Resource Allocation in Post-Conflict Power Sharing Arrangements – Evidence from Lebanon

THE POLICY INITIATIVE

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INTRODUCTION

- Post-conflict power-sharing arrangements (PSAs) rest on complex set of interrelated mechanisms to share political and economic resources
- Infrastructure procurement is a major resource for rent generation and extraction in PSAs, part of economic power-sharing in absence of natural resource wealth

RQ: How do elites use formal institutions for economic resource sharing in post-conflict PSAs?

H1: Resources allocated based on extent to which elites can use formal procurement process in their favor

H2: Resources allocated based on (threat of) physical force in region of influence

METHODOLOGY

- Focus on Lebanon's by far most important infrastructure development agency ("a state within the state"): the Council for Development and Reconstruction (CDR)
- 394 infrastructure development contracts between 2008 - 18
- Expert interviews with politicians, CDR official, & developers
- Identification of political connections of winning firms (PCF)
- Political connection whenever CEO or shareholder is a politician, close family member, or publicly known friend
- Differentiation of a *quality* of a political connection according to **"PCF1" firms:** connected to board of CDR or political proteges **"PCF2" firms**: connected to all politicians or other elites
- Discussion in 3 phases of corruption in procurement (Dávid-Barrett and Fazekas, 2020)
- Regressing contract values (i) to firm connections (PCF_x), firm characteristics (X_i), donor origin, and sector FEs:

$$logvalue_i = \alpha + \beta_1 PCF\_x_i + \beta_2 X_i + \beta_5 donor_i + \beta_6 sector_i + \varepsilon$$

Figure 1: Who gets larger contracts?

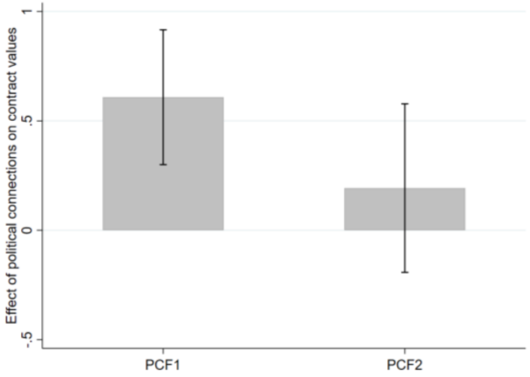
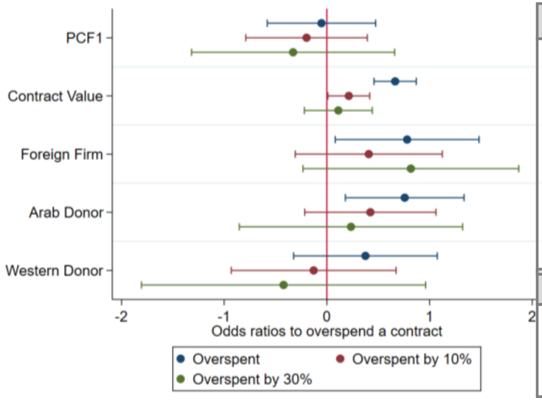


Figure 2: Which contracts are overspent?



RESULTS

- Firms connected to CDR board or their proteges (PCF1) receive significantly larger contracts, while wider set of elites (PCF2) does not (figure 1); **"quality" of political connections matters** for differentiating mechanisms of collusion
- H1 holds true – elites use procurement institutions in their favor, rather than influencing resource allocation by the (threat of) coercion.
- The economic value of a "seat at the table" of CDR is ~US$3.8 million vis-à-vis the average contract, an increase of ~37%.

VERIFICATION

- Reversed causation (firms get connected once they grow) a possibility but ruled out due to two characteristics of CDR governance

1) No competition among firms for better connections: Board of CDR remained unchanged for the past 15 years

2) Closed competition among firms: Closed list of firms eligible to bid

- Indirect verification: once tenders open to all firms, PCF1 firms ***not*** more likely to win larger contracts

DISCUSSION & IMPLICATIONS

- Elites share economic resources based on **strong norms of resource sharing**
- PCF1 firms ***not*** more likely to overspend contracts at monitoring stage (figure 2)
- Consequently, elites must form **collusive networks at the implementation stage**, relaying information necessary for firms to know how to bid on contracts
- Policy implications:

1) Ensure open competition by making use of lists of eligible bidders widely transparent and competitive

2) Ensure turnover in boards to prevent networks becoming entrenched

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