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The paper studies the role of political connections in allocating COVID-19 support programs. Using Enterprise Survey (BEEPS) data and the corresponding COVID follow-up survey rounds, covering nearly 12,000 firms from 30 countries, the study shows that firms' political connection status does not affect the overall propensity to receive government support. However, results are heterogeneous and depend on the program type. Politically connected firms have a higher propensity (3.6 percentage points) to get direct cash transfers than those without such connections; the effect is muted for other programs, such as credit payment deferral, access to new credit, fiscal exemption, and wage subsidy. Political bias in distributing cash transfers was only observed during the first few months of the COVID-19 pandemic when the rules of government programs still needed to be set, and the eligibility criteria were not defined. The paper provides evidence that political bias may also lead to resource misallocation. The results show that the value of political connections is much larger among firms that did not experience any negative shock during the pandemic; political connection compensates firms' non-eligibility status and allows them to access cash transfers. Lastly, the value of political connections does not vary much and is equally observed in different institutional contexts.

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"I completely accept that former prime ministers are in a different position to others because of the office that we held and the influence that continues to bring."

- David Cameron, former Prime Minister of the United Kingdom[1].

1 Introduction

The COVID-19 pandemic triggered an unprecedented economic shock, which forced businesses around the globe to shut down and caused a severe liquidity crunch for millions of firms and their owners. To limit the economic threats caused by the pandemic, governments worldwide devoted substantial financial resources as an aid to help struggling firms. Since the effectiveness of this fiscal assistance depends partly on its targets, it is crucial to understand the allocation of such funding, particularly in light of recent political scandals involving former politicians and their sustained influence on the political process. For example, former Prime Minister David Cameron allegedly used his personal contacts with current ministers and other officials to unlock barriers to Greensill being admitted to the Covid Corporate Financing Facility (CCFF) - the same company where David Cameron was appointed as an advisor in 2018 after the end of his administration. The case is still under investigation; however, Mr. Cameron admitted that a former Prime Minister should think and act differently when it comes to lobbying. A formal email or letter would have been more appropriate than private texts and phone calls to the former colleagues. Thus, the Greensill scandal illustrates the importance of political connections in lobbying and political influence, especially during the current economic downturn when the role of government re-distributive politics is critical. Importantly, this raises two broader key questions, namely, (1) which firms have gained access to COVID-19 government programs, and (2) whether there might have been any allocating distortions.

The aim of this paper is to study the extent to which the distribution of government aid is shaped by political rather than purely economic considerations. Specifically, I investigate whether firms with former politicians as owners, CEOs, or board members have better access to such support programs than similar firms without connections. Thus, the paper contributes to the political economy literature by studying the value of political connections during the most recent COVID-19 pandemic. While the benefits of political connections in securing government contracts, receiving corporate bailouts, and having preferential access to external finance are relatively well-understood

[1]Oral evidence: Lessons from Greensill Capital, Treasury Committee, House of Commons, Document

[Baltrunaite, 2020; Brugués et al., 2020; Claessens et al., 2008; Schoenherr, 2019], the less is known about the allocation of emergency funding related to natural disasters, financial crisis, or the global pandemic like COVID-19 (see [Barrick et al., 2021; Kubinec et al., 2020; Trinh et al., 2022; Vukovic, 2021] as an exemption). Such unexpected events create significant uncertainty not only for firms but also for policymakers, who are forced to take immediate actions and mitigate the negative effect of the shock. Therefore, it is an empirical question to ask whether the political motives in distributing government support also exist in such particular cases when the effectiveness of public support can be critical for long-term economic recovery.

The empirical analysis in this paper relies on two large firm-level data sets. One is the Enterprise Survey data (BEEPS VI) collected by the World Bank right before the start of the pandemic in 2019. It contains a rich set of firm-level information, including a firm's political connection status, which is the main variable of interest in the paper. Firms are considered politically connected if their owners, CEOs, or board members have been previously appointed or elected to a political position. The second dataset is the COVID-19 Follow-up Enterprise Survey (CFES), which was conducted multiple types during the pandemic and gathers information on the effect of the COVID pandemic on firms' financial condition, layoffs, expectations, and access to government support programs. One of the advantages of CFES is that it can be merged with BEEPS VI data, allowing to observe the same set of firms right before the start of the pandemic. Since the BEEPS VI survey is designed to be representative at the country level, the combined dataset also satisfies the same property. Both datasets have been actively used in the current economics literature due to the frequently updated information on firms' performance during the pandemic and the large coverage of firms from multiple countries (see Grover and Karplus [2021], Muzi et al. [2021], Liu et al. [2021], Wagner [2021]). After merging and cleaning, the final sample includes 11,853 firms from 30 countries.

The empirical results show no significant evidence of pervasive political bias in distributing government support, neither in extensive (any government support) nor intensive margins (the number of different support programs). However, results are heterogeneous and depend on the program type. While politically connected firms have a higher propensity to receive direct cash transfers, the effect is muted for other programs, such as deferral of credit payment, access to new credit, tax reduction, and wage subsidy. Having a political connection is associated with 3.6 additional percentage points in the propensity to obtain cash transfers. Considering that only 15.0% of firms received cash transfers in our sample, the implied effect is 24% which can also be considered

economically significant.

Two key factors can drive these results. First, cash transfers are the most desirable policy instrument during financial crises, as they directly cater to firms' liquidity constraints. Unconditional cash transfers are also more flexible and allow firms to allocate relief money based on their needs and preferences. Second, as cash transfers are a more general form of support and hence demand weaker justification, governments had the most discretionary power over distributing it. In the case of other support programs, the role of government (and therefore the value of political connections) was somewhat limited. For instance, programs such as access to new credit and deferral of credit payments required negotiation with commercial banks and other stakeholders, which left little room for political bias [Core and Marco, 2020; Cororaton and Rosen, 2021; Granja et al., 2020]. Additionally, many support policies were designed as universal (i.e., wage subsidies and fiscal exemptions), and all firms had equal access to the programs regardless of their political connection status.

I also examine the timing of receiving cash transfers. As many programs were implemented relatively quickly, targeting was not the primary concern due to the high cost of inaction, especially in the first few months of the pandemic. I find that political connections played an important role in allocating cash transfers during the first wave of the pandemic when there were no established formal rules or criteria for funding allocation. In subsequent periods, however, political connections appeared less important, as economic criteria (such as suffering a negative demand shock) played an increasingly bigger role.

Since political bias does not necessarily imply resource misallocation, I further study the value of political connections depending on firms' exposure to COVID-19 demand shock. As negative demand shock positively correlates with receiving all types of government support, it can be considered a main eligibility criterion for the programs [Cirera et al., 2021; Harasztosi et al., 2022]. The results from the model, with the interaction term between the firm's political connection and eligibility for the funding, show that political connections helped firms obtain cash transfers, especially when they were not eligible for such funding. Political connection is associated with a 7.2 percentage points higher propensity to get cash transfers among non-eligible firms, whereas the same effect is only 2.2 percentage points for eligible firms. Estimated probabilities also imply that political connections can fully compensate for the firms' non-eligibility status in receiving cash transfers. These results explain some of the earlier findings in the literature that many firms that did not experience any negative shock during the COVID-19 pandemic still received public funding, whereas the most affected firms

stayed without government support [Cirera et al., 2021].

Lastly, I exploit the country-level variation in distributing government cash transfers. Using different moderators, I find no significant evidence of heterogeneity in the value of political connections in different institutional contexts. The result is not unexpected, as political connections are shown to be valuable in different countries, regardless of the quality of institutions or the effectiveness of the government (Denmark - [Amore and Bennedsen, 2013], US - [Acemoglu et al., 2016; Goldman et al., 2013], South Korea - [Schoenherr, 2019], China - [Li et al., 2008], Pakistan - [Khwaja and Mian, 2005], Ecuador - [Brugués et al., 2020], Brazil - [Claessens et al., 2008]). Also, since the COVID-19 shock was unexpected and unprecedented in size and complexity, putting every country in the same position, governments worldwide implemented similar policies and faced similar challenges regarding the distribution of support programs.

The study makes several key contributions. First, the paper contributes to the political economy literature by studying the value of political connections in the most recent COVID-19 pandemic case. Compared to other papers in the literature that study politically connected firms in a single country and analyze a particular government program, the paper has several advantages. It looks at multiple support policies, allows time heterogeneity in receiving government support, and covers firms from a large set of countries, especially Central and Eastern Europe, which has not been studied yet in this context. Moreover, the paper focuses on allocating emergency funding rather than the well-studied public procurement contracts, which is an important extension of the political economy literature.

Next, the paper adds to the burgeoning literature on COVID Economics and provides a detailed analysis of the allocation of different COVID-19 support programs worldwide. While the previous studies are based on a single program (Paycheck Protection Program in the U.S. - Granja et al. [2020], Li and Strahan [2021], Barrios et al. [2020], Denes et al. [2021], wage subsidy in Danmark - Bennedsen et al. [2020], payroll tax cuts in China - Cui et al. [2020], public guarantee scheme in Italy - Core and Marco [2020]), this paper allows for comparison between programs and understand which firm-level characteristics matters the most for receiving which government program.

