Monitoring Public Procurement: Evidence from a Regression Discontinuity Design in Chile

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Abstract

The government is the biggest buyer in the economy of most countries. At the same time, the public procurement process is often thought to be fraught with corruption and malpractice. However, there is little evidence regarding the impact of audits aimed at reducing such malpractice. This paper investigates the effect of being audited on public entities' subsequent procurement practices in Chile. For identification, we exploit a scoring rule of the national auditing agency, which allows for regression discontinuity analysis. Our preliminary results show that the audits seem to lead to a temporary shift towards less transparent modalities of procurement. The share of the amount of total purchases through direct negotiations increases by around 20 percentage points, at the expense of the use of public auctions. The effect is most pronounced during months when the audit is taking place and disappears completely by the subsequent fiscal year. Since audits in Chile rarely happen in consecutive years, and since the audit typically only covers the most recent completed fiscal year, this time pattern of effects is consistent with public agents responding to a temporary drop in audit risk during the year of the audit.

Keywords: procurement; corruption; public finance; Public procurement; Public Sector; Public Administration Industry; Chile

Citation: