Cashing-in or Selling Out? - Impact of Electoral Bonds on Corporate India

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Abstract

I analyze the impact of anonymous political financing via electoral bonds on the Indian corporate sector. My findings indicate that political donors are more likely to announce investment projects in the year they donate through electoral bonds, particularly in states governed by the ruling party. Political donations are associated with increased capital expenditures and employment, reflecting capacity expansion, but are also associated with reduction in marginal revenue product of capital (MRPK) and total factor productivity (TFP). Government-owned banks are more likely to lend to donors connected to the ruling party, and especially lend during close state elections. Consequently, political donors exhibit higher industry-wide market share, pursue mergers and major acquisitions, and increase price markups, indicative of higher market power. Industries with higher value-weighted donations-to-assets ratio show greater dispersion in MRPK and MRPL, signalling a correlation between increased political activity and resource misallocation.

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Political connections are often key to the growth and survival of firms in both emerging and developed economies. While connections can help incumbents shield themselves from competition and antitrust scrutiny, it can also assist new entrants in securing political favor, regulatory approvals, and government contracts. This paper addresses the following questions: How does a new channel of political lobbying affect the functioning of firms? What are the implications for allocation of credit and resources within industry, firm dynamics, and lastly market structure, when more firms donate to political parties?

Using recently released data on anonymous political donations in India, I show firms that donate announce new investment projects, obtain higher credit from government-owned banks and gain greater market share. Donor firms announce new capacity building or greenfield projects. This effect is particularly prominent if the firms are registered in states where the ruling Bharatiya Janata Party (BJP) is in power. They tend to subsequently increase capital expenditure and employment, with financing sourced from government-owned banks. Notably, firms that contribute more heavily to the BJP are more likely to secure loans from these banks. Election cycles are also significant, as donor firms receive increased credit from government banks during closely contested state elections. As a result, these firms achieve a greater market share within their industries, along with enhanced market power, evidenced by higher price markups. Additionally, donor firms strengthen their positions through mergers and major acquisitions. However, this does not necessarily translate to more efficient resource utilization, as these firms exhibit lower total factor productivity growth and lower marginal revenue product of capital following their donations. Moreover, industries with a higher concentration of electoral bond donations, relative to their size, show a greater dispersion in the marginal revenue products of both capital and labor.

In early 2024, the Supreme Court of India, in a landmark verdict in the case of *Association for Democratic Reforms v Union of India*, ruled that "Electoral Bonds," a new mechanism for political funding that allowed political parties to receive anonymous donations from individuals, corporations, and other entities, were unconstitutional. The court mandated that all data on electoral bond donations be made public by the State Bank of India (SBI), which had issued the bonds on behalf of donors, through the Election Commission of India (see Bhaumik (2024)). This includes all electoral bond donations from 2018 to 2024, detailing each donation, the donor's

identity, and the recipient political party.

Donations were overwhelmingly concentrated towards the ruling BJP, which amassed INR 65 billion or $774 million (see Figure 1 Panel A) in political contributions over the five-year lifespan of the electoral bond scheme. Donors predominantly belonged to the infrastructure and related sectors as shown in figure 1 panel B, with the exception of the largest donor, who hails from the entertainment and hospitality industry. Figure 2 reveals that donations to the two major national parties—the BJP and the Indian National Congress (INC)—tend to peak in the months leading up to state and national elections, while the largest contributions to regional parties often come from individual one-off donations, which are not necessarily linked to election cycles.

I find that firms that donate are 10% more likely to announce new investment projects, including capacity expansions, greenfield investments, and government infrastructure projects. Firms that donate to the BJP and are registered in BJP-ruled states are 17% more likely to announce new projects. Consequently, these firms are 24% more likely to increase capital expenditures and 30% more likely to expand employment. In contrast, I do not find statistically significant evidence that donations to parties in states not governed by the central ruling party lead to new project announcements. This suggests that political alignment between the state and central government is crucial for the pay-for-play mechanism to function.

If political donors are more likely to start new projects, how do they secure financing? To explore this, I utilize corporate credit registry data from the Ministry of Corporate Affairs. My analysis reveals that firms with a higher share of donations to the ruling BJP are up to 12% more likely to obtain a loan on the extensive margin, and donor firms also secure larger amounts of credit from government-owned banks (PSBs) compared to non-donors. This credit allocation to political donors is particularly pronounced during closely contested state elections, defined as elections with a winning margin of less than 5%. These results hold even when controlling for firm-level, time-varying characteristics, indicating that corporate political donors are more likely to receive loans from public sector banks, regardless of their demand for credit.

Thus, political donors are not only more likely to initiate investment projects and increase employment, but they are also more likely to receive credit from public sector banks, especially when a larger share of donations goes to the ruling party and during closely contested state elections. This raises important questions about how political donations influence aggregate

resource allocation and market structure.

Even though donor firms are not statistically different from non-donors ex-ante, I find that post-donations, they exhibit lower marginal revenue product of capital, slower total factor productivity (TFP) growth, and weaker interest coverage ratios. These findings suggest that donor firms tend to expand by investing in capital-intensive projects, which reduces the marginal productivity of capital and increases debt servicing costs. Moreover, donor firms experience slower productivity growth.

This naturally leads to the question of how resource allocation within the industry is impacted and how it affects market power. I find that political donors experience a 7% increase in markups after making donations, signaling greater market power. Additionally, donations are associated with a 14% higher sales share within the NIC-3-digit industry, providing indicative evidence that political donations contribute to increased industrial concentration. Furthermore, political donors are more likely to engage in major acquisitions and mergers compared to non-donors within their industry. These findings underscore the economic consequences of political activity: it enhances market power for firms with the financial capacity to donate, while also resulting in adverse outcomes for consumer welfare, such as reduced competition and higher prices.

These findings indicate that the advent anonymous political financing appears to have led to higher concentration in industries with greater relative political activity. Notwithstanding previous political connections, firms appear to benefit by getting more project approvals or government contracts, higher funding from government-owned banks and subsequently are able to capture larger market shares within their industries - directly by investing and growing bigger and indirectly by pursuing more mergers and acquisitions. Why can this be detrimental? because it results in higher price markups, lower productivity growth among donor firms and greater resource mis-allocation within their respective industries.

