

# Do Information Frictions and Corruption Perceptions Kill Competition? A Field Experiment on Public Procurement in Uganda

Based on BFI Working Paper No. 2024-23, “Do Information Frictions and Corruption Perceptions Kill Competition? A Field Experiment on Public Procurement in Uganda,” by Emanuele Colonnelli, Chicago Booth; Francesco Loiacono, European Bank for Reconstruction and Development; Edwin Muhumuza, Open Contracting Partnership; and Edoardo Teso, Northwestern Kellogg

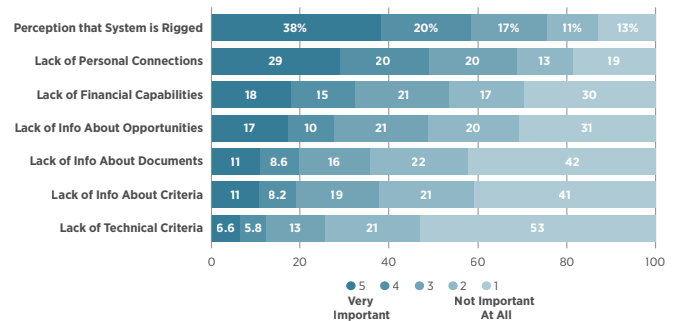
Informing companies about opportunities to sell to the government does not increase their participation in public procurement, but enhancing their trust in the government’s procurement integrity does.

Government procurement accounts for 14.5% of GDP across low-income countries, making it the state’s primary investment. In Uganda, for example, the government represents firms’ largest potential “customer,” and public procurement accounts for nearly 30% of GDP. Despite its importance, purchasing in developing countries is often considered inefficient, opaque and, most prominently, ridden by corruption. In this paper, the authors study whether **information frictions** and the perception of corruption deter firms from doing business with the government.

The authors study this question in the context of Uganda’s development of a digital procurement system, using a series of two **randomized controlled trials** (RCTs). Their first RCT tests the impact of informing firms about procurement opportunities with the state. Currently, Uganda lacks

a centralized, nationwide e-procurement portal where firms can obtain timely information about available procurement opportunities. The research

**Figure 1 • Limits to Firms’ Participation in Public Procurement Based on Survey Responses**



Note: The figure reports percent of respondents by type of answers to the following question: “How important are the following factors in limiting your bidding activity?” in the baseline survey from the authors’ first RCT. Respondents were asked to score each of the listed factors on the vertical axis according to different levels of importance as a barrier to bidding. Respondents were asked to give an answer between 1 and 5, where 1 means “Not important at all” (lightest blue) and 5 means “Very important” (darkest blue).

## BFI Blackboard

**Information frictions:** Obstacles that hinder the free flow of information among parties in a market or transaction

**Randomized controlled trial:** A scientific study in which participants are randomly assigned to either a treatment group receiving the intervention being tested or a control group receiving a placebo or standard treatment. This method is used to objectively evaluate the effectiveness of a new treatment or intervention.

team approximates the existence of such a portal by providing a random subset of roughly 3,000 firms with bi-weekly, personalized newsletters containing information about relevant business opportunities. The authors then study whether firms that receive the information are more likely to participate in public procurement compared to firms in their sample that do not receive the newsletters. The authors find the following:

- Informing firms about procurement opportunities does not make them more likely to do business with the government. This suggests there are additional boundaries, beyond information frictions, preventing Ugandan firms from participating in public procurement.

Building on this result, the authors focus their second RCT on firms' perceptions of the integrity of the various public entities that manage procurement on behalf of the government in Uganda. They begin by providing a new sample of roughly 500 firms with hypothetical calls for bids, which they ask the firms to rate based on their interest in pursuing them. The authors use firms' ratings to analyze how firms' perceptions of public entities' integrity impacts their interest in doing business with them. The authors also provide a random subset of firms with information about the integrity of different public entities, which they collect through reports of market-wide perceptions and government audits. The goal of this **information treatment** is to help firms form more accurate perceptions about specific public entities, and in turn test whether their participation in public procurement changes. The authors find the following:

- Firms report greater interest in bidding on business opportunities when they believe

that the public entity that manages the opportunity is less corrupt.

- Firms are often overly pessimistic about the integrity of public entities compared to the data on their integrity that the researchers gather. This suggests that the firms may use the information shared by the researchers to update their beliefs.
- Firms that receive the researchers' information about public entities' integrity tend to bid on and win more procurement contracts. This increased participation is directed towards public entities that the authors report as having the highest integrity.

Based on the findings reported here, the sector of the Ugandan government in charge of procurement adopted several measures to increase the private sector's trust in public entities. This included the development of a public relations and communications strategy and an outreach program to business organizations to reassure them of the integrity of public entities, as well as the promotion of a whistle-blower program for firms to report cases of corruption as a way of building confidence in the integrity of the overall system.

Beyond Uganda, this research can inform efforts to reform public procurement markets in other developing countries. Such reforms typically place a special emphasis on increasing transparency about the functioning of the market by introducing e-procurement platforms. The findings presented here suggest that this might have limited success in increasing competition, unless coupled with efforts aimed at improving firms' perceptions about government entities' integrity.

**Information treatment:** the process of providing participants with specific information or data to observe how this input affects their behavior, decisions, or perceptions

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