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# Donations to Political Parties and Procurement Contracts: Evidence from the Period 2007 – 2014

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## Summary

- Political donations are an important source of income for political parties. With the exception of the extreme left, political donations constitute about 10% of the income of major left-wing parties, and 23% to 33% for major right-wing parties (Skuhrovec et al, 2015).
- In this study, we investigate whether and how political donations affect public procurement allocations in the Czech regions. We find evidence of *systematic favoritism in the public procurement process towards a particular group of firms* – i.e. firms donating to political parties.
- A firm that increases its donations to a political party gaining (losing) power by 10% will on average see the value of its public procurement contracts increase (decrease) with 0.5% – 0.6% in the following year. In monetary terms, one additional CZK in donations to the party gaining power increases procurement contracts by roughly 100 CZK on average.
- Furthermore, donating firms receive more small contracts allocated under less regulated procurement procedures, face less competition in more regulated and open procurement procedures, and tend to win with bids further above the anticipated contract cost.
- Taken together, our results suggest strategic behavior of contracting authorities in favoritism towards donating firms.

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