Related Literature: I contribute to the literature on the impact of corporate political activity on firm and industry dynamics. Politically connected firms obtain better access to credit, especially through government owned banks as shown in Khwaja and Mian (2005). I show a consistent result that political donors who are *aligned* to the central ruling party are more likely to receive credit from government owned-banks. My novel finding is that they are also more likely

to receive credit during close elections, controlling for firm-time characteristics. Political connections also ease access to public procurement contracts as shown by Goldman et al. (2013), Titl and Geys (2019), Baltrunaite (2020), and Brugués et al. (2024). I show a broader phenomenon where politically connected firms not only obtain more government contracts but also increase their *own* capacity and start new investment projects. Other literature has documented political connections helping in bad times in terms of bailouts in, Faccio et al. (2006), capital injections as in Duchin and Sosyura (2012), or both as shown in Blau et al. (2013). Literature has also linked political connections with higher valuations as described in Fisman (2001) by higher cumulative abnormal returns of firms connected to the executive, and Acemoglu et al. (2016) show firm value goes up by appointments of individuals connected to the firm to higher posts of the government or when government changes as in Amore and Bennedsen (2013). Do et al. (2015) shows that firm performance also improves as a result of such connections. On the contrary, political activity can also bear reputation costs that reduce valuation as shown in Puri (2024). Corporate lobbying also sways policies and regulation as shown in Goldberg and Maggi (1999), Kerr et al. (2014), Kang (2016) and several other papers. I show that while firms increase spending on capital and labor, they also see a decline in productivity and rise in debt servicing costs.

More recent literature has focused on the allocative distortions caused by political favoritism - Baranek and Titl (2024) shows quantifies the cost to the taxpayer due to concessions made to politically connected firms in public procurement contracts. Colonnelli and Prem (2022) show evidence of politically connected firms imposing a “corruption tax" on the industry and local area they operate in by distorting the level-playing field. Schoenherr (2019) documents the distortions in resource allocations caused by network of politically connected firms of a new administration that comes to power. Moon and Schoenherr (2022) show further evidence on the network effect of political patronage as it plays through appointment into important government positions, firms linked to the network receive higher credit at a lower rate despite high default rates. Huneeus and Kim (2018) argue that corporate political lobbying results in resource mis-allocation as politically connected firms grow faster but are less productive. Akcigit et al. (2023) show evidence that market leaders are more likely to be politically connected and much less likely to innovate. Political connections rather relate to higher rate of survival, employment and revenue growth but not productivity. In the bigger picture, Zingales (2017) argues that large

firms can rival governments[1]. Hence as firm power increases, we can see higher rent seeking instead of innovation amongst the market leaders. I try to bring together the two points - political donations distort the level playing field within the industry and leads to misallocation as the larger politically connected firms become less productive, charge higher markups and gain higher market share.

Institutional Details

India is the largest democracy in the world and has 968 million eligible voters as of 2024. It has 28 states and 8 union territories, where each state along with 3 union territories elects a state legislature for a 5-year-term. State elections take place in a staggered manner with multiple states often having their elections simultaneously. General Elections to the Parliament also happen nationally every five years and elects the union government. The 2024 General Elections had over 8,337 candidates contesting elections from 744 political parties. Contesting elections is a costly undertaking, and parties often pool from multiple sources: through contributions that they receive from individuals and businesses, or self-finance them through the candidates themselves. On the latter point, in 2024 the two major political parties: the BJP and the INC had over 92% and 89% candidates with wealth over Rs. 1 crore (USD 120,000) contesting the general elections. Kapur and Vaishnav (2018) highlight the lack of regulation on political finance by remarking that even though transparency and disclosure laws have improved, the absence of enhanced statutory authority of the Election Commission of India has led to poor enforcement. Disclosed contributions to national parties amounted to INR 8.5 billion in the financial year 2022-23 (ADR (2024b)), with corporate or business houses comprising 80% of the total contributions. Large electoral funding vehicles are “electoral trusts" which act as a bridge between corporations and political parties. Constituent firms make contributions to the electoral trusts which then distributes them to political parties. For example *Prudent Electoral Trust* made donations totalling INR 2.57 billion in FY 2022-23 which itself accounts for 30% of all donations made to political parties and 38% of all corporate donations.

While direct contributions, and contributions through electoral trusts remained prevalent,

[1] In India’s case this can be seen as the revenue of the largest group - Reliance Industries at $112 billion - rivals the Gross State Domestic Product of its 3rd largest state - Bihar at $120 billion

electoral bond donations accounted for the largest share of all donations made to political parties, topping over twice the amount of disclosed donations. For instance total donations redeemed by national political parties in FY 2022-23 through direct contributions was INR 8.5 billion whereas total amount of donations redeemed through electoral bonds was INR 18.35 billion.

The electoral bond scheme was formally introduced in January 2018. Electoral bonds are donations in the form of promissory notes issued by the SBI made by individuals and corporations to political parties[2]. To make a donation, a donor would approach the SBI, the country's largest public-sector bank, and request that a bond be issued on their behalf to a political party of their choice. These donations were intended to be anonymous, meaning that officially, neither the political party nor any third party could know who donated to whom. The anonymity of these donations appears to have increased the visible, formal, and direct participation of firms in political party funding. The maximum one-time donation amount was capped at 1 crore and the bond needed to be encashed within 15 days of their issuance or otherwise the bond value would be remitted to the Prime Minister's National Relief Funds.

In February 2024, a five-judge bench of the Supreme Court of India headed by the Chief Justice, unanimously declared that the scheme was unconstitutional as it violated citizens right to information about political funding under Article 19(a) of the Constitution (Bhaumik (2024)) and also pointed out that it "would lead to *quid pro quo* arrangements" between corporations and politicians.

As per ADR (2024a) between April 2019 to February 2024, a total of 18,871 bonds were purchased from the State Bank of India totalling INR 121.5 billion, with 16,631 bonds purchased by corporate or business houses and the rest 2,240 being purchased by Individuals. In terms of amount of donations, 97% donations were made by corporations or business houses and the rest were made by Individuals. The top 25 donors contributed 6,659 bonds worth 52% of the total donations. Therefore I focus my attention to donations from corporate houses in this paper.

[2]See appendix figure 5 for reference

Data

I collate four major datasets to create the data I used for analysis in this paper. The primary dataset on Electoral Bond donations comes from the Election Commission of India through the State Bank of India (the issuer of the bonds). This dataset, released as per the Supreme Court verdict on *Association of Democratic Reforms v Union of India* dated March 21st 2024 comprises of two files. First, a donor file which details bond-level information including unique bond identifier, bond donor name, date of issuance, donation amount and date of issuance. Secondly, the recipients file which details bond-level information including unique bond identifier, name of the recipient political party, donation amount and date of encashment. I merge the donor file with recipient file and obtain a dataset of 20,421 bond donations made by 1,298 unique donors to 24 political parties in India.

I use Centre for Monitoring Indian Economy's (CMIE's) ProwessDx database for the annual consolidated balance sheet data for Indian firms. Out of the 1,298 unique donors, 352 appeared on ProwessDx based on a Company Identification Number (CIN) and fuzzy name matching. I am able to map 58.54% of the total number of bonds donated and 75.72% of total electoral bond donations to Prowess firms[3]. I retrieve financial performance data for all firms for the financial years 2019-2023. Note that financial years in India start on April 1st and end on March 31st, so FY 2019 would be April 1st 2018-March 31st 2019. I also retrieve data on Mergers and Acquisitions from the Prowess Dx Database, which lists merger and acquisition events at the firm-level.

