

POLITICAL CYCLE IN WORLD BANK'S PROCUREMENT ALLOCATION

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RESEARCH QUESTION

Do firms win more World Bank contract around election years in their origin country?

WHY DOES IT MATTER ?

A political cycle in World Bank procurement contract would have several consequences:

- **Efficiency of the World Bank's intervention:** The firm chosen for electoral motives may not be the best to conduct the project.
- **Election's fairness:** The incumbent government could use the allocation of World Bank contracts in order to get more campaign fund, which is an unfair advantage to the opposition.
- Those issues could **intensifies in the future:** The World Bank aims to give more independence to the recipient countries for the choice of the supplier firm.

EMPIRICAL STRATEGY

We run this gravity model estimated thanks to Poisson Pseudo Maximum Likelihood regression:

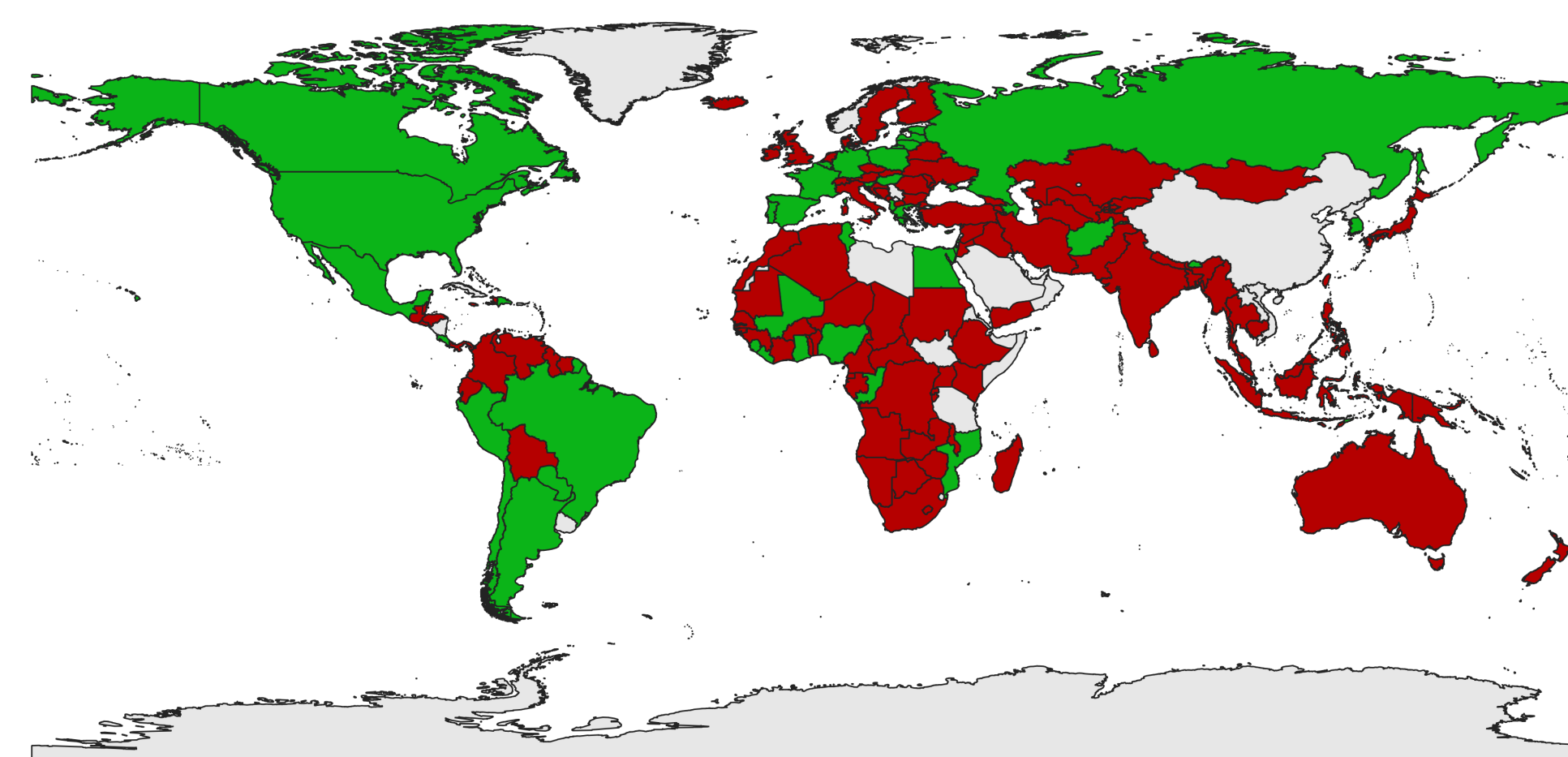
$$Number_{s,r,t} = \alpha + \sum_{i \in \{-2,1\}} \beta_i Election_{i,s,t} + \delta X_{r,t} + \gamma W_{s,t} + \sigma H_{s,r,t} + \mu_t + \theta_s + \omega_r + \zeta_{s,r} + \varepsilon_{s,r,t}$$

- **Number:** Number of contracts won by firms coming from the supplier s in the country r in year t (World Bank Procurement Contract Database).
- **Election:** set of 4 dummies equal to one if the year t is an election year in a given supplier country s (same for $t-2$, $t-1$ and $t+1$). Database on Political Institutions.
- **Controls:** Time varying recipient (X), supplier (W), and bilateral characteristics (H).
- **Fixed Effects:** Year t , Supplier s , Recipient r and dyadic s, r .

