Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Bc. Martin Kopeček**
Advisor:	**Mgr. Miroslav Palanský**
Title of the thesis:	**EU and State Grants Distribution in the Czech Republic: The Effect of Political Connections**

***OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):*

This thesis deals with state grants awarded by the government to companies in Czechia between 2001 and 2019 and analyzes whether politically connected firms have been more successful in competing for these grants. To do so, it uses a recently published dataset, the Central Grant Registry, which contains information on the universe of all state grants. This dataset has not yet been explored in academic literature, mostly due to its complexity and size (both horizontally and vertically).

The thesis is divided into two parts. In the first part, Martin describes the dataset of state grants. He explores the technical aspects of working with the data and produces a number of descriptive statistics. In doing that, he pinpoints the economic importance of state grants – he reports that during the studied period, some CZK 620 billion has been distributed to more than 250 thousand companies.

In the second part, Martin uses the data to empirically analyse whether firms that have donated money to political parties have been more successful than their similar but non-connected peers in competing for state grants. In particular, he uses an advanced propensity score matching technique to identify firms that are similar to connected firms in their observable characteristics. He finds that connected firms have an approximately 40% higher chance of winning state grants as compared to their similar, non-connected competitors. He also tests a number of further hypotheses, documenting that, for example, the effect is significantly smaller for EU-funded grants which are subject to tighter rules than grants funded solely from the state's budget.

I am happy to report that in my opinion, Martin has written an outstanding thesis – its idea, empirical contribution, and analytical depth are of very high standards compared to other theses defended at our Institute. Martin has discussed his research with me extensively during the time he worked on it and has been able to adequately incorporate my comments. In the case of a successful defense, I recommend the grade A.

Contribution

I recognize the contribution of this thesis in the following three areas. First, as far as I know, this is the first rigorous academic analysis of data from the Central Grant Registry. In the first part of his thesis, Martin has used his strong programming skills to provide useful guidance to researchers who will work with the data in the future. Furthermore, he reports a number of important summary statistics on EU and state grants that have not been known until now.

Second, with the latter part of his thesis, Martin contributes to the literature on the effects of political connections on firm performance. A number of studies, including ones that have focused on the Czech setting, have shown that political connections help firms outperform their non-connected peers in different areas – public procurement, access to credit, regulatory outcomes skewed in favor of the connected firms, or overall financial performance. This thesis finds a similar effect for state grants, which has not, to my knowledge, been done before.

Thereby, and third, the results of this thesis corroborate on the mounting empirical evidence that connections between politics and business are beneficial to the connected firms at the expense of other firms and, inevitably, the taxpayers. In today's society, this is an important and dangerous phenomenon, and analyses such as the one presented in this thesis bring us closer to making an informed decision on whether and how to regulate and monitor connections between politicians and

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Bc. Martin Kopeček**
Advisor:	**Mgr. Miroslav Palanský**
Title of the thesis:	**EU and State Grants Distribution in the Czech Republic: The Effect of Political Connections**

firms that make business with the government. I believe that this topic will be high on the policy agenda in the near future, and this thesis has the potential to contribute to the debate with evidence-based arguments.

Methods

This thesis uses a combination of descriptive analytical tools, technical guidelines, comprehensive and powerful graphics, and advanced econometric models to provide a complete analysis. A number of relevant robustness checks have been carried out to support the validity of the results. Propensity score matching, employed in the second part of the thesis, is carried out well and is on par with the current top-level academic literature in this field. I believe the methods used in this thesis are adequate for the scope of the analysis. One area that could be improved is to add information on the outcome of the matching exercise – how many companies have been matched with a non-connected company, what was the distribution of the differences between the propensity score of the connected and non-connected matched companies, etc.

Literature

Martin has succeeded in summarizing the most relevant literature to his topic. However, I do feel that the literature review could be better linked to the present work and a more comprehensive review of the literature would help the reader in identifying the contribution of this work.

Manuscript form

The thesis is written in clear language and has been relatively carefully proofread, although a few typos remain and the readability of some parts of the text could be improved. Martin has shown his attention for detail – figures and tables are self-explanatory, comprehensive and well though-out. I particularly like some of the innovative approaches to display data and results.

Summary and suggested questions for the discussion during the defense

During the defense, I suggest the following topics for discussion:
- After working with the data from the Central Grant Registry, how would you assess its quality and scope? Do you see potential for improvement in how information about grants is published in the Czech Republic?
- What policy recommendations can one draw based on your conclusions? For example, do you think that companies that donate money to political parties should be allowed to compete for state grants?
- Can you report more summary statistics on the outcome of the matching procedure? I am particularly interested in (i) how many companies have not been matched due to their propensity score falling out of the common support; and (ii) how large were the differences between propensity scores of matched companies.

***SUMMARY OF POINTS AWARDED** (for details, see below):*

Report on **Bachelor / Master Thesis**

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Bc. Martin Kopeček**
Advisor:	**Mgr. Miroslav Palanský**
Title of the thesis:	**EU and State Grants Distribution in the Czech Republic: The Effect of Political Connections**

CATEGORY		POINTS
Contribution	*(max. 30 points)*	30
Methods	*(max. 30 points)*	29
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	19
TOTAL POINTS	*(max. 100 points)*	**96**
GRADE	**(A – B – C – D – E – F)**	**A**

NAME OF THE REFEREE: Mgr. Miroslav Palanský

DATE OF EVALUATION: June 6, 2019

_____
Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	*Average*	*Weak*
30	*15*	*0*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	*Average*	*Weak*
30	*15*	*0*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	*Average*	*Weak*
20	*10*	*0*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	*Average*	*Weak*
20	*10*	*0*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F