Thirdly, I use the Ministry of Corporate Affairs Index of Charges data which is a credit registry of d credit lent to Indian firms. I scrape data for the time period 2018-2024. I observe loan-level data with the name of creditor, Company Identification Number (CIN) of Firms, the amount and date of charge (loan) creation, modification and satisfaction. I link this dataset to ProwessDx and Reserve Bank of India's *Basic Statistical Returns* data to identify creditors and their characteristics. I also link this dataset to firm balance sheet data.

Lastly, I use CMIE's CapExdx database which tracks firm-level investment data, which captures capacity expansion, greenfield investments, new contracts from the government and other projects from their announcement to completion. I use the dataset on project

[3]See appendix figure 6 for time series of coverage

announcements.

Table 1 show the summary statistics of the variables used in the analysis. In Panel A I present the summary statistics with columns 2 and 3 showing them separately for bond donors and non-donors. In Panel B I present a balance table with each row showing a t-test of mean difference of the aforementioned variables within the donor and non-donor category. I find that donors have average loan amounts nearly 3.4 times more than non-donors, and public sector banks lend out more than twice the amount to political donors. I also find that donors are eight times more likely to announce projects than non-donors. I however do not find statistically significant difference in the average markup, marginal revenue product of capital, profitability or total factor productivity of donors versus non-donors.

Results

Table 2 shows the results of investment project announcements in the year of an electoral bond donation by a corporate entity. The regression specification used to test project announcements is as follows:

$$\ln(\text{Y})_{it} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

Where the dependent variable Y is either an indicator for any investment project announced in a given year or the number of projects announced. *Bond Donor* is an indicator for a firm that has donated an electoral bond to any political party. *Bond Donation* is the logged amount of the electoral bond donation. I control for lagged log assets, the PBDITA-to-revenue ratio, and the debt-to-assets ratio. The identification strategy relies on estimating the effect of donation or being a donor, conditional on the size, profitability, and leverage of the firm, which can also affect the probability of starting new investment projects.

In Panel A, each specification contains NIC-3 digit Industry $\times$ Year and State $\times$ Year fixed effects. The fixed effects allow us to make a within-industry comparison of firms that donate with those that don't, while controlling for industry-time and state-time varying shocks, such as input price inflation or the economic conditions of the state where the firm is registered.

In Panel A, Columns (1) and (2) show the results for the extensive margin—whether the likelihood of project announcements increases with political donations. Projects could include capacity building within the company, new greenfield investments, as well as announcements related to government contracts. A 10% higher donation amount is associated with a 20% increase in the probability of announcing new projects. Furthermore, bond donors are 10% more likely to announce projects than non-donors after donating once.

Columns (3) and (4) show the results for the intensive margin, which in this case reflects the number of projects announced by donor firms. Column (3) indicates a 5 percentage point increase in the number of projects announced, more than double the sample average of 4%. Column (4) shows that bond donors—firms that have previously donated—announce over 7 times more projects than the sample average in the period following their donation.

In Panel B, I control for Firm and Year fixed effects. This results in a non-significant finding, as 75% of firms donate only in a single year, which limits the statistical power to study project outcomes within firms over time.

Table 3 examines the heterogeneity of project announcements based on the political party firms donate to and the states in which the firms are located. The objective of this analysis is to determine whether alignment between state and central governments facilitates more project announcements. To test this, I use the following specification:

$$\begin{aligned}\ln(Y)_{ibt} =& \beta_1 \times \text{Party Connection}_i \times \text{State Ruled by Party}_{st} + \\ & \beta_2 \times \text{Party Connection} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}\end{aligned}$$

Where $Party\ Connection_i$ is an indicator variable that is activated when a firm donates to a particular political party and remains active for subsequent years in the sample, and $State\ Ruled\ by\ Party_{st}$ is an indicator that the party to which the firm donates also rules the state government where the firm is registered. X_{it} reflects firm-level control variables, including profitability, size, and leverage, lagged by one year. I use NIC-3 digit industry $\times$ Year fixed effects (θ_{jt}) to make a within-industry, within-time comparison of project announcements between donors and non-donors, while controlling for industry-time varying shocks. I also

control for state $\times$ year (γ_{st}) fixed effects to account for state-time variations such as elections, state government spending, or state-level economic conditions.

In column (1), I find that firms connected to the BJP and registered in BJP-ruled states are 11% more likely to announce projects compared to firms not registered in BJP-ruled states. This is an additional boost of 6.25% in the probability of project announcements for BJP-connected firms. However, in columns (2)-(4), I observe that firms donating to the next three largest recipients of electoral bond donations do not necessarily benefit from being located in states where those parties rule. In the case of firms connected to the principal opposition party, there is a 13% higher probability of announcing projects, but no statistically significant increase if the firm is registered in INC-ruled states.

For other regional parties, including the Trinamool Congress (TMC) and Bhartiya Rashtra Samiti (BRS), the coefficients on the connection indicators are statistically insignificant. I also find similar results for the intensive margin, *No. of Projects Announced*, although the coefficients on the interactions are positive but not statistically significant.

Perhaps more importantly, we can examine how bond donations affect firms' balance sheets and financial performance. Table 4 studies the relationship between bond donations and capital expenditures, wage bill, employment (imputed), interest coverage ratio, marginal revenue productivity of capital, and growth in total factor productivity. Capital expenditure is measured as the annual change in gross plant, property, and equipment. Wage bill refers to the total annual compensation to employees of the firm. Imputed employment is derived by taking the ratio of compensation to employees and the median wage in the NIC-3 digit industry. I obtain the median wage for a NIC-3 industry by extrapolating the compensation-to-employee ratio of firms that report employee data. This imputation is necessary since the total number of employees is not a mandatory disclosure in annual reports, and hence missing for 87% of firms, while compensation data is missing for only 18% of firms. Marginal Revenue Product of Capital and Total Factor Productivity are calculated using the replication code of Baqaee and Farhi (2020) on ProwessDx. I use the following specification to run the test:

$$\ln(Y)_{it} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where $BondDonor$ is an indicator that is activated if the firm has previously donated to *any* political party, and $Ln(ElectoralBondDonation)$ is the donation amount in a given year. I control for lagged size, profitability, and leverage as X_{it}. All regressions also include NIC-3 digit industry $\times$ Year and State $\times$ Year fixed effects, which control for industry-by-time varying shocks and characteristics, as well as state-time varying shocks such as elections and state-level economic conditions.