SUGGESTIVE EVIDENCE OF CRONYISM

The political cycle is significant only when conditions are favorable to a kickback arrangement:

- Stronger for civil works contracts



Red: countries where firms can legally fund political parties (source: DPF).

- When the firms' origin country has a presidential or parliamentary system, and when the regime is not autocratic.
- If firms can legally contribute to the candidate or party funding in their origin country.
- Stronger political cycle when contracts were allocated through Single Source Selection or National Competitive Bid.

CONTEXT

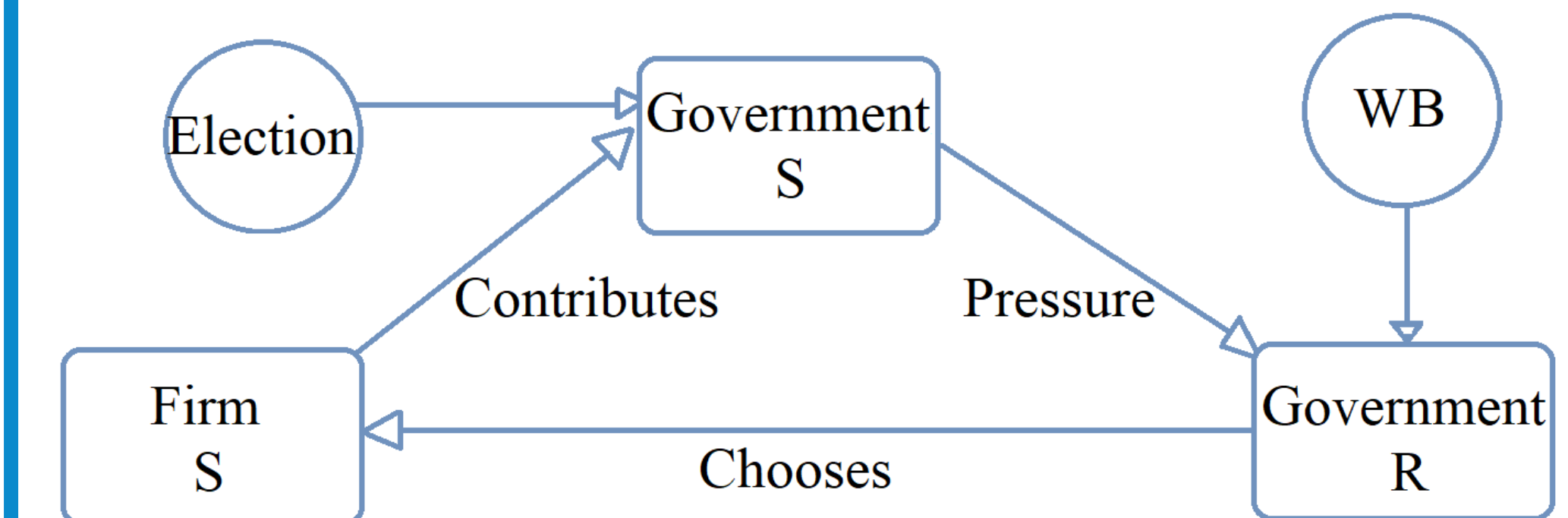
- The World Bank agrees to fund a project.
- The recipient has to choose the firm in charge of the project. Four main methods:

Allocation Methods	Percent
Quality And Cost-Based Selection	27.9
International Competitive Bid	27.1
Single Source Selection	22.5
National Competitive Bid	20.8

- After the choice, funds are transferred to the firm and the project begins.

KICKBACK MECHANISM

Hypothesis: Firms win more World Bank procurement contracts around election years in their origin country.



World Bank contract as an object of a government/firm trade: contract against campaign funding.

BASELINE RESULTS

Dep. var: $Number_{s,r,t}$	Whole Sample	Supplier \neq Recipient	Supplier = Recipient
Year t-2 $_{s,t}$	0.085 (0.05)*	0.038 (0.03)	0.093 (0.06)
Year t-1 $_{s,t}$	0.137 (0.04)***	0.026 (0.03)	0.166 (0.05)***
Election Year $_{s,t}$	0.138 (0.05)***	0.041 (0.03)	0.161 (0.06)***
Year t+1 $_{s,t}$	0.064 (0.04)	0.011 (0.03)	0.068 (0.05)
Observations	115,862	112,617	3,245
R^2	0.82	0.41	0.70
N Supp x Year (clusters)	4,204	4,103	3,245

The political cycle seems to be domestic rather than cross-country.

CONCLUSION

There seems to be a political cycle in the World Bank procurement contract, as firms win on average 14% more contract around election years in their origin country. This cycle seems rather domestic than cross-country, and there are strong hints of cronyism.