less accountability mechanisms); short-term vision and perspective (as opposed to larger companies, small and medium size enterprises are less concerned about reputation and other long-term negative impacts of corruption); limited financial resources; and their inability to wield influence over officials and institutions, lacking bargaining power to oppose requests for illegal payments from public officials.

In addition, SMEs are also more susceptible to administrative corruption due to the fact that they often lack time and resources to get informed about complex regulations and its requirements, making illegal payments to either cover up mistakes or avoid overly bureaucratic procedures.

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