In Column (1), I find that capital expenditures increase by 24% for donors relative to non-donors and by 0.047 percentage points for a 1 percent increase in donation amount. This means, on average, political donors invest INR 636,000 more in capital expenditures, and a 10% higher donation amount is associated with a 47 basis point increase in capital expenditures. Column (2) examines the logged compensation to employees or the wage bill of the firm. Consistent with political donors announcing investment projects, I also find a strong positive association between wage bill and both political donors and political donations. Political donors exhibit 28% higher compensation to employees relative to non-donors, and a 10% higher donation is associated with a 45 basis point increase in the wage bill. Column (3) shows that imputed employment increases by 30% for political donors relative to non-donors within the same industry and increases by 0.047 percentage points for a 1 percent higher bond donation.

In Column (4), I find that bond donors are more likely to experience a decline in their interest coverage ratio relative to their non-donor counterparts within the same industry, which suggests that they take on higher leverage, likely affecting their interest expenses. This is consistent with bond donors taking on more debt to finance projects, thereby increasing debt servicing costs. I also find evidence that bond donors have a 24% lower marginal revenue product of capital (MRPK) compared to non-donors. However, in the year of donation, I do not find any statistically significant effect. Testing the effect on the level of MRPK is intended to suggest possible misallocation of capital within the industry due to political donations. A crucial identification issue is whether bond donors are *ex-ante* inefficient and political activity enables them to grow despite their inefficiency, or whether misallocation arises as a result of their political activity. I test this using total factor productivity growth as the dependent variable and find a negative relationship with political donations. Political donors experience a 15.6 percentage point lower total factor productivity growth compared to their non-donor

counterparts within the same industry.

India's institutional setting and political economy help us examine another source of political favoritism: loans given to political allies. The Indian banking sector has historically been dominated by government-owned banks (also known as Public Sector Banks), where the central government holds a controlling stake.

In Figure 3 Panel A, I show that bond donors have nearly 16% higher loan origination amounts than their non-bond donor counterparts within the NIC-3 digit industry. I present the binned scatter plot of logged loan origination amounts against logged electoral bond donation amounts. I adjust the variables for firm and year fixed effects and then bin them into 100 equally sized bins. I find that a one percentage point increase in donation amount is associated with a 0.17 percentage point higher loan origination amount in that year.

Table 5 illustrates how public sector banks are more likely to lend to political bond donors during close elections, i.e., elections where the margin of victory for the state legislature is within 5%. I use the following specification to test lending to political bond donors:

$$\ln(\text{Y})_{ibt} = \beta_1 \times \text{Bond Donor}_{it} \times \text{PSB}_b + \beta_2 \times \text{PSB}_b + \beta_3 \times \text{Bond Donor}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{ibt}$$

where *Bond Donor* refers to firms that have made any electoral bond donation in the past, and *PSB* refers to Public Sector (i.e., government-owned) Banks. Each specification controls for lagged Ln(Assets), PBDITA/Revenue, and Debt/Assets of the firms. Panel A represents the version with NIC-3 digit industry $\times$ Year and State Fixed Effects, while Panel B represents the version with Firm $\times$ Year fixed effects. I also report the t-statistic of the t-test for the difference between the coefficient in the close-election sample and the rest of the sample.

I find that, in the year of close elections, bond donors are 16% more likely to receive a loan from public sector banks and at loan amounts 133% higher relative to other banks. This is a statistically significant effect compared to the rest of the sample, where there are no close elections. What underscores the robustness of this result is Panel B, which controls for Firm $\times$ Year fixed effects. This allows me to effectively control for firm-time varying characteristics, especially firm loan demand. I find that bond donors are 13.5% more likely to receive loans from public sector banks

during close election years, and at 90% greater loan amounts. Since I control for firm $\times$ year variation, this effect translates into government-owned banks providing loans to political donors independently of firm characteristics in the given year. This effect is also statistically significant compared to the rest of the sample.

Perhaps more crucially, since the union government is the primary owner of the twelve public sector banks in India, I also test whether donations to the ruling party at the center are more likely to result in loans being granted to political donors. In Table 6, I test whether a higher share of donations to the ruling party results in more loans being granted by public sector banks, both at the extensive and intensive margins.

$$\begin{aligned}\ln(\mathrm{Y})_{ibt} =& \beta_1 \times \text{Share of Donations to BJP} \times \text{PSB} \\ &+ \beta_2 \times \text{Share of Donations to BJP} + \beta_3 \times \text{PSB} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{ibt}\end{aligned}$$

where *Share of Donations to BJP* is the ratio of the sum of annual bonds given to the BJP to the sum total of all electoral bond donations. *PSB* refers to Public Sector (i.e., government-owned) Banks. Each specification controls for lagged Ln(Assets), PBDITA/Revenue, and Debt/Assets of the firms. Columns (1) and (3) represent the version with NIC-3 digit industry $\times$ Year and State Fixed Effects. Columns (2) and (4) represent the version with Firm $\times$ Year fixed effects.

I find that a 10% higher share of bond donations given to the BJP increases the probability of loans being granted by 1.22%, with a 7.36% higher loan amount. The coefficients for within-firm estimates are in the same direction but not statistically significant. In terms of economic magnitude, a firm that donates exclusively to the BJP is 12% more likely to receive a loan from a PSB and receives loan amounts INR 223 million ($2.65 million) higher than others within the same industry.

I previously presented evidence that electoral bond donors are more likely to announce new projects, increase capital expenditures, and wage bills, which serve as proxies for higher employment. Additionally, these donors are more likely to receive loans from government-owned banks if they donate to the ruling party at the center or during closely contested election years. This raises the question of whether political donors are more likely to grow larger and, if so, whether they influence the allocation of resources within their industry. I

run the following specification at the firm level to test firm-level outcomes:

$$\ln(\text{Y})_{ibt} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where *Bond Donor* refers to firms that have made any electoral bond donation in the past, while *Ln(Electoral Bond Donation)* represents the total amount of donations made by the firm annually. Each specification includes controls for lagged Ln(Assets), PBDITA/Revenue, and Debt/Assets (X_{it}). The upper panel presents the Logged Electoral Bond Donation amount as the main independent variable, while the lower panel uses *Bond Donor* as the main independent variable. All specifications include NIC-3 digit industry $\times$ Year and State $\times$ Year fixed effects.

I find that *Bond Donors* are likely to have a 7.3% higher markup than non-donors, and a 10% increase in electoral bond donations is associated with an additional 0.8 cents on the dollar in markup. I also find that the sales share of bond donors is 14.5% higher relative to non-bond donors, while a 10% increase in bond donations adds 0.4% to the sales share. Consistent with firms acquiring greater market power, I observe that bond donors are 8.7% more likely to make major acquisitions post-donations, and a 10% higher bond donation is associated with a 0.2% increase in the number of major acquisitions. Additionally, the number of mergers among bond donors is 6.6% higher than non-donors.

In Figure 4, I provide indicative evidence of misallocation. I plot the standard deviation of the marginal revenue product of capital in the left panel and the standard deviation of the marginal revenue product of labor in the right panel against sectoral donations by assets. I adjust both variables for NIC-3 digit industry and year fixed effects and exclude sectors with no political donations. I observe that dispersion increases as the intensity of donations within that sector increases, indicating a correlation between the distortions brought by firm donations to political parties.

Discussion

While the paper confirms a lot of received wisdom on the impact of political activity on firms and industries, it offers new evidence on how firms can leverage political power to increase market power through initiating capital intensive projects. Firms that donate announce new projects, and receive credit from public sector banks. Subsequently they increase capital expenditure and employment, leading to greater sales share within their industry at the cost of lower productivity and higher market power. They further consolidate by pursuing major mergers and acquisitions. It is important, however, to note that these results may raise potential identification concerns for the reader which I discuss below:

Identification Challenges

Political financing in India has long been considered opaque, with substantial amounts of unaccounted cash (or "black money") involved, and disclosed donations revealing only a fraction of the total (see Kapur and Vaishnav (2018)). This creates the first identification challenge, as I define a firm as politically connected if it donates through electoral bonds. A potential endogeneity concern is that bond donors may disproportionately represent firms that operate in government-dependent industries or are inherently more politically active, meaning they would have donated regardless of the method. Additionally, I may be capturing firms that are likely to grow, where donations are part of their strategy to reduce bureaucratic frictions. Lastly, if political donations are so beneficial, why don't all firms donate?

The first issue of selection into donation suggests that more firms may be politically connected than my analysis captures, implying that the results on investment, credit, and firm outcomes can be interpreted as a lower bound of the actual effect. Addressing this challenge requires some form of exogenous variation that can predict firm donations and help isolate the effects of donations from other confounding factors. While I control for firm size, profitability, leverage, as well as industry-time and state-time shocks, a more robust identification strategy may require an instrument for bond donations.

Secondly, in appendix table 7, I show that assuming a firm which donates through electoral bonds was politically connected in the past yields no significant differences between donors and non-donors in terms of outcome variables over time. This finding mitigates concerns about the

second endogeneity challenge. Regarding the third point, Puri (2024) finds a negative impact of electoral bond donations on firm value, suggesting a reputational cost to political participation. Furthermore, Conway and Boxell (2024) demonstrate that consumer behavior is influenced by a firm's stance on socio-political issues, which could discourage some firms from engaging in donations. Akcigit et al. (2023) also suggest that selection into political activity may depend on firm size and market position, where donations are only advantageous for larger firms, crowding out smaller competitors. Additionally, research by Kang (2016), Titl and Geys (2019), and Colonnelli and Prem (2022) highlights that firms in sectors heavily reliant on government approvals or demand are more likely to engage in political activity.

The core contribution of this paper is to examine whether the introduction of corporate electoral bond donations increases misallocation, regardless of firms' prior political affiliations or activities. My findings suggest that donations do indeed contribute to misallocation, as donor firms are not ex-ante different from non-donors in terms of productivity, marginal return on capital (MRPK), or interest coverage ratio (ICR) (see table 1), but they *become* different after donating. Nonetheless, future research will need more refined identification strategies and improved measurement of misallocation parameters to fully assess the impact of this new channel of political financing.

Further Research

In addition to the identification challenges, a broader question remains: how does increased corporate political activity distort macroeconomic outcomes and overall welfare? Misallocation may occur through various channels. Politically connected firms often experience accelerated growth, gain disproportionate influence, and potentially distort policy through lobbying or by stifling competition, which in turn exacerbates misallocation within their industries (see Huneeus and Kim (2018)). Akcigit et al. (2023) demonstrate that politically connected firms inhibit innovation and firm entry, benefiting from political rents and blocking new, often more innovative, competitors. Similarly, Acharya (2023) highlights a rise in industrial concentration and market power in India, driven largely by the growing dominance of the largest business houses, many of which have political ties to the ruling establishment.

Further research could explore whether (1) firms that engage in political activity are

inherently less efficient or productive, or (2) if political engagement increases the likelihood of firms becoming inefficient over time. Crucially, if politically active firms are market leaders with significant power and lower productivity growth, how does this impact aggregate industry output and pricing?

Drawing from both existing literature and the findings of this paper, it appears that as politically connected firms grow, they may leverage political networks for favorable treatment, evade scrutiny, or resolve regulatory issues, which in turn shifts their focus away from innovation. This leads them to become larger but less productive. Future research should focus on formalizing and quantifying the effects of corporate political distortions on broader economic outcomes.

Conclusion

In this paper, I utilize newly released data of electoral bond donations in India, an anonymous method of political financing, and merged it with firm performance data, capital investment data and bank-firm collateralized lending data. I present evidence that corporations have used this mechanism to expand and consolidate their market position. India's institutional framework provides a unique setting for studying how the government machinery can be leveraged to benefit political allies. I demonstrate that bond donors increase investment, expand employment, and secure more credit from public sector banks, though this comes at the expense of lower productivity and increased market power. Future research could further strengthen the causal link between political donations and market power, as well as quantify the broader impact of corporate political activity on aggregate economic outcomes.

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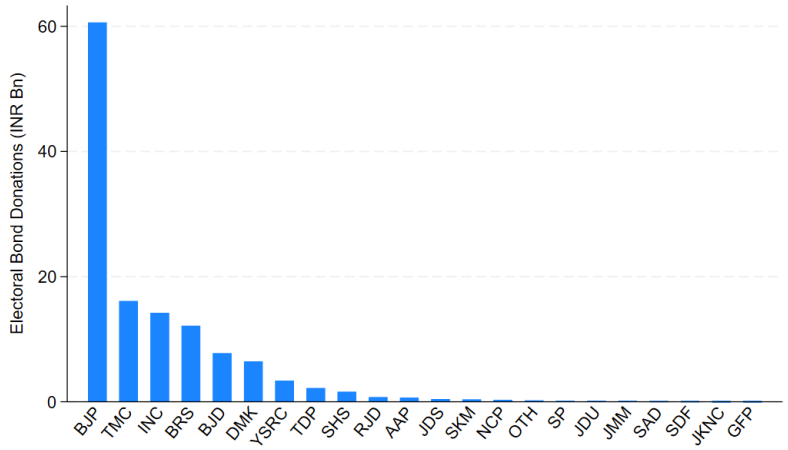
Figures and Tables

Figure 1: Aggregate Donations

The figures below represent aggregate electoral bond donations by party and industry. Panel A represents data on cumulative donations by party ordered from the largest to the smallest. Panel B reflects the aggregate donations made by the NIC-2 Digit Industry. The data is from the Election Commission of India. Data ranges from 2019-2023.

(A) Aggregate Donations by Party



(B) Aggregate Donations by Industry

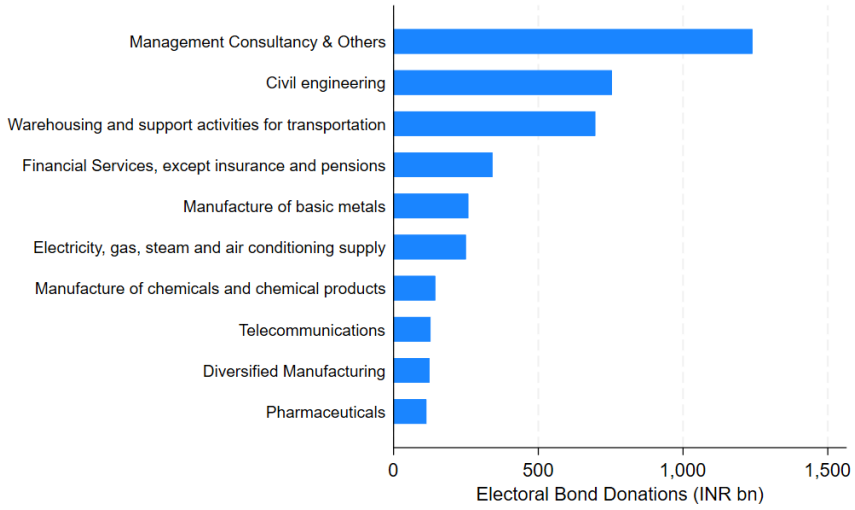
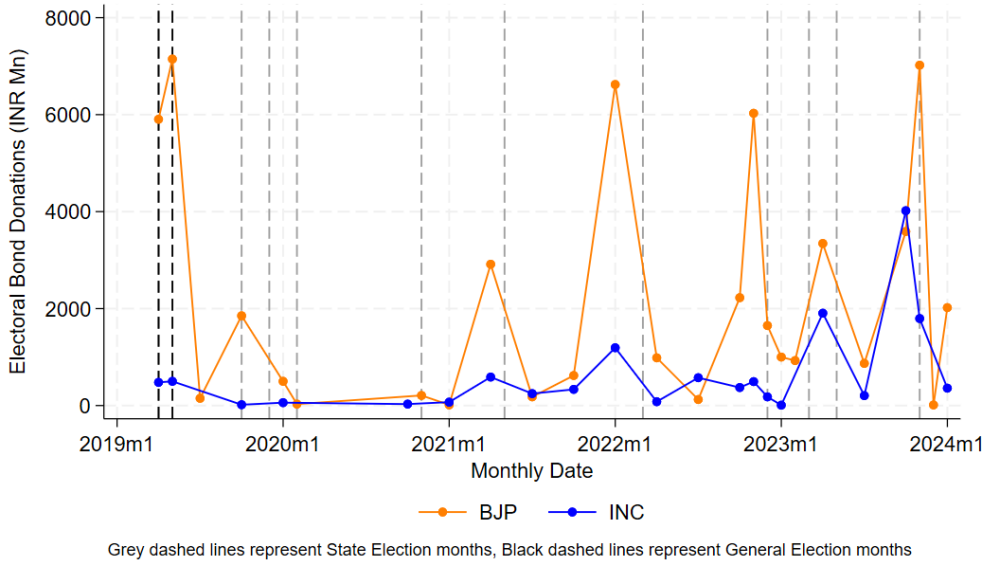


Figure 2: Donations by Party

The figures below represent the timeline of donations to the two biggest national parties by vote share in Panel A and the two regional parties in Panel B which have received the 2nd and 4th largest cumulative donation amounts. Dashed lines represent state election dates. The data is from the Election Commission of India. Data ranges from 2019-2023.

(A) Donations to National Parties



(B) Donations to Regional Parties

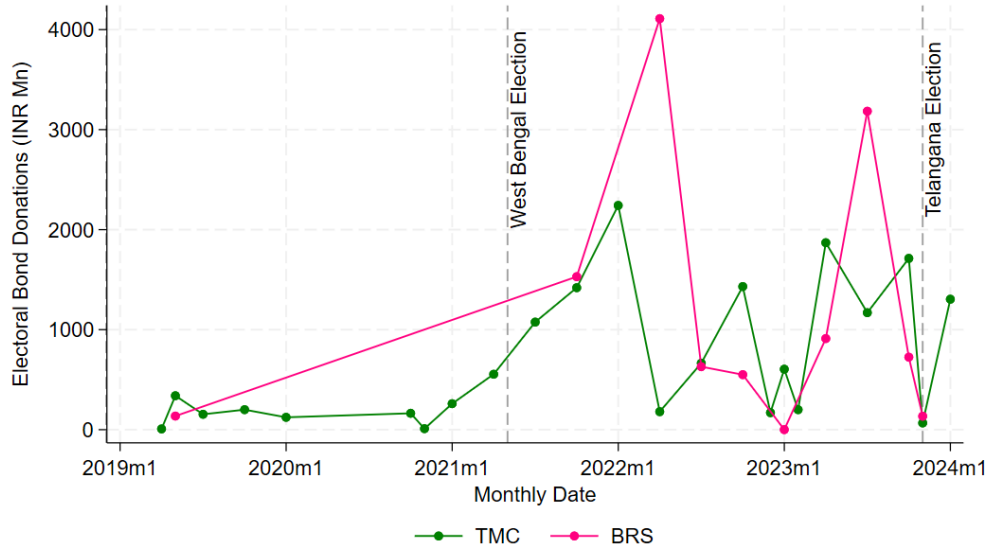
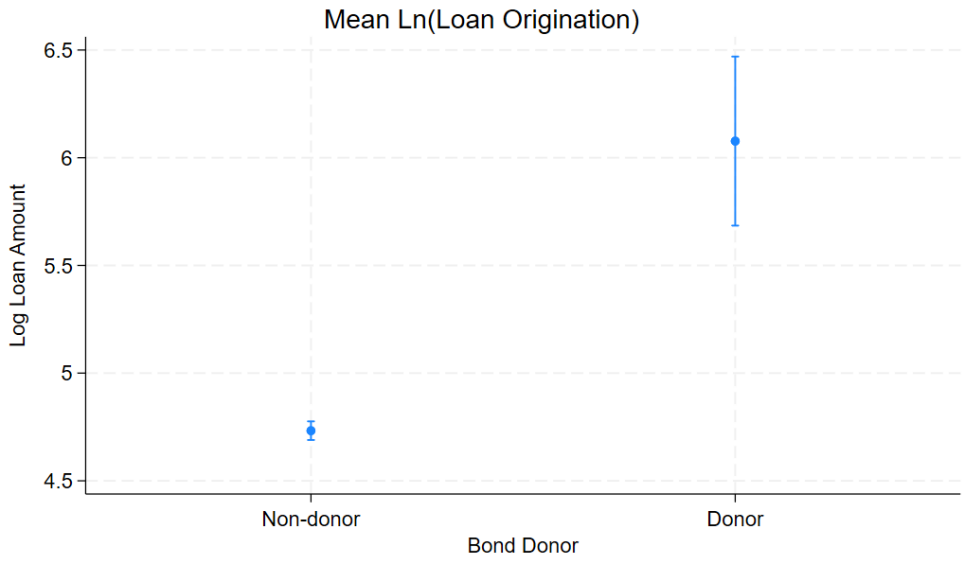


