

The choice of the procurement mechanism: reasons and consequences¹

Maria Ostrovnaya² and Elena Podkolzina³

1. Motivation

Nutritious and tasty school meals contribute not only to health, but also to learning abilities of students. If the government finances school meals, competition among different food providers may result in value for money. In many countries public procurers have a choice between several procurement mechanisms in different markets, including school meals. The set of available mechanisms varies a lot from sealed-price auctions to negotiations, but one characteristic of this choice remains the same. Public procurers usually choose between lower and higher restrictive mechanisms, hence, their choice may harm competition and lead to higher prices.

In the economic literature, one may identify two main explanations of procurer's choice: the demand side and the supply side. The former group includes such factors, as corruption (Auriol, Straub, and Flochel 2016), third party opportunism (Chong, Staropoli, and Yvrande-Billon 2014) and incompetence of public procurers (Bajari, McMillan, and Tadelis 2009), while the latter group includes competition in the private market, complexity of the purchased product (Bajari, McMillan, and Tadelis 2009) and transaction costs associated with the certain mechanism (Lundberg 2005). However to the best of our knowledge none of the papers is dedicated to the joint impact of the demand and the supply side on the choice of the procurement mechanism. In this project we are going to fill this gap in the literature.

2. Purpose of the study

The main purpose is to examine how long-term relationships between a public procurer and a supplier affect the choice of the procurement mechanism and whether procurement results differ under different chosen mechanisms.

3. Methodology and data

We research municipal procurement in Russia under the regulation of 94-FZ Federal law. We

¹ The article was prepared within the framework of the Basic Research Program at the National Research University Higher School of Economics (HSE) and supported within the framework of a subsidy granted to the HSE by the Government of the Russian Federation for the implementation of the Global Competitiveness Program. The financial support from the Government of the Russian Federation within the framework of the implementation of the 5-100 Programme Roadmap of the National Research University Higher School of Economics is acknowledged.

² Maria Ostrovnaya (mostrovnaya@hse.ru) – Research Fellow, International Laboratory for Institutional Analysis of Economic Reforms, Center for Institutional Studies, National Research University Higher School of Economics, Russian Federation

³ Elena Podkolzina (epodk@hse.ru) – Senior Research Fellow, International Laboratory for Institutional Analysis of Economic Reforms, Center for Institutional Studies, National Research University Higher School of Economics, Russian Federation

assume that long-term relationships with the preferred supplier encourage a procurer to choose more restrictive procurement mechanism (scoring rule) over less restrictive (auction). Suppliers compete only on the contract price in auctions and on both the contract price and non-price characteristics including qualification under the scoring rule. Hence, choosing the scoring rule a public procurer gives its preferred supplier, with which it has long-terms relationships, a definite advantage over other companies. As the result, this supplier receives higher score for non-price characteristics and may submit higher contract price all other things being equal. On the contrary, in the absence of long-term relationships with the preferred supplier a procurer has higher incentives to choose the auction, as it may lead to the choice of more efficient supplier.

For the purpose of our study we collected data on municipal procurement of school meals for students studying in municipal secondary schools of Moscow region in 2011-2013. We selected purchases organized only by those organizations that procured school meals at least three times during the considered period. The final dataset consists of 2264 purchases organized by 393 organizations (294 schools) in 43 municipalities. One purchase relates to one procurement mechanism and the corresponding municipal contract.

4. Preliminary results

We obtain the following preliminary results. First, the choice of the scoring rule over the open-bid auction leads to lower competition, namely, lower number of submitted applications and higher relative contract price measured as the ratio between final and reserve contract prices. Second, the choice of the scoring rule over the open-bid auction increases the probability of the local winner: a winning supplier and a procurer are more often situated in the same municipality. In our opinion, this may be an indicator of stronger informal ties between a winning supplier and a procurer in the scoring rule mechanism, than in the auction. Third, municipal procurers that use the scoring rule have lower number of contracts with one supplier, than ones that use the auction, which results from longer contracts in the former case.

Further we are going to collect additional control variables (characteristics of municipal contracts, schools and municipalities) in order to perform regression analysis.

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