

Set asides and value thresholds in Brazilian public procurement from small businesses*

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Abstract

Access of small business to public procurement is a customary goal of economic policy targeting this important segment of economy. Among the measures and approaches used to support Small and Medium Enterprises in public procurement, the second most cited by surveyed OECD countries (OECD, 2018b) is the division of contracts into lots. However, impact assessments of such policies are still scarce. The present article purports to fill this void by studying the use of contract value thresholds in Brazil, below which Micro and Small Enterprises (MSEs) should be the only group allowed to bid. Our first finding suggests that lots to the left and right of the threshold have similar characteristics. Hence we use the latter as a counterfactual to what would have happened to those lots with values below the threshold had they not been allocated exclusively to MSEs. Fuzzy RDD estimations – both with the optimal bandwidth by Calonico et al. (2020) and with asymmetrical bandwidths – point out that set-asides have been successful in attracting more and younger MSEs to bid. Moreover, both the participation ratio of MSEs and the award success rate were significantly boosted by the set aside policy. The greater number of MSEs, however, came apparently at the expense of a net reduction in the total number of bidders. Probably related to this effect, both a remarkable and significant rise in the price level (and a corresponding drop in the discounts off the reserve price) and a decrease in the dispute at the second (open cry) stage of the hybrid auction were observed. These movements in prices may reflect a deterioration in competition below the threshold, as

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two important collusive markers – the coefficient of variation of bids and the skewness of the bid distribution – significantly dropped, thus signalling in favour of some suspicion of collusion.

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