The paper is also policy-relevant. First, it documents the potential misallocation of public funding through political connections. Second, by studying the value of political connections in different support policies, the paper also helps to identify which programs are more likely to be affected by political considerations. Since political bias is only observed in distributing cash transfers and only in the first few months of the pandemic, this should motivate policymakers to design better support

policies to prevent such misallocation of public resources in the future.

The rest of the paper is structured as follows. Section 2 reviews the literature on political connections. Section 3 explains the context of the study and discusses different COVID-19 support policies worldwide. Section 4 describes the data and the model. Section 5 presents the main results, and Section 6 concludes.

2 Related Literature

The benefits of political connections are well documented in the political economy literature. We know from previous episodes that a firm's political connection plays an important role in securing government contracts [Baltrunaite, 2020; Brogaard et al., 2021; Brugués et al., 2020; Goldman et al., 2013; Schoenherr, 2019], receiving corporate bailouts [Faccio et al., 2006; Vukovic, 2021], having preferential access to external finance [Bussolo et al., 2021; Claessens et al., 2008; Khwaja and Mian, 2005; Li et al., 2008], and dealing with economic uncertainty [Acemoglu et al., 2016]. However, little is known about the value of political connections during the emergency events such as natural disasters, financial crises, or the most recent global pandemic when government support policies are critically important for firm survival and long-term economic recovery.

Vukovic [2021], Blau [2017], and Choi et al. [2021] study the 2008–2009 financial crisis and the allocation of government support policies in the U.S. All three papers document the existence of political bias in distributing government programs. Specifically, Vukovic [2021] find that among Troubled Asset Relief Program (TARP) recipients, firms that lobbied the government, donated to political campaigns, or whose top executives had direct connections to politics received better bailout deals. Similarly, Blau [2017] show that banks that were politically connected, either through lobbying or employment of politically connected individuals, were significantly more likely to participate in the Federal Reserve's emergency loan programs. And lastly, Choi et al. [2021] also show that firms with political connections to state legislators were 2.5 times more likely to secure a grant from American Recovery and Reinvestment Act (ARRA) program. Overall, if political connection matters in general, it matters even more in times of crisis and uncertainty. However, such political bias might have a detrimental effect on the overall effectiveness of the program. Choi et al. [2021] find that the job creation effect of fiscal stimulus is predominantly driven by non-connected firms. Thus, how the government support policies are allocated across firms is an essential precondition of

the success of the program.

The role of political connections during the most recent COVID-19 crisis is still relatively unexplored, and only a few studies emphasize this issue. For instance, Kubinec et al. [2020] collected the online survey data of business employees and managers in Ukraine, Egypt, and Venezuela and showed that a political connection is a way to get rid of government regulations and remain open during the COVID-19 pandemic. Businesses with political connections are significantly less likely to be shut down and to engage in social-distancing policies. On the other hand, Barrick et al. [2021] studied the role of different types of political connections on the allocation of government support programs in the U.S. Their results show that the odds of receiving governmental assistance were larger for firms with political influence, whether that happens through direct lobbying, PAC contributions, lobbying through a trade association or an invitation to testify in Congress. My paper is distinct from these studies in several ways. First, it covers a large set of firms from 30 different countries, allowing us to explore the variation in the value of political connections within and across countries. Second, the paper uses an implicit measure of political connection through revolving doors when former politicians are appointed to corporate positions. Third, I study the effect of political connections on multiple government support programs and observe the timing of receiving such support. And more importantly, the paper steps forward to study the effectiveness of government policies by investigating the allocating distortions in the process.

The paper also contributes to a growing literature on COVID economics based on The World Bank Enterprise Survey and its COVID follow-up rounds. In the majority of cases, previous papers focus on different firm characteristics and performance during the COVID-19 crisis (management practices and firm survival - Grover and Karplus [2021], productivity and firm exit - Muzi et al. [2021], web presence and firm survival - Wagner [2021], women-led businesses and firm closure - Liu et al. [2021], firms with favorable organizational resources (such as state ownership and affiliation with parent companies) and firm survival - Liu et al. [2021]), and less attention on the allocation of government support programs. The latter is the main focus of the paper, which provides another useful application of Enterprise Survey data.

3 COVID-19 Pandemic and Government Support

The spread of the coronavirus and the related containment measures imposed at the beginning of 2020 have triggered an unprecedented economic shock, led to a slowdown of economic activities, and caused severe financial problems for many firms worldwide. To mitigate the adverse economic impact of the COVID-19 pandemic, national governments implemented a series of programs to support the firms in need. Considering the size of the COVID-19 economic shock (the worst recession since the great depression in the 1930s), government support policies were also unprecedented in the amount of money devoted to business support. For instance, the U.S. government allocated over $700 billion for a Paycheck Protection Program to allow certain businesses to apply for low-interest private loans [Neilson et al., 2020]. Similarly, the Bank of England lent about £37 billion to 107 different companies and supported more than 200 businesses under the Covid Corporate Financing Facility program [Kulam, 2022]. The European Investment Bank Group also set up the €24.4 billion European Guarantee Fund (EGF) to help businesses get back on track after the COVID shock and support innovation and transformation. The EGF is only part of the €540 billion E.U. recovery package agreed upon in 2020 by European leaders. It is still an early stage to evaluate the overall effectiveness of these programs; however, the previous episodes demonstrate that the impact of fiscal stimulus is not only determined by how much is spent but also by how the funding is distributed across recipients [Choi et al., 2021].

There has been a growing body of literature on the distribution of COVID-19 support programs across firms. For instance, Neilson et al. [2020] showed that the information friction and the "first-come, first-served" design of the Paycheck Protection Program (PPP) in the U.S. skewed its resources towards larger firms and reduced its effectiveness. They also found that the small businesses were less aware of the PPP's existence and less likely to apply. Guerrero et al. [2021] showed similar findings in Latin American countries. Small and informal firms were less aware of government programs, applied less, and received less assistance. Thus, information friction and informality are important impediments for small firms accessing government support.

Other papers also emphasize the role of commercial banks in distributing government policies. Granja et al. [2020], Li and Strahan [2021], and Amiram and Rabetti [2020] in the U.S. and Core and Marco [2020] in Italy find that the preexisting relationship between banks and borrowers matters for the allocation of public guaranteed credit. Their findings suggest that banks favor their preexisting

clients by giving them significantly larger loans and faster approvals.

Productivity is another determinant correlated with funding allocation. The evidence from Portuguese firms suggests that highly productive firms are more likely to remain open, less likely to cut employment, and make less use of government support [Kozeniauskas et al., 2020]. The same results are observed among Japanese firms. Morikawa [2021] found that firms that received support had lower productivity prior to the pandemic, suggesting that inefficient firms have been severely affected by the COVID-19 shock. Moreover, also in Japan, Hoshi et al. [2021] found that less efficient firms are more likely to apply for and receive subsidies and concessional loans, even after controlling for the negative sales shock during the pandemic.

Using the large-scale survey data covering more than 120,000 firms in 60 countries, Cirera et al. [2021] document that the support measures mainly focused on firms reporting larger sales drops. However, there still exist cases of misallocation. Specifically, firms that did not experience a negative shock still benefited from government policies, whereas firms that experienced large negative shocks did not have access to government support. Despite the growing literature on firm characteristics and the allocation of government support programs, the exact mechanism of why some firms had privileged access to government programs, and others did not need to be explored further.

3.1 COVID-19 Follow-up Survey

Studying the allocation of government support policies from different countries is complicated due to the variety of instruments they use as well as the different objectives those policies have. However, in their COVID-19 Follow-up Enterprise Survey (CFES), the World Bank identified the most widely used support measures (such as (1) Cash transfers for business, (2) Deferral of credit payments, rent or mortgage, suspension of interest payments, (3) Access to new credit, (4) Fiscal exemptions or reductions, and (5) Wage subsidies) and asked the representative sample of firms from 30 countries whether they received any of the government support during the pandemic.

The distribution of government support by country is in Table 1. Overall, 46.3% of firms reported receiving national or local government support in response to the COVID-19 crisis. However, the distribution is heterogeneous across countries. The highest take-up rate is in Serbia (84%), Slovenia (78%), and Malta (77%), and the lowest in Belarus (5%) and Moldova (8%). It is consistent with the argument that more developed countries devoted more funding to business support than less developed ones Cirera et al. [2021].

