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

Sami Atallah, Mounir Mahmalat*, Wassim Maktabi – The Policy Initiative, Beirut, Lebanon – *corresponding author: mounir.mahmalat@thepolicyinitiative.org

**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 2008-2018
- 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 political connections 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 FE$s$:
  \[
  \log(\text{value}_i) = \alpha + \beta_1PCF_{-x_i} + \beta_2X_i + \beta_3\text{donor}_i + \beta_4\text{sector}_i + \epsilon
  \]

**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

**ACKNOWLEDGEMENTS**
The authors gratefully acknowledge funding from the International Growth Centre, as well as that the data for this project was kindly made available by Jamal Haidar following a formal request to CDR.