



Procurement design with corruption

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This paper investigates the design of optimal procurement mechanisms in the presence of corruption. After the sponsor and the contractor sign the contract, the latter may bribe the inspector to misrepresent quality. Thus, the mechanism affects whether bribery occurs. I show how to include bribery as an additional constraint in the optimal-control problem that the sponsor solves, and characterize the optimal contract. I discuss both the case of fixed bribes and bribes that depend on the size of the quality misrepresentation, and also uncertainty about the size of the bribe. In all cases, the optimal contract curtails quality not only for low efficiency contractors but also for the most efficient contractors.