Table 1: Distribution of Government Support Programs Across Country

	Government Support	Cash Transfer	Defferal of credit Payment	Access to New Credit	Fiscal Exemption	Wage Subsidy	# of Government support
Albania	39%	4%	9%	10%	3%	33%	0.585
Azerbaijan	63%	13%	5%	6%	13%	46%	0.830
Belarus	5%	0%	3%	0%	1%	1%	0.047
Bosnia and Herzogovina	52%	12%	4%	0%	1%	47%	0.645
Bulgaria	30%	28%	3%	1%	4%	25%	0.578
Croatia	67%	11%	12%	6%	19%	64%	1.092
Cyprus	72%	26%	16%	5%	18%	69%	1.302
Czech Republic	69%	39%	9%	4%	10%	47%	1.017
Estonia	45%	1%	7%	1%	5%	42%	0.567
Georgia	53%	6%	26%	4%	31%	24%	0.810
Greece	77%	29%	47%	25%	62%	61%	2.059
Hungary	44%	8%	10%	6%	15%	39%	0.725
Italy	69%	43%	26%	18%	17%	50%	1.346
Jordan	34%	0%	2%	4%	7%	24%	0.364
Kazakhstan	13%	1%	2%	3%	8%	0%	0.141
Latvia	24%	12%	5%	4%	10%	21%	0.473
Lithuania	68%	45%	13%	7%	3%	61%	1.220
Malta	77%	13%	36%	10%	20%	75%	1.484
Moldova	9%	1%	2%	1%	3%	2%	0.091
Mongolia	29%	13%	15%	11%	21%	17%	0.759
Montenegro	53%	2%	17%	5%	13%	50%	0.874
Morocco	47%	22%	22%	7%	28%	43%	1.119
North Macedonia	47%	5%	10%	11%	0%	43%	0.679
Poland	70%	52%	33%	23%	37%	46%	1.853
Portugal	50%	33%	13%	17%	11%	35%	1.022
Romania	46%	7%	12%	11%	13%	36%	0.756
Russia	10%	1%	6%	2%	7%	3%	0.186
Serbia	84%	7%	28%	10%	41%	79%	1.636
Slovakia	65%	22%	9%	7%	8%	61%	1.014
Slovenia	78%	6%	8%	5%	12%	73%	1.026
Total	46%	17%	14%	8%	16%	36%	0.873

Notes: Authors own calculation based on the COVID-19 Follow-up Enterprise Survey data.

In terms of the distribution of each government policy, we observe that the most frequently used government support is wage subsidy (36% of take-up rate), followed by cash transfers (17%), fiscal exemptions (16%), deferral of credit Payment (14%), and access to new credit (8%). Also, not all policies are equally used in different countries. For instance, 52% of sampled firms in Poland received cash transfers, whereas this policy had not been used in Belarus and Jordan. Similarly, the highest take-up rate in accessing new credit is observed in Greece (25% of firms), whereas none of the firms from Belarus and Bosnia and Herzegovina received that support. On an intensive margin, Greek firms received the most support policies, on average, two different support measures, followed by Poland (1.8 different programs), Serbia (1.6), and Italy (1.3). Firms from Belarus received the least support.

4 Data and Model

4.1 Data

For the empirical analysis, the paper relies on two main datasets. The first data set is the sixth round of the Business Environment and Enterprise Performance Survey (BEEPS VI), collected jointly by the EBRD, The World Bank, and EIB in 2018-19. The BEEPS is a nationally representative survey of formal firms with at least five employees in manufacturing or service industries. Because of the common sampling methodology and standardized survey instruments, the data is fully comparable across countries. The latest version of BEEPS covers almost 28,000 enterprises in 41 economies of the EU, Eastern Europe, Central Asia and the Middle East, and North Africa. The survey collects information about a large set of firms' characteristics, their financial performance, as well as their relationship with the government, including their political connection status. The fact that the BEEPS VI was completed in 2018-2019, right before the start of the COVID-19 pandemic, it can be used as a baseline survey.

The second dataset is the COVID-19 Follow-up Enterprise Survey (CFES), conducted up to three times during the COVID-19 pandemic. The CFES provides detailed information on the impact of the COVID-19 pandemic on firms' performance, layoffs, expectations, and access to government support policies. For the purpose of the paper, the most important questions are firms' exposure to COVID-19 shock and the use of government support policies. One of the advantages of CFES is that it uses the same sample of firms as BEEPS VI, which allows for merging these two datasets and observing the same firms before and after the start of the pandemic.

Among the 41 countries in the BEEPS VI sample, the CFES has been conducted only in 30 countries (when writing the paper), automatically reducing our baseline sample to 17,252 firms. After merging these two datasets and keeping the firms that are interviewed at least once during the COVID follow-up survey and the information is available for all dependent and independent variables, I ended up 11,853 firm observations[2].Due to the high response rate in the COVID follow-up survey, there is no systematic response bias in our combined data, compared to the BEEPS VI, neither in terms of firm size nor industry composition[3]. Since the BEEPS VI survey was designed

[2]The response rate in CFES is 87% which means that 14,966 firms out of 17,252 participated in at least one follow-up survey round. Also, 41.8% percent of firms responded to all three waves of the follow-up survey, 23.1% of firms were surveyed twice, and 35.1% of firms answered the survey only once. A detailed distribution of firms across countries and the COVID survey round is in Table 2 and Table 3.

[3]see the Table 4 in Annex for a detailed industry distribution

to be representative at the country level, the combined data should also satisfy the same property.

4.2 Variables and Model

The paper uses the following identification strategy to study the relationship between a firm's political connection and the propensity to receive government support. First, since the COVID-19 shock was unexpected and the information about political connections was observed just before the shock, firms could not adjust their political connection status to receive COVID-19 support programs, which rules out the possibility of potential reverse causality or selection on the outcome (ex-ante selection). Also, it is reasonable to assume that firms could not change their political connection right after the start of the pandemic because of a relatively short period to act (ex-post selection). Second, the richness of the data allows controlling for a large set of pre-pandemic firm-level factors that ensures comparing firms with similar characteristics and minimizing the risk of potential unobserved confounders. Considering the research design and the saturated model I estimated in the paper, results can be interpreted as causal and are unlikely to be affected by observed or unobserved confounding factors.

I use the different sets of dependent variables to study the intensive and extensive margins of receiving government support and differentiate between different support programs. First, in the main specification, the dependent variable ($POLICY$) is a dummy variable that combines information from all government support programs and measures whether or not a firm received government support during the pandemic. Second, I study each program individually - the outcome variable varies across programs. All variables are dummy variables and measure whether a firm received (1) a cash transfer for a business, (2) a deferral of credit payments, utility bills, rent or mortgage, suspension of interest payments, (3) a new credit, (4) a tax reduction, or (5) a wage subsidy. Lastly, as firms could take multiple government support programs, I also studied the intensive margin of the relationship by counting the number of different support programs the firm received.

The main independent variable is the firm's political connection status ($CONNECTED$). A firm is considered politically connected if it has an owner/CEO/top manager/board member who was previously elected or appointed to a political position. The information about political connections is observed right before the pandemic and comes from the BEEPS VI survey. Although political connection through revolving doors is widely used in the empirical political economy literature

[Bertrand et al., 2018; Faccio, 2006; Faccio et al., 2006; Khwaja and Mian, 2005], it is still possible that such measure only covers a few aspects of political connections. Some of the earlier papers propose much broader definitions for political connections, namely through family relations [Amore and Bennedsen, 2013; Fisman, 2008], through university cohort network [Schoenherr, 2019] through campaign contributions [Claessens et al., 2008]. Since I do not observe the other types of political connections, the value of political connections in this paper can be understood as a lower bound.

As firms are not randomly selected in political connections and politically connected and non-connected firms might be different in other firms characteristics (see Table 7), the model also includes a large set of firm-specific control variables. Firm size, firm age, and manager's experience are expected to be positively correlated with receiving government support. Large and older firms (managers) are more experienced in dealing with such uncertainty and, therefore, have a better chance of obtaining government support. Government-owned firms are also more likely to receive support because of their direct ties with the government. Controlling government ownership also ensures that the value of political connections comes directly from the revolving doors or political appointments and not from government ownership itself.

The model also includes firms' innovation and export activities, which controls for the firm's pre-pandemic productivity level. There is empirical evidence that less productive firms are more likely to receive government support [Hoshi et al., 2021; Kozeniauskas et al., 2020; Morikawa, 2021]; however, productive firms are usually better informed and more capable of dealing with government policies and regulations, which increase their propensity to apply for and receive government support. On the other hand, governments might also prefer helping productive firms to enhance the overall effectiveness of the support program. I also control for having a female top manager. Liu et al. [2021] documented that women-led businesses were subject to a higher likelihood of closure during the pandemic, and therefore, COVID-19 policy measures should not be gender-neutral. Also, firms in the capital city can be better informed about government support and more likely to obtain it. In addition, I include membership in business associations and securing government contracts during the pre-pandemic period in the model as alternative ways of building political connections and accessing government bureaucrats. All these variables discussed above correlate with firms' political connection status and access to government support policies and play an important role in the identification strategy in minimizing the risk of potential unobserved confounders. Table 6 and Table 5 show a detailed description of the variables and summary statistics.

Notably, the model also includes the firm-level COVID-19 shock variable. Although many government support programs did not have formal requirements and clear targeting, exposure to the COVID-19 shock has been considered the main eligibility criterion [Cirera et al., 2021]. By controlling for the exposure to COVID-19 shock, the results show the firms' choice and ability to access government funding rather than the eligibility itself. In the CFES, I observe different measures for the COVID-19 shock, such as demand shock, supply shock, and sales shock. A demand shock measures whether the demand for a firm's products and services increased, decreased, or remained unchanged during the pandemic. Similarly, supply shock measures how firms' supply of inputs, raw materials, and finished goods changed compared to the same month in 2019. Lastly, the survey also collects information on the changes in sales during the COVID-19 pandemic. The firms report whether the sales increased or decreased during the pandemic and by how much. The main analysis relies on the demand shock variable because of its exogenous nature. However, I also use the supply shock and the changes in sales as alternative measures for robustness check purposes.

The model also accounts for country and industry differences in the allocation of government support programs by including the corresponding fixed effects in the model[4]. Countries are heterogeneous in their ability to respond to the COVID-19 pandemic and to provide support policies (see Table 1). Access to support programs was lower in countries with limited COVID-19 support funding. There is also empirical evidence supporting the hypothesis that the probability of receiving public support increases along with the countries' income status [Cirera et al., 2021]. Similarly, the COVID-19 pandemic affected different sectors in different ways; therefore, the allocation of government funds is biased towards the most affected industries Harasztosi et al. [2022]. Lastly, since the firms were surveyed at different points in time, depending on which CFES they participated in, and the access to government funding might vary over time, I added survey time fixed effects in the model[5].

More formally, the empirical model has the following specification:

$$POLICY_{i,t_1} = \delta_0 + \delta_1 \times POL\_CONNECTion_{i,t_0} + \delta_3 \times X_{i,t_0} + SHOCK_{i,t_1} + \gamma_c + \rho_s + \theta_t + \epsilon_{i,t_1}$$

[4]There are 30 countries in the sample and 27 industry groups based on the ISIC classification Revision 3.1 at level 1 (one-letter alpha code) and level 2 (two-digit code) where possible.

[5]For each Firm, the time fixed effect is defined as the date when the firm was interviewed last time in the CFES. For instance, I use the first interview date if the firm is interviewed only once. Alternatively, if the firm is interviewed twice, I use the second interview date as a corresponding time-fixed effect. The same applies to the case when the firm is interviewed three times - the date of the third follow-up survey round is used as a fixed effect

Where $POLICY_{i,t_1}$ is a dummy variable measuring whether a firm obtained government support during the pandemic. $POL\_CONNECTION_{i,t_0}$ measures a firm's political connection status. X_{i,t_0} is the vector of all other firm-level control variables described above. $SHOCK_{i,t_1}$ is a proxy for COVID-19 related demand shock. The time indicator in the model shows when the data is collected and from which survey it comes. For instance, the t_0 subscript indicates that the data is collected before the COVID-19 pandemic and comes from the BEEPS VI survey. In the same way, t_1 indicates the period after the pandemic and combines information from all three waves of the CFES. The model also includes country (γ_c), industry (ρ_s), and survey time (θ_t) fixed effects. I also use country x industry and country x industry x survey time fixed effects in some specifications. Standard errors are clustered at the country level. All models are estimated as linear probability models (due to the simplicity of interpreting the results); however, the results from the non-linear logit model are also presented in the Annex for robustness check purposes.

5 Empirical Findings

5.1 Baseline Results

The empirical results of the baseline model are reported in Table 8. Different columns are based on different dependent variables. Column (1) shows the results when receiving any type of government support is used as a dependent variable, Column (2) uses Cash transfers, Column (3) - Credit payment deferral, Column (4) - Access to new credit; Column (5) - Fiscal exemption, and Column (6) - Wage subsidy. First, in column (1), the coefficient for political connection is almost zero and statistically insignificant, meaning that political connections do not contribute much to receiving government support. However, the results are heterogeneous when studying each program separately. The value of political connections is the largest and statistically significant in distributing cash transfers, whereas it is indistinguishable from zero in any other program. The results show that politically connected firms have 3.6 percentage points higher probability of receiving cash transfers than similar firms without such political connections.

Some distinctive characteristics of the cash transfer program may explain this result. First, cash is the most liquid asset and, therefore, the most desirable policy tool for liquidity-constrained firms during an economic crisis. Second, compared to the other policy instruments, such as deferral of credit payments, rollover of debt, and access to new credit, cash transfers are unconditional and do

not require repayment or other corresponding costs. Also, cash transfers do not come with specific purposes, and firms are free to use the money based on their needs and preferences. Lastly, in many countries, cash subsidies are administered by bureaucrats themselves, which gives government officials the discretionary power to distribute public money according to their own interests. As a comparison, support policies such as access to new credits and deferral of credit payments are managed by commercial banks and other intermediaries. Therefore, the role of political bias is rather limited. Thus, considering both the demand and the supply aspects of this relationship, the baseline results are consistent with the idea that politically connected firms use their advantageous position to ask for the preferred policy, and government officials can distribute this support program to their politically connected firms.

As expected, the demand shock variable is statistically significant across all specifications. Firms that experienced a negative demand shock during the COVID-19 pandemic were always more likely to receive government support than those with positive demand shock. Such results indicate that the support programs targeted the most vulnerable firms. However, the fact that other firm-level characteristics, including a political connection, are also statistically significant shows that the demand shock was not the only determinant of aid allocation, which raises questions related to favoritism and misallocation of government resources. The results of other control variables are mixed. No variable is statistically significant in all models. However, some variables remain consistent in different specifications. For instance, in most cases, the coefficient for business association membership is positive and statistically significant, indicating the importance of information advantage and a lobbying function of business associations.

I further look at the intensive margin of the relationship. The dependent variable is the number of different government support programs a firm obtained during the pandemic. All independent variables are the same as in the base model. Table 9 provides the results from both the linear and the count data models. Results show that a firm's political connection status positively correlates with the number of government support programs; however, the coefficients are not statistically significant. As there are five different government programs in total and political connection only affects the distribution of cash transfers, it is expected that political connection does not significantly affect the overall distribution of government support.

5.2 Timing of Cash Transfers

Since political connections play a significant role in distributing cash transfers, in the subsequent sections, I explore the different margins of this relationship. First, I start with the timing of receiving government funding. A recent study by Denes et al. [2021] finds that the firms receiving PPP loans later become more financially distressed, registering lower economic activity and shutting down. These findings emphasize the importance of timely fiscal support during crises; firms facing negative economic shocks prefer receiving government support sooner rather than later. However, the quick distribution of government support policies comes with administrative difficulties. Many have highlighted already that, during the first few months of implementing COVID-19 support programs, there were problems with mistargeting because of missing the formal rules and requirements to define which firms were eligible for funding. This might have triggered corruption and political favoritism and created opportunities for political actors to distribute the public money to their own interests.

I did the following empirical exercise to study the importance of political connections in different periods during the pandemic. I rely on the different waves of the CFES to observe firms' access to cash transfers in different survey periods. For instance, Period 1 is the time between the start of the pandemic and the first wave of CFES. In the majority of cases, this covers the period between March 2020 and October 2020, with some exceptions (such as Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Montenegro, and Serbia, where the first follow-up survey was conducted relatively late and therefore covers a much longer period, as shown in Table 3). The first wave of the follow-up survey studies whether firms have obtained cash transfers since the start of the COVID-19 pandemic (*COVf2a*). Period 2 is the time between the first and the second follow-up surveys (in most cases, November 2020 - February 2021). Firms in the second wave were asked whether they had obtained cash transfers since wave 1 (*COV2f2a*). This question was only asked to firms surveyed in the first wave. It, therefore, restricts the sample for firms interviewed in both waves. Lastly, Period 3 covers the time between the second and the third waves (April 2021 - August 2021). As in the previous case, firms reported their access to cash transfers between these two periods (*COV3f2a*). I run separate regressions for three follow-up survey periods; the dependent variables are based on the survey questions mentioned above[6].

[6]In other specifications, I use the actual time periods instead of survey periods. Thus, Period 1 covers the firms interviewed between March 2020 and October 2020 during the first COVID follow-up survey. Similarly, Period 2 includes the firms interviewed between November 2020 and February 2021 in the second COVID follow-up survey. Period 3 is the same in both definitions. It covers the period between April 2021 and August 2021. The results are in Table 16.

Table 10 shows the results. Two interesting observations can be made in Column (1), which covers Period 1. First, the coefficient for a firm's political connection is positive and statistically significant. Second, the negative demand shock is not significant anymore. These results confirm the hypothesis that, during Period 1, the political motives of funding allocation were more prominent than the economic ones. Therefore, cash transfers that should have targeted the most affected firms were allocated according to other rules and criteria, including firms' political connection status.

In contrast, in Column (2) and Column (3), the economic determinants of funding allocation become significant, and the political ones stop being statistically relevant. In Periods 2 and 3, the coefficient for the negative demand shock is positive and statistically significant, while the effect of political connections becomes non-distinguishable from zero. Two factors can explain these findings. Either politically connected firms used their political power to get cash transfers earlier in Period 1 (therefore becoming less demanding in later periods), or the targeting of support programs improved over time (with better rules and requirements), and political actors became less flexible in allocating relief money to their political interests.

5.3 Eligibility and Cash Transfers

Political bias in distributing government support policies can harm economic recovery if it creates misallocation and redistributes government resources to firms that are not eligible for funding. To study the allocative efficiency of government relief programs, I estimate the value of political connection at different margins of a firm's eligibility for funding. In terms of non-eligibility/eligibility[7], I used the same demand shock variable as in the main model but converted it to a dummy variable. Specifically, a firm is considered non-eligible (=1) if the demand for its products and services increased or did not change during the pandemic and eligible (=0) if the demand decreased.

Results are in Table 11. The interaction term is positive and statistically significant, meaning that firms that are non-eligible for government support but have political connections have a higher probability of getting cash transfers than non-eligible firms without such connections. Another interpretation is that a political connection is more valuable among non-eligible firms. In terms of magnitude, I calculated the probability of obtaining cash transfers at different margins of political connection and non-eligibility status. Table 12 shows the results. Political connections help non-eligible firms to get access to cash transfers (0.196-0.124=0.072 (7.2 percentage points)), while the

[7]Using a non-eligibility dummy instead of eligibility comes from convenience reasons only.

same effect is relatively small (only 2.2 percentage points) for eligible firms. Thus, political connections are not necessary to receive cash transfers when the firms are eligible for the funding - the value of political connections is small. The opposite is true for non-eligible firms; in this case, political connections can be the only way to access government support. For comparison, the probability of receiving cash transfers for politically connected but non-eligible firms (Pr(cash | political connection = 1, Non-eligible = 1)) is 0.196, while the same probability for non-politically connected but eligible firms (Pr(cash | political connection = 0, Non-eligible = 0)) is 0.186. This indicates that a political connection fully compensates for a firm's non-eligibility status and guarantees the same probability of receiving cash transfers as their eligible counterparts.

5.4 Political Connection and Country Heterogeneity

Lastly, I also study the value of political connections in different institutional settings. Earlier studies have shown that political connection is widespread and equally observed in both developed and developing countries. For instance, Fisman [2001] studied the value of political connections in Indonesia, [Khwaja and Mian, 2005] in Pakistan, Goldman et al. [2013] and Acemoglu et al. [2016] in the US, [Amore and Bennedsen, 2013] in Denmark, [Schoenherr, 2019] in Korea and [Li et al., 2008] in China, to name a few. However, these studies are country-specific and do not allow for comparisons across institutions. Since the data in this paper covers the firms from a large set of countries, it allows for studying the country-level variations in the value of political connections. Specifically, I study whether politically connected firms in different institutions have the same advantage in receiving cash transfers.

To test this relationship, I use the interaction term between the firms' political connection status and the countries' institutional characteristics, such as the democracy/autocracy scale from the POLITY5 project, voice and accountability, government effectiveness, and regulatory quality from the World Governance Indicators project. Results of the model with interaction terms are shown in Table 13. Neither of the interaction terms is statistically significant, meaning that the value of political connections does not seem to differ significantly across different institutional settings. One potential explanation for this finding is that our sample covers countries with relatively similar institutional characteristics. Another reason for the homogeneity of the results could be that the unexpected and unprecedented COVID-19 shock put every country in a similar economic condition. Governments, therefore, implemented similar policies against the COVID-19 shock and faced similar

challenges during the policy implementation stage.

5.5 Robustness checks and Sensitivity Analysis

I conducted further checks and performed a sensitivity analysis for the main findings. Column (1)-(2) in Table 14 shows the results when the model includes country x industry and country x industry x survey time fixed effects. The coefficient for political connection remains consistent in magnitude and significance. Column (3), standard errors are clustered at country x industry level. The results are identical to the main findings.

Models (4)-(7) use different measures for the COVID-19 shock. In column (4), I replaced demand shock with supply shock; in Column (5), both demand and supply shocks are included in the model; in column (6), I used sales shock, which is a categorical variable and measures whether a firm experienced positive, negative, or no sales shock during the pandemic; in column (7), changes in sales are used instead. The coefficient for political connections does not change much. Consistent with the main findings, the COVID-19 shock variables are always significant, meaning that firms that experienced negative supply or sales shocks are always more likely to get cash transfers than firms that weren't exposed to such shocks.

As the linear probability model might bias the results when estimating the model with a dummy dependent variable, I also fit the non-linear logit model for more accurate results. The corresponding marginal effects are in column (8). Qualitatively the results are similar to column (2) in Table 8; however, the coefficient for political connection is now higher in magnitude, and the model fit improves.

Lastly, I use some non-parametric matching estimates to further check the validity of the initial results. Table 15 summarizes all these findings. The results from Covariate Matching and Propensity Score Matching (PSM) provide much larger estimates than the main result. At the same time, Inverse Probability Weighting (IPW), Inverse Probability Weighted Regression Adjustment (IPWRA), and Entropy Balance provide results very close to the initial findings. The political connection is positive and statistically significant in all specifications, supporting our baseline results.

6 Discussion and Conclusion

The paper addresses some of the key questions in the political economy literature. Specifically, how the political connections affect the distribution of public money and whether it leads to resource misallocation and inefficiency. This topic is especially relevant during the current economic downturn caused by the COVID-19 pandemic when the role of the government's re-distributive politics is critically important. The political bias in distributing relief money might affect the economic recovery, likely making it slower, less efficient, and more difficult.

Compared to the standard findings in the literature that political connections play a significant role in accessing government resources, the paper finds no evidence of political bias in distributing COVID-19 support policies either in intensive or extensive margins. To provide further insights and identify the mechanism behind the allocation of government support, the paper studies each support program individually. The regression results show that political connections matter only for cash transfers, whereas the effect is muted for any other programs, such as deferral of credit payment, access to new credit, tax reduction, and wage subsidy. These findings can be explained by the unique features of the direct cash transfer program, which make it the most desirable policy tool against the negative COVID-19 shock. It also allows government officials to use their discretionary power to allocate relief money according to their political interests. Compared to other policy measures, cash transfers ease a firm's liquidity constraints; they are unconditional, do not require repayment or other corresponding costs, and are free to use depending on a firm's needs and preferences. Thus, by studying the heterogeneous effect of political connections in receiving different government programs, this paper enriches political economy literature, which usually concentrates on a specific program and does not allow for such a comparison.

The other contribution of the paper emerges from studying the timing of receiving government support. Earlier works estimate the average value of political connections and do not differentiate the effect over time. The results in the paper indicate that political connections provide better access to cash transfer programs only during the first few months of the COVID-19 pandemic. In contrast, the value of political connections is insignificant afterward. Thus, having political connections ensures faster access to government programs, which can be explained by the information advantage that politically connected firms might have or the fact that, during the start of the COVID-19 pandemic, there were no formal rules or requirements for distributing relief money. The latter

may incentivize the opportunistic behavior of politically connected firms and, consequently, trigger resource misallocation and political distribution of government resources. It has important policy implications, particularly how well-defined rules and regulations can avoid corruption and political bias in allocating public money.

To better develop the argument of political misallocation, I study the value of political connections in two groups: (1) firms that were eligible for government support and (2) those that were not. The results indicate that political connections helped non-eligible firms to obtain cash transfers, and political bias was more pronounced among non-eligible firms. Political connections compensate for the firms' non-eligibility status and give them the same propensity to receive cash transfers as their eligible counterparts.

This finding is one of the first indicative evidence of the allocative inefficiency of government support programs during the COVID-19 pandemic. Previous studies only explore some of the firm characteristics related to the funding allocation; however, none further explore the potential distortions in the process. Since it is difficult to study the overall effectiveness of support programs due to the relatively short time passed after the treatment, however, the distortions in the distribution stage can significantly affect the overall effectiveness of these programs.

The paper also adds a comparative aspect to the political economy literature by studying political connections in different institutional contexts. The results provide no significant evidence of heterogeneity in the value of political connections; political bias is observed with the same intensity in all sampled countries. To better understand the institutional context and country-level comparisons, future studies should collect the data from a larger sample of countries with more diverse institutional characteristics to get better insights.

The paper does not come without limitations. Although I use the exogenous nature of the COVID-19 shock and leverage that BEEPS VI and COVID-19 Follow-up Enterprise Survey were conducted just before and after the COVID-19 shock, more can be done to improve the current setting and estimate the causal impact. The firm's political connection status is not exogenously given, and some unobserved confounders might affect the results. However, the paper uses the large set of firm-level controls observed right before the start of the COVID-19 pandemic, which ensures that if the bias still exists, it is minimal and does not significantly alter the results.

Furthermore, future studies would benefit from observing the type of political connections (high or low-rank political ties) and the party affiliation of politically connected firms. Due to data

restrictions, a detailed analysis was not possible in the present study. Yet, it would be interesting to know whether all types of political connections matter for receiving government support or only the higher-level political connections, as in the Greensill case involving former UK Prime Minister David Cameron. Finally, to quantify the economic losses associated with funding misallocation, it is important to know the actual volume of cash transfers that politically connected firms received and to observe the future performance of these firms after a meaningful period of time. If future studies address some of the issues discussed here, it will help us to better understand how the political connection mechanism works and evaluate the effectiveness of government support policies during the COVID-19 pandemic.

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Table 2: Distribution of Firms across Country and COVID Follow-up Round

Country	BEEPS VI	COVID Round 1	COVID Round 2	COVID Round 3	Final Sample
Albania	377	347			347
Azerbaijan	225	105			105
Belarus	600	551			551
Bosnia and Herzegovina	362	241			241
Bulgaria	772	559	541	545	673
Croatia	404	351	336	336	381
Cyprus	240	171	177	186	219
Czech Republic	502	405	402	446	482
Estonia	360	272	296	266	340
Georgia	581	514	493		550
Greece	600	532	545	551	582
Hungary	805	630	647	670	746
Italy	760	453	473	466	581
Jordan	601	564	514	448	570
Kazakhstan	1,446	871			871
Latvia	359	244	266	180	344
Lithuania	358	214	234	246	311
Malta	242	196	196	192	228
Moldova	360	286	283	254	325
Mongolia	360	314	323		329
Montenegro	150	138			138
Morocco	661	518	492	491	623
North Macedonia	360	292	360		360
Poland	1,369	1,005	1031	999	1,195
Portugal	1,062	820	822	892	963
Romania	814	532	485	526	680
Russia	1,323	1,191			1,191
Serbia	361	318			318
Slovak Republic	429	338	305	328	371
Slovenia	409	249	252	221	351

Notes: BEEPS VI column shows the number of companies interviewed in the BEEPS VI survey in each country. Original BEEPS VI covers 41 countries but I focus only on 30 countries in which the corresponding COVID follow-up survey was conducted at least once. Therefore, countries like Armenia, Egypt, Kosovo, Kyrgyz Republic, Tajikistan, Tunisia, Turkey, Ukraine, Uzbekistan, West Bank and Gaza, and Lebanon are excluded from the sample. In some countries, follow-up surveys were conducted only once, but in the majority of cases twice or three times. The last column shows the final sample of firms by country. These are the firms that participated in the COVID follow-up survey at least once.

Table 3: Distribution of Firms across Country and Survey Date

	2020								2021							
	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug
Albania		347														
Azerbaijan												57	48			
Belarus				551												
Bosnia and Herzegovina										154	87					
Bulgaria			358	180	21		297	244				437	108			
Croatia					351			1	335				302	34		
Cyprus		171					104	73				186				
Czech Republic					255	150			237	165			227	219		
Estonia						272				296					6	260
Georgia		514				236	257									
Greece		527	5				545					474	77			
Hungary					630				355	292			196	474		
Italy	95	358					401	72				349	117			
Jordan			456	108			1	402	111					433	15	
Kazakhstan									114	535	222					
Latvia						233	11			266					121	59
Lithuania						214				234					182	64
Malta					110	86			196				177	15		
Moldova	286					137	146						216	38		
Mongolia				314						323						
Montenegro										138						
Morocco			212	306						492			28	463		
North Macedonia						278	14						296	64		
Poland			56	949			802	229					819	180		
Portugal					698	122			495	327			354	538		
Romania				276	256		103	382					381	143		
Russia		1191														
Serbia										318						
Slovak Republic					193	145			189	116			210	118		
Slovenia			238	11			183	69					170	51		

Notes: The table shows the heterogeneity in timing when firms are interviewed in the follow-up survey. The red color indicates the first round of follow-up survey, yellow - second, and blue - third. In the majority of countries the first follow-up round was completed in October 2020 with some exceptions. The second round was conducted in the period between November 2020 - February 2021. And, the third wave - after April 2021.

Table 4: Distribution of Firms by Industry

	# of Firms	share (%)
Retail	2,142	18.07
Food	1,523	12.85
Fabricated metal products	954	8.05
Construction	942	7.95
Wholesale	907	7.65
Machinery and equipment	749	6.32
Garments	597	5.04
Hotel and restaurants	559	4.72
Transport	486	4.1
Non metallic mineral products	384	3.24
Furniture	338	2.85
Plastics & rubber	334	2.82
Services of motor vehicles	303	2.56
Wood	232	1.96
IT	225	1.9
Textiles	200	1.69
Publishing, printing, and Recorded media	183	1.54
Chemicals	159	1.34
Electronics	152	1.28
Basic metals	100	0.84
Transport machines	92	0.78
Paper	91	0.77
Leather	84	0.71
Precision instruments	64	0.54
Recycling	36	0.3
Refined petroleum product	14	0.12
Tobacco	3	0.03
Total	11853	

Table 5: Variable Definition

Variable	Definition
Policy	Since the outbreak of COVID-19 pandemic, has this establishment received any national or local government support in response to the crisis? Did any of these measures involve any of the following: - Cash transfers for businesses - Deferral of credit payments, utility bills, rent or mortgage, suspension of interest payments, or rollover of debt - Access to new credit - Tax reductions or tax deferrals - Wage Subsidies
Political Connection	=1 if the firm has Owner/CEO/Top Manager/Board Member which has ever been elected/appointed to a political position, =0 otherwise
Demand Shock	=1 if the demand for this firm's products and services increased compared to the same month in 2019, =2 demand did not change, =3 demand decreased
Supply Shock	=1 if the firm's supply of inputs, raw materials, or finished goods and materials purchased to resell increased compared to the same month in 2019, =2 supply did not change, =3 supply decreased
Sales Shock	=1 if the firm's sales increased compared to the same month in 2019, =2 sales did not change, =3 sales decreased
Change in Sales	By what percentage did the sales increase or decrease
Firm Size	The average number of permanent, full-time employees in the last fiscal year [mostly 2018] and 3 years ago, measured in logs
Firm Age	The number of year since the firm began operations (or formally registered), measured in logs
Foreign Owned	=1 if at least 10% of the company is owned by private foreign individuals, companies or organizations, =0 otherwise
Government Owned	=1 if the part of the firm is owned by Government/State, =0 otherwise
Business Association	=1 if the firm is part of a business membership organization/trade association/Etc., =0 otherwise
Product Innovation	=1 if the firm has introduced new products/services introduced over the last three years, =0 otherwise
Government Contract	=1 if the firm secured government contract in the last 12 month, =0 otherwise
Exporter	=1 if the firm exports directly, =0 otherwise
Manager Experience	The number of years of experience working in this sector the top manager has, measured in logs
Female Manager	=1 if the the top manager of the firm is female, =0 otherwise
Capital City	=1 if the firm is located in a capital city, =0 otherwise
Democracy	a measure of democracy from Polity5 project
Autocracy	a measure of autocracy from Polity5 project
Voice & Accountability	the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. It comes from the World Governance indicators
Government Effectiveness	the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. It comes from the World Governance indicators
Regulatory Quality	the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. It comes from the World Governance indicators

Table 6: Descriptive Statistics

	Obs.	Mean	Std. Deviation	Min.	Max.
Policy					
Government support	11853	0.41	0.49	0	1
Cash transfer	11853	0.15	0.35	0	1
Credit payment deferral	11853	0.12	0.33	0	1
Access to new credit	11853	0.075	0.26	0	1
Fiscal exemption	11853	0.13	0.34	0	1
Wage subsidy	11853	0.32	0.47	0	1
Total support	11853	0.80	1.21	0	5
Firm characteristics					
Political Connection	11853	0.049	0.22	0	1
Firm Size	11853	20.52	15.54	1	205
Firm Size (ln)	11853	3.28	1.34	0	12.4
Firm Age	11853	97	2305.78	1	250051
Firm Age (ln)	11853	2.78	0.73	0	5.32
Foreign Owned	11853	0.091	0.29	0	1
Government Owned	11853	0.015	0.12	0	1
Business Association	11853	0.40	0.49	0	1
Product Innovation	11853	0.30	0.46	0	1
Government Contract	11853	0.19	0.39	0	1
Exporter	11853	0.27	0.45	0	1
Manager Experience	11853	20.71	11.36	1	70
Manager Experience (ln)	11853	2.83	0.71	0	4.25
Female Manager	11853	0.20	0.40	0	1
Capital City	11853	0.16	0.36	0	1
COVID Shock					
Demand Shock	11853	2.47*	0.69	1	3
Supply Shock	11747	2.40**	0.65	1	3
Sales Shock	11803	2.53***	0.67	1	3
Changes in Sales	11405	-0.23	0.32	-1	3
Institutional characteristics					
Democracy	11436	7.58	3.44	0	10
Autocracy	11436	1.13	2.21	0	7
Voice and Accountability	11853	0.20	0.84	-1.55	1.26
Government Effectiveness	11853	0.31	0.53	-0.98	1.34

