



PARIS SCHOOL OF ECONOMICS
ÉCOLE D'ÉCONOMIE DE PARIS

Corruption and Collusion in Procurement

« Just a word »

July 2-5 2017, Rome

Ariane Lambert-Mogiliansky

Paris School of Economics and ALM-Consultants

Linking collusion and corruption

According to a judge from the Pole Financier, there exists almost not a single case of large scale collusion in procurement without corruption. There are many reasons for that.

- By force of experience, procurement officials can easily be aware of on-going collusive schemes. The cartel may need to associate them just to buy their silence. But also strategic complementarities

Deep links between collusion and corruption in procurement.

1. Procurement procedures are designed to create competition to reduce firm rents i.e., there is a conflict of interest between the gvt and the firms.
2. This conflict of interest creates a stake for corruption: the officials protect firms' rents in exchange for bribes.
3. Several firms are involved so they must cooperate to overcome competition: collusion.

⇒ Both collusion and corruption target fair competition.

- Cartel cooperation is difficult, corruption can facilitate
- The absence of competition gives more rents than just unfair competition

⇒ Scope for beneficial complementation from both sides.

More precisely:

1. A cartel is a fragile scheme subject to the temptation to defect from agreed behavior.

⇒ Corruption can serve as an *enforcement mechanism*.

2. A repeated cartel often operates in a stochastically changing environment which creates tensions and new risks of defection .

⇒ Corruption can serve as a *smoothing mechanism*.

In 3 articles and a book chapter we investigate those links in details.