

What does (a lack of) transparency in public procurement lead to?

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JÁN PALGUTA, FILIP PERTOLD

Summary

- In 2006 a simplified regime for awarding public contracts was introduced, by means of a special procedure for "below threshold" contracts. Its aim was to enable smaller contracts to be awarded in a simpler and more flexible way. However, this change began to reduce competition and transparency, and gave contract awarders freedoms they could easily abuse. For this reason, the original maximum threshold for contracts that could be awarded via the simplified procedure (20 million CZK) was reduced to half that amount in 2012.
- Introducing these thresholds led, among other things, to contracts' estimated values being manipulated, and to prices being artificially "inflated" towards the threshold. These behaviours were most frequently observed in the building sector.
- As the number of public tenders rises and their estimated values cluster more and more closely to the legal threshold for the simplified procedure, inefficiency increases, i.e. the difference between the estimated and actual price of the tenders increases. This difference is up to 15 percentage points greater than in open competitions.
- Despite this, an amendment to the law that is currently being considered by the Chamber of Deputies (February 2016) would raise the threshold substantially, to 50 million CZK. On the basis of our analysis of the effects the 2006 and 2012 threshold changes had on contract awarders' behaviour, we estimate in this study what the consequences of the current proposal to raise the threshold could be.
- The Government's proposal to raise the threshold would likely raise the proportion of contracts whose estimated value is manipulated, and would contribute to "inflation" in the prices of awarded contracts. The resulting inefficiency would reduce the benefits from the administrative savings brought about by the simplified procurement procedure, which were the main reason for its initial introduction.
- This study is based on more detailed findings reported in the academic article "[Manipulation of Procurement Contracts: Evidence from the Introduction of Discretionary Thresholds](#)"