* Share of Increase (1) = 0.11; No Change (2) = 0.31; Decrease (3) = 0.58
** Share of Increase (1) = 0.09; No Change (2) = 0.42; Decrease (3) = 0.49
*** Share of Increase (1) = 0.10; No Change (2) = 0.27; Decrease (3) = 0.63

Table 7: Differences Between Politically Connected and Not Politically Connected Firms

	Politically Connected	Not Politically Connected	Difference
Firm Size	138.000	94.879	43.135
Firm Age	24.896	20.288	4.607***
Foreign Owned	0.094	0.091	0.003
Government Owned	0.062	0.013	0.049***
Business Association	0.584	0.390	0.194***
Product Innovation	0.368	0.299	0.069***
Government Contract	0.271	0.181	0.090***
Exporter	0.329	0.272	0.057***
Manager Experience	22.192	20.636	1.556***
Female Top Manager	0.159	0.200	-0.041**
Capital City	0.099	0.161	-0.062***
Demand Shock	2.432	2.472	-0.040
Supply Shock	2.394	2.397	-0.004
Sales Shock	2.506	2.528	-0.022
Changes in Sales	-0.215	-0.233	-0.017

Note: Columns (1)-(2) show the average values of different firm characteristics for politically connected and not politically connected firms. Column (3) shows the differences and statistical significance. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 8: Propensity to Obtain Different Government Support Programs

	(1)	(2)	(3)	(4)	(5)	(6)
Political Connection	-0.005	0.036**	0.013	0.017	0.004	0.002
	(0.019)	(0.014)	(0.013)	(0.010)	(0.013)	(0.018)
Demand Shock (base category = Positive Shock)						
No Shock	0.010	-0.000	0.002	0.003	0.004	0.026
	(0.026)	(0.015)	(0.017)	(0.010)	(0.022)	(0.021)
Negative Shock	0.162***	0.058**	0.072***	0.034**	0.057*	0.169***
	(0.035)	(0.023)	(0.025)	(0.013)	(0.032)	(0.032)
Firm Size (ln)	0.018*	-0.001	0.008	0.004	0.009	0.018**
	(0.009)	(0.008)	(0.005)	(0.003)	(0.006)	(0.008)
Firm Age (ln)	0.000	-0.009	-0.010	-0.005	-0.014***	-0.007
	(0.006)	(0.006)	(0.007)	(0.004)	(0.004)	(0.007)
Foreign Owned	-0.012	-0.015	-0.022	-0.016	-0.001	0.008
	(0.017)	(0.010)	(0.014)	(0.010)	(0.015)	(0.017)
Government Owned	0.017	0.002	0.027	-0.020	0.011	0.005
	(0.035)	(0.017)	(0.021)	(0.014)	(0.021)	(0.029)
Business Association	0.025**	0.023**	0.019	0.015	0.014	0.021*
	(0.011)	(0.010)	(0.012)	(0.009)	(0.012)	(0.011)
Product Innovation	0.020**	0.008	-0.001	0.007	0.006	0.013
	(0.007)	(0.005)	(0.007)	(0.005)	(0.007)	(0.009)
Government Contract	0.004	-0.012	-0.007	0.006	-0.015	0.014
	(0.014)	(0.009)	(0.009)	(0.007)	(0.011)	(0.012)
Exporter	0.018*	-0.001	-0.001	0.013*	-0.002	0.018**
	(0.011)	(0.007)	(0.008)	(0.006)	(0.008)	(0.008)
Manager Experience (ln)	-0.010*	0.003	-0.007	-0.003	-0.001	-0.012**
	(0.006)	(0.004)	(0.004)	(0.003)	(0.005)	(0.005)
Female Top Manager	-0.000	-0.002	-0.006	-0.002	-0.008	0.007
	(0.016)	(0.012)	(0.010)	(0.006)	(0.009)	(0.012)
Capital City	-0.008	0.008	0.030*	0.011	0.008	0.001
	(0.014)	(0.012)	(0.016)	(0.013)	(0.013)	(0.016)
Constant	-0.390**	-0.135	-0.124*	-0.074	-0.086	-0.313**
	(0.156)	(0.089)	(0.062)	(0.046)	(0.051)	(0.123)
Observations	11853	11853	11853	11853	11853	11853
R^2	0.287	0.208	0.138	0.084	0.179	0.281
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Survey Time FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Dependent variable varies across specifications. (1) Government support, any type; (2) Cash transfers; (3) Credit payment deferral; (4) Access to new credit; (5) Fiscal exemption; (6) Wage subsidy. All models are estimated as linear probability models. Standard errors are clustered at the country level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 9: Number of Different Government Support Programs Firms Received

	(1) OLS	(2) Neg. Binomial
Political Connection	0.073	0.072
	(0.045)	(0.058)
Demand Shock (base category = Positive Shock)		
No Shock	0.034	0.001
	(0.076)	(0.096)
Negative Shock	0.390***	0.472***
	(0.114)	(0.110)
Firm Size (ln)	0.038	0.049
	(0.025)	(0.031)
Firm Age (ln)	-0.046**	-0.045**
	(0.019)	(0.021)
Foreign Owned	-0.045	-0.058
	(0.051)	(0.057)
Government Owned	0.025	0.047
	(0.076)	(0.169)
Business Association	0.092*	0.095**
	(0.046)	(0.043)
Product Innovation	0.033	0.052**
	(0.020)	(0.025)
Government Contract	-0.015	-0.006
	(0.034)	(0.045)
Exporter	0.027	0.049
	(0.023)	(0.031)
Manager Experience (ln)	-0.020	-0.032*
	(0.015)	(0.019)
Female Top Manager	-0.011	-0.004
	(0.040)	(0.053)
Capital City	0.058	0.058
	(0.061)	(0.072)
Constant	-0.733**	-23.270***
	(0.351)	(1.030)
Observations	11853	11853
R^2	0.271	0.131
Country FE	Yes	Yes
Industry FE	Yes	Yes
Survey Time FE	Yes	No

Note: The dependent variable counts the number of different government support programs a firm received during the pandemic. It ranges from 0 to 5. Standard errors are clustered at the country level. Survey time fixed effects are dropped from the negative binomial model due to the lack of convergence. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 10: Propensity to Obtain Cash Transfers at Different Time Periods

	(1)	(2)	(3)
Political Connection	0.023*	0.018	-0.002
	(0.013)	(0.013)	(0.012)
Demand Shock (Base Category = Positive Shock)			
No Shock	-0.006	0.003	0.026
	(0.013)	(0.009)	(0.023)
Negative Shock	0.022	0.035***	0.057***
	(0.017)	(0.011)	(0.016)
Firm Size (ln)	-0.001	-0.006	0.006
	(0.005)	(0.006)	(0.008)
Firm Age (ln)	-0.008*	-0.000	-0.002
	(0.004)	(0.004)	(0.004)
Foreign Owned	-0.017	-0.009	-0.003
	(0.010)	(0.008)	(0.013)
Government Owned	-0.011	-0.012	-0.023
	(0.014)	(0.029)	(0.019)
Business Association	0.005	0.024*	0.004
	(0.007)	(0.013)	(0.010)
Product Innovation	0.004	0.007	-0.002
	(0.007)	(0.006)	(0.008)
Government Contract	-0.004	-0.004	-0.002
	(0.007)	(0.007)	(0.009)
Exporter	0.001	-0.001	-0.003
	(0.009)	(0.010)	(0.007)
Manager Experience (ln)	0.004	-0.006	0.009
	(0.004)	(0.005)	(0.011)
Female Top Manager	0.008	0.001	-0.024
	(0.006)	(0.007)	(0.015)
Capital City	0.001	0.007	-0.005
	(0.009)	(0.008)	(0.016)
Constant	-0.035	-0.032	-0.088
	(0.037)	(0.028)	(0.073)
Observations	11455	7143	6313
R^2	0.177	0.097	0.106
Country FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Survey Time FE	Yes	Yes	Yes

Note: In all specifications, the dependent variable measures whether a firm received a cash transfer or not in different survey periods. Column (1) studies Period 1 (from the beginning of pandemic till the Wave 1 COVID follow-up survey), column (2) - Period 2 (time between the Wave 1 and Wave 2 follow-up survey), and column (3) - Period 3 (time between the Wave 2 and Wave 3 follow-up survey). All models are estimated as linear probability models. Standard errors are clustered at the country level. The number of observations varies across models. Model (1) covers the firms that are interviewed during the first wave of the COVID-19 follow-up survey. Model (2) only includes the firms that are interviewed in both the first and the second survey waves. And, in Model (3) there are the firms that are surveyed in the second and the third waves. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 11: Propensity to Obtain Cash Transfers at Different Margins of Political Connection and Eligibility