Figure 3: Loan Origination and Electoral Bond Donations

The figures below show the relationship of loan origination amounts against firm's electoral bond donation activity. Panel A represents the means of log loan oringiation amount conditional on getting a loan for electoral bond donors versus non-donors. The means plotted are adjusted for NIC-3 Industry × Year and State × Year fixed effects.Panel B represents binned scatterplot of *Logged Loan Originations* conditional on receiving a loan in a given year against *Logged Electoral Bond Donations* in the same year. Both X and Y variables are adjusted for firm and time fixed effects. The regression fit line of Y on X has a coefficient of 0.17 with a standard error of 0.08, indicating statistical significance at 5% level. The linear fit line is represented in red. Data on loan originations is sourced from Indian Ministry of Corporate Affairs' Index of Charges and the data on electoral bond donations is sourced from the Election Commission of India. Data spans 2019-2023.

(A) Loan Origination vs Firm Donor Status



(B) Binned Scatter of Loan Originations and Electoral Bond Donations

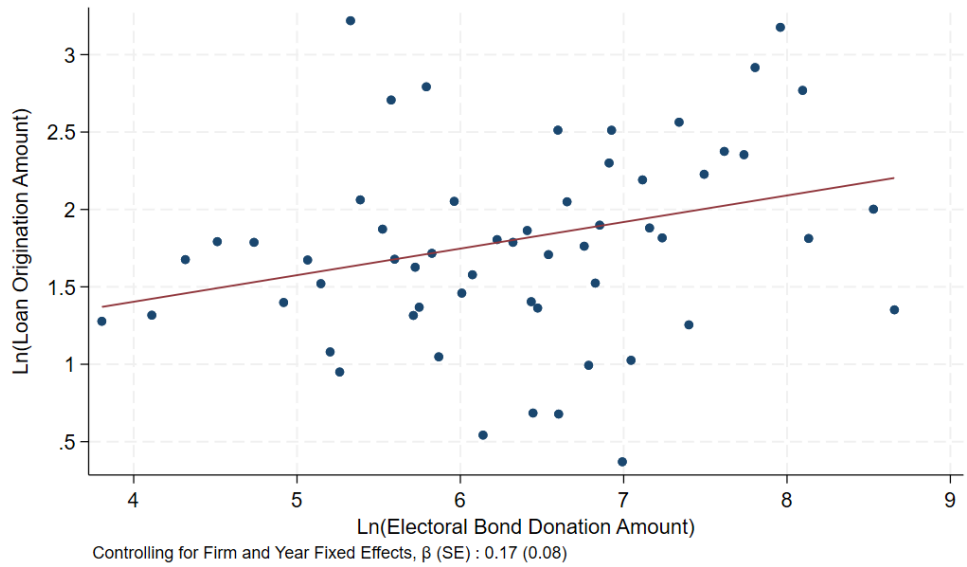
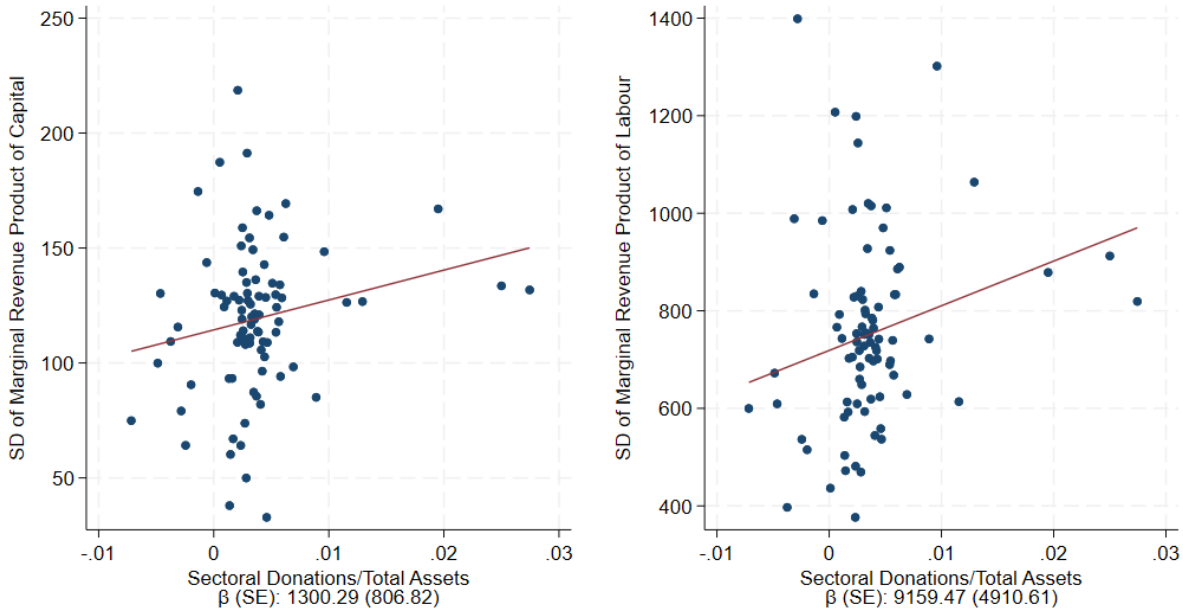


Figure 4: Binned Scatter of Sectoral Dispersion in MRPK and MRPL vs Electoral Bond Donations

This figure represents the binned scatter plots of the standard deviation of Marginal Revenue Product of Capital and Labour of a NIC-3 digit industry against the Ratio of Total Donations given by firms in that sector and the Sum Total of Assets in that industry. The left panel shows the plot for Marginal Revenue Product of Capital and the right panel shows the plot for Marginal Revenue Product of Labour. MRPK and MRPL are winsorized at the 1st and 99th percentile of their respective distributions at the firm-level before taking their standard deviation within the NIC-3 digit industry. Sectoral Donations/Total Assets is also winsorized at the 1st and 99th percentiles of its distribution. Both X and Y-axis variables are adjusted for their NIC-3 Digit Industry and Year fixed effects. I drop sectors with zero donations. I estimate MRPK and MRPL using the production function estimation and markup replication code from Baqaee and Farhi (2020) using Prowess Dx database. Data on electoral donations are from the Election Commission of India and spans 2019-2023.



