



Informal practices and efficiency in public procurement

Yuliya Rodionova ^a, Juraj Nemeč ^{b,c}, Andrey Tkachenko ^d and Andrei Yakovlev ^a

^aInstitute for Industrial and Market Studies, HSE University, Moscow, Russia; ^bFaculty of Economics and Administration, Masaryk University, Brno, Czech Republic; ^cFaculty of Economics, Matej Bel University, Banská Bystrica, Slovakia; ^dDepartment of Economics, Nazarbayev University, Astana, Kazakhstan

IMPACT

In environments with incentives for opportunism, effective tools to limit corruption in public procurement are necessary. The authors show that monitoring and law enforcement tools are more important than the strict regulation. A simple transfer of regulation from developed countries to transitional economies does not deliver the desired procurement performance without proper enforcement. Regulators need to consider the scale of opportunism among procurement participants—if it is high, it is necessary to focus on monitoring and law enforcement capabilities.

ABSTRACT

This article studies the practice of predetermined choice of suppliers in public procurement in post-socialist countries. The authors conducted an online survey of suppliers in Russia and Slovakia in 2020, revealing that, despite different models of procurement regulation, this practice was being widely used in both countries. Some were justifying predetermined choice to guarantee delivery and quality. Surprisingly, Russian suppliers assessed the efficiency of public procurement higher than Slovak suppliers, which can be explained by more efficient monitoring and conflict resolution via the courts. The authors conclude that Slovakia possesses an insufficient level of monitoring and law enforcement in public procurement. This article contributes to the literature on procurement efficiency by emphasizing the crucial role of monitoring and law enforcement rather than regulation.

KEYWORDS

Corruption; efficiency; post-socialist economies; public procurement; regulation; Russia; Slovakia; suppliers

Introduction

In developed economies, a low level of corruption generally co-exists with a high level of economic growth. In developing countries, weak institutions cannot substantially restrict the opportunistic behaviour of economic agents, which limits economic growth (Zak & Knack, 2001). Post-socialist economies lie somewhere in between these two extremes. They initially had a quite substantial level of social capital, while also inheriting the legacy of socialist economies with high incentives for opportunism and corruption. During the past decade, many post-socialist countries have initiated public procurement reforms to limit corruption. Anti-corruption instruments have consisted mainly of regulatory requirements for competitive procurement and ensuring data transparency at the awarding stage. However, despite these efforts, recent studies have shown the presence of various kinds of informal practices in public procurement (Dávid-Barrett & Fazekas, 2020; Fazekas & Kocsis, 2020), including the phenomenon of ‘predetermined choice’ when a procurer chooses a supplier before the official procurement procedure is conducted. The goal of our article is to investigate the scale of this predetermined choice practice and its consequences from a comparative perspective of two post-socialist countries: Russia and Slovakia.

Russia and Slovakia are post-socialist economies with different trajectories in terms of the formation of institutions. Slovakia took the path of adopting the standards of European Union (EU) institutions, while Russia defined its own formation trajectory for its institutions, considering the legacy of the socialist economy. The same difference holds regarding the formulation and adoption of public procurement regulation.

A comparison of these two public procurement models may be of interest for other post-socialist and developing economies choosing their procurement reform trajectory.

We conducted a large online survey of public procurement suppliers in Russia and Slovakia in 2020. The mailing list comprised 207,800 Russian suppliers and 13,571 Slovak suppliers. We received 802 and 402 responses, respectively. The purpose of the survey was to identify the main problems that suppliers face in public procurement and to understand the ways they overcome these problems. Specifically, we focused on predetermined choice. This illegal practice is harmful to honest suppliers, but it may be motivated both by procurement participants’ opportunistic or well-meaning intentions when regulation is excessive.

We asked suppliers to estimate the share of procurers practising predetermined choice, and then we asked them about main reasons for this practice. We proposed a list of answers, which contained some justifying reasons related to due execution, a reason with negative perceptions of the practice (informal relationships), and other neutral reasons. The combinations of choice of these reasons helped to identify three groups of respondents with different behaviour patterns: ‘justifying’, ‘realistic’ and ‘accusatory’. The justifying respondents explained this practice by justifying and neutral reasons only. The realistic respondents combined justifying reasons and the ‘informal relationships’ reason, while the accusatory respondents insisted on informal relationships without admitting justifying reasons. We also asked the respondents to evaluate the efficiency of the public procurers they interacted with and the efficiency of such conflict resolution methods as negotiation and litigation.