TARGETED BIDDERS IN GOVERNMENT TENDERS*

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First version: July 13, 2022
This version: August 21, 2023

A set-aside policy restricts procurement tender participation to small or disadvantaged firms, fostering equity. Yet its micro-effects on competition (i.e., number of bids) and efficiency (contract and targeted firm outcomes) are a priori ambiguous. We leverage a decade of heterogeneous US federal procurement data to assess these impacts empirically. At the contract level, we employ a two-stage approach. First, using random forest techniques, we compute the propensity score for a tender being set aside based on rules and practices. Second, we utilize these scores to estimate the effect of restricted tenders on award- and execution-stage outcomes via an inverse probability weighting approach. We find that set-asides prompt more competition—suggesting the rise in targeted bidders offsets the exclusion of untargeted bidders—and lead to increased cost overruns and delays. We hint at adverse selection and moral hazard as mechanisms for this inefficiency. At the firm level, we exploit an unexpected spending surge in veteran-disabled-owned businesses set-aside to gauge long-term policy impact. We detect mixed evidence of enhanced performance in targeted recipients over time.

JEL: D22; H32, H57; L25.
Keywords: small businesses, set-aside, competition, procurement, public contracts, random forest, firm dynamics, propensity score, inverse probability weighting, event study.

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