	(1)
Political Connection	0.016
	(0.017)
Non-Eligible	-0.060***
	(0.017)
Political Connection x Non-Eligible	0.043*
	(0.022)
Firm Size (ln)	-0.002
	(0.008)
Firm Age (ln)	-0.009
	(0.006)
Foreign Owned	-0.014
	(0.010)
Government Owned	0.001
	(0.017)
Business Association	0.023**
	(0.010)
Product Innovation	0.007
	(0.005)
Government Contract	-0.012
	(0.009)
Exporter	-0.001
	(0.007)
Manager Experience (ln)	0.003
	(0.004)
Female Top Manager	-0.002
	(0.012)
Capital City	0.008
	(0.012)
Constant	-0.076
	(0.084)
Observations	11853
R^2	0.208
Country FE	Yes
Industry FE	Yes
Survey Time FE	Yes

Note: In this model, I use the interaction term between political connection and eligibility. The eligibility criterion is derived from the demand shock variable. A firm is considered eligible for government support if it experienced a negative demand shock and non-eligible if it experienced either positive or no demand shock. The model is estimated as linear probability model. Standard errors are clustered at the country level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 12: Predicted Probabilities of Obtaining Cash Transfers at Different Margins of Political Connection and Eligibility

		Political Connection	
		Yes	No
Non-Eligibility	Yes	0.196	0.124
	No	0.208	0.186

Notes: The probabilities are calculated based on the corresponding logit model, as linear probability model provides unbounded probabilities which might lie outside the [0;1] interval.

Table 13: Propensity to Obtain Cash Transfers at Different Margins of Institutional Characteristics

	(1)	(2)	(3)	(4)	(5)
Political Connection	0.024	0.035*	0.034**	0.033***	0.033***
	(0.016)	(0.018)	(0.012)	(0.011)	(0.012)
Political Connection x Democracy	0.001				
	(0.003)				
Political Connection x Autocracy		-0.000			
		(0.004)			
Political Connection x Voice and Accountability			0.013		
			(0.016)		
Political Connection x Government Effectiveness				0.011	
				(0.025)	
Political Connection x Regulatory Quality					0.008
					(0.023)
Demand Shock (Base Category = Positive Shock)					
No Shock	0.005	0.005	-0.000	-0.000	-0.000
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Negative Shock	0.066***	0.066***	0.057**	0.058**	0.058**
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Firm Size (ln)	-0.002	-0.002	-0.001	-0.001	-0.001
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Firm Age (ln)	-0.009	-0.009	-0.009	-0.009	-0.009
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Foreign Owned	-0.012	-0.012	-0.014	-0.014	-0.014
	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)
Government Owned	0.002	0.001	0.004	0.003	0.003
	(0.018)	(0.018)	(0.017)	(0.017)	(0.017)
Business Association	0.029***	0.029***	0.023**	0.023**	0.023**
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Product Innovation	0.008	0.008	0.008	0.008	0.008
	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)
Government Contract	-0.013	-0.013	-0.012	-0.012	-0.012
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Exporter	-0.003	-0.003	-0.001	-0.001	-0.001
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Manager Experience (ln)	0.003	0.003	0.003	0.003	0.003
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Female Top Manager	-0.003	-0.003	-0.002	-0.002	-0.002
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Capital City	0.009	0.009	0.008	0.008	0.008
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Observations	11436	11436	11853	11853	11853
R^2	0.216	0.216	0.208	0.208	0.208
Country FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Survey Time FE	Yes	Yes	Yes	Yes	Yes

Note: In these model, I use interaction term between political connection and different institutional characteristics. Column (1) includes the interaction between political connection and Democracy score, column (3) - political connection and autocracy, column (3) - political connection and Voice and Accountability, Column (4) political connection and government effectiveness, and column (5) political connection and regulatory quality. As I control for country fixed effects separately, I do not present the main effects of institutional variables. All models are estimated as linear probability models. Standard errors are clustered at the country level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 14: Robustness Checks

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Political Connection	0.037**	0.032*	0.036**	0.034**	0.036**	0.035**	0.034**	0.043***
	(0.016)	(0.017)	(0.015)	(0.014)	(0.014)	(0.014)	(0.014)	(0.016)
Demand Shock (Base Category = Positive Shock)								
No Shock	0.003	0.004	-0.000		-0.017			0.003
	(0.016)	(0.016)	(0.012)		(0.015)			(0.017)
Negative Shock	0.058**	0.057**	0.058***		0.037			0.062***
	(0.025)	(0.026)	(0.014)		(0.024)			(0.020)
Supply Shock (Base Category = Positive Shock)								
No Shock				0.030*	0.032**			
				(0.016)	(0.012)			
Negative Shock				0.067***	0.037**			
				(0.021)	(0.014)			
Sales Shock (Base Category = Positive Shock)								
No Shock						-0.003		
						(0.015)		
Negative Shock						0.062**		
						(0.023)		
Changes in Sales							-0.083***	
							(0.026)	
Constant	-0.122	-0.046	-0.135***	-0.137	-0.148	-0.139	-0.137	
	(0.094)	(0.049)	(0.048)	(0.095)	(0.093)	(0.092)	(0.104)	
Observations	11853	11853	11853	11747	11747	11803	11405	10788
R^2	0.255	0.335	0.208	0.206	0.208	0.209	0.202	0.228
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Survey Time FE	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Country x Industry FE	Yes	No	No	No	No	No	No	No
Country x Industry x Survey Time FE	No	Yes	No	No	No	No	No	No

Note: The dependent variable is Cash Transfers. All models include the same set of firm-level controls. Model (1) includes Country X Industry fixed effects. Model (2) includes Country x Industry x Survey Time Fixed effects. In Model (3) standard errors are clustered at the country x industry level. Models (4) includes supply shock instead of demand shock. In model (5) both demand and supply shocks are used together. Model (6) and (7) includes changes in sales. All models (1)-(7) are estimated as linear probability models. Model (8) is estimated as logit model and the corresponding marginal effects are reported. In all models standard errors are clustered at country level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 15: Parametric and Non-parametric Estimates of Treatment Effect

	Covariate Matching	PSM (N=1)	PSM (N=5)	PSM (Caliper=0.1)	IPW	IPWRA	Entropy Balance
Political Connection	0.038**	0.045**	0.035**	0.045**	0.035**	0.036***	0.036**
	(0.018)	(0.018)	(0.014)	(0.018)	(0.014)	(0.014)	(0.015)
Observations	11853	11853	11853	11853	11853	11853	11853
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Survey Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: The dependent variable is Cash Transfers in all models. Covariate Matching is a nearest neighbor approximate matching based on the same firm characteristics as in the main model. PSM is a Propensity Score Matching. I tried different parameters depending on the number of nearest neighbors and the caliper value. IPW is non-parametric Inverse Probability Weighting estimation technique and IPWRA is Inverse Probability Weighted Regression Adjustment. Entropy Balance sets a restriction on the first and the second moments. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 16: Robustness Checks - Different time periods

	(1)	(2)
Political Connection	0.017	0.020
	(0.014)	(0.014)
Demand Shock (Base Category = Positive Shock)		
No Shock	-0.004	0.005
	(0.015)	(0.009)
Negative Shock	0.028	0.039***
	(0.020)	(0.011)
Firm Size (ln)	-0.001	-0.007
	(0.006)	(0.007)
Firm Age (ln)	-0.007	0.000
	(0.005)	(0.005)
Foreign Owned	-0.016	-0.010
	(0.011)	(0.009)
Government Owned	-0.008	-0.010
	(0.013)	(0.031)
Business Association	0.009	0.026*
	(0.008)	(0.014)
Product Innovation	0.004	0.006
	(0.008)	(0.006)
Government Contract	-0.003	-0.004
	(0.008)	(0.008)
Exporter	-0.000	-0.001
	(0.009)	(0.010)
Manager Experience (ln)	0.003	-0.005
	(0.004)	(0.006)
Female Top Manager	0.008	0.003
	(0.007)	(0.008)
Capital City	-0.001	0.008
	(0.011)	(0.010)
Constant	-0.043	-0.039
	(0.050)	(0.031)
Observations	10029	6614
R^2	0.181	0.095
Country FE	Yes	Yes
Industry FE	Yes	Yes
Survey Time FE	Yes	Yes

Note: In all specifications, the dependent variable is whether a firm received a cash transfer or not in different times periods. Column (1) shows the results for Period 1 and includes only the firms that are interviewed between between May 2020 and October 2020 during the first wave of the COVID follow-up survey. Column (2) shows the results for Period 2 and includes only the firms that are interviewed between November 2020 and February 2021 during the second wave. All models are estimated as linear probability models. Standard errors are clustered at the country level.. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.