

SSE Riga Student Research Papers 2009:8 (117)

Public Procurement and Political Connections: The Case of Latvia

Vitālijs Jasčišens

Juris Rumba

Abstract

This study provides empirical evidence how political connections (donation to the political party) can add value to the firm during 2002-2005. The connected firm is likely to have 23% (1 applicant) less competition, when applying for public procurement contests. Obtained results are significant at 1% significance level. The results are robust and possibly underestimate the impact of the connectedness. However, there is insufficient evidence that larger procurement is the causal source of increased sales for connected firms investigated by Dombrovsky (2008). There are also indications that connected firms are participating in less transparent procedures and they are likely to receive larger procurement value during the sample period. The implications suggest that political connections hinder competition for procurement, add value to the firm and give incentives to firms seek political connectedness

Keywords: political connections, firm level performance, public procurement