

Manipulation in procurement contracts. Evidence from Colombia.

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Abstract :

Expenditures in public procurement represent on average 15% of the GDP for any government. Moreover, it is a highly regulated activity characterized by high transaction costs. As a consequence, Colombia introduced in 2007 a simplified selection procedure to reduce buyer's administrative burden and promote supplier competition. This reform introduced two thresholds to select among three procurement formats: first price auction, restricted scoring auction, and open scoring auction; arranged from less to more expensive contracts as well as transaction costs. In order to select the procurement format, the buyer runs a market research to learn the actual cost of the purchase and to set the value of the purchase in the call for tender. Therefore, the buyer has discretionary power to select the format manipulating the value in the call for tender when its actual value is close to the threshold value. Even if thresholds in public procurement are popular across countries, very little is known about buyer's behavioral responses to the regulation. This paper develops a stylized model and an empirical strategy to identify buyers' responses to these regulations. We find bunching below each of the two thresholds and evidence of inefficiencies and corruption.