NIC-3 digit industry and Year fixed effects included
X and Y-axis variables are winsorized at the 1st and 99th percentiles of their respective distributions
I restrict to sectors with positive sectoral donations

Table 1: Summary Statistics

This table presents summary statistics and balance table of the variables used in the analysis. Panel A reports the summary statistics of all variables used in the analysis, while Panel B reports the balance table between the donor and non-donor group. Electoral Bond Donations data is sourced from the election Commission of India. Loan level data is sourced from the Ministry of Corporate Affairs' Index of Charges. Firm balance sheet data and data on mergers and acquisitions is from Centre for Monitoring the Indian Economy's (CMIE) ProwessDx database. CapEx project data is from CMIE's CapExDx database. The data spans the time period 2019-2023.

Panel A

	(1) All			(2) Bond Donors			(3) Rest		
	Mean	SD	Count	Mean	SD	Count	Mean	SD	Count
Loan Amount (INR Mn.)	382.76	5742.91	226,042	1270.93	9436.46	4,292	365.57	5646.30	221,750
Loan Amount lent by PSBs (INR Mn.)	308.59	2350.04	46,967	709.94	2745.66	818	301.48	2341.84	46,149
$\mathbb{1}$(Loan Given)	0.26	0.44	226,042	0.28	0.45	4,292	0.25	0.44	221,750
$\mathbb{1}$(Loan Given by PSBs)	0.27	0.44	46,967	0.28	0.45	818	0.27	0.44	46,149
Ln(Electoral Bond Donation)	0.02	0.37	156,123	2.98	3.46	1,015	0.00	0.00	155,108
Bond Donor	0.01	0.08	156,123	1.00	0.00	1,015	0.00	0.00	155,108
Number of Projects Announced	0.04	0.51	156,123	0.46	1.93	1,015	0.04	0.49	155,108
$\mathbb{1}$(New Project Announced)	0.02	0.15	156,123	0.16	0.37	1,015	0.02	0.15	155,108
Interest Coverage Ratio	76.98	1894.98	104,308	111.69	1486.88	903	76.68	1898.16	103,405
Ln(CapEx)	2.65	2.77	81,672	5.64	2.85	763	2.62	2.76	80,909
Ln(Wage Bill)	3.44	2.63	127,597	6.20	2.49	941	3.42	2.62	126,656
Ln(MRPK)	-0.53	3.07	102,100	-0.36	2.80	865	-0.53	3.07	101,235
Ln(MRPL)	1.79	2.84	103,446	2.39	2.85	881	1.78	2.84	102,565
Ln(TFP)	-0.03	0.73	107,079	-0.03	0.84	887	-0.03	0.73	106,192
Ln(NIC-3 Ind Sales Share)	-8.00	2.91	116,669	-5.29	2.62	915	-8.02	2.90	115,754
Markup	1.34	0.80	107,079	1.37	0.38	887	1.34	0.80	106,192
No. of Major Acquisitions	0.02	0.18	156,079	0.12	0.50	971	0.02	0.18	155,108
No. of Mergers	0.01	0.21	156,079	0.09	0.54	971	0.01	0.21	155,108
Ln(Assets)	6.10	2.66	154,469	9.79	2.07	971	6.08	2.65	153,498
EBIDTA/Revenue	40.93	2227.01	116,015	86.70	1132.03	912	40.57	2233.54	115,103
Debt/Assets	0.87	12.12	119,864	0.00	0.00	894	0.88	12.16	118,970

Panel B

	Mean: Non-Donors	Mean: Donors	Two-sided P-value
Loan Amount (INR Mn.)	365.57	1270.93	0.00
Loan Amount lent by PSBs (INR Mn.)	301.48	709.94	0.00
𝟙(Loan Given)	0.25	0.28	0.00
𝟙(Loan Given by PSBs)	0.27	0.28	0.27
Number of Projects Announced	0.04	0.46	0.00
𝟙(New Project Announced)	0.02	0.16	0.00
Interest Coverage Ratio	76.68	111.69	0.58
Ln(CapEx)	2.62	5.64	0.00
Ln(Wage Bill)	3.42	6.20	0.00
Ln(MRPK)	-0.53	-0.36	0.10
Ln(MRPL)	1.78	2.39	0.00
Ln(TFP)	-0.03	-0.03	0.82
Ln(NIC-3 Ind Sales Share)	-8.02	-5.29	0.00
Markup	1.34	1.37	0.26
No. of Major Acquisitions	0.02	0.12	0.00
No. of Mergers	0.01	0.09	0.00
Ln(Assets)	6.08	9.79	0.00
EBIDTA/Revenue	40.57	86.70	0.53
Debt/Assets	0.88	0.00	0.03

Table 2: Project Announcements

This table presents results on new investment projects announced by electoral bond donors. Investment projects are defined as greenfield projects, government infrastructure projects or production capacity expansions. Panel A shows the Columns (1) and (2) show the indicator for new projects in a given year as the dependent variable. Columns (3) and (4) use No. of new projects announced. The results represent the following regressions:

$$\ln(Y)_{ibt} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where *Bond Donor*in columns (2) and (4) refers to firms who have made any electoral bond donation in the past while *Ln(Electoral Bond Donation)* in columns (1) and (3) represents the sum-total of donations made by the firm annually. Each specification contains lagged Ln(Assets), PBDITA/Revenue and Debt/Assets as controls (X_{it}). Panel A reports regression results with NIC 3-digit Industry $\times$ Year and State $\times$ Year fixed effects. Panel B presents the results with Firm $\times$ Year fixed effects. Projects data is from CMIE's CapExDx database, firm performance data is from ProwessDx and Bond Donation data is from ECI. Data spans 2019-2023. Standard Errors are clustered at the firm-level.

Panel A

	(1)	(2)	(3)	(4)
	𝟙(New Project Announced)		No. of Projects Announced	
Ln(Electoral Bond Donation)	0.0197***		0.0483***	
	(0.00443)		(0.0172)	
Bond Donor		0.0963***		0.294***
		(0.0178)		(0.108)
N	73452	73452	73452	73452
R-Sq	0.0438	0.0840	0.0394	0.0404
Fixed Effects	Industry $\times$ Year and State $\times$ Year-FE			
Controls	Ln(Assets)_{t-1}, $\text{PBDITA/Revenue}_{t-1}$ and Debt/Assets_{t-1}			

Panel B

	(1)	(2)	(3)	(4)
	𝟙(New Project Announced)		No. of Projects Announced	
Ln(Electoral Bond Donation)	-0.00145		-0.0146	
	(0.00391)		(0.00918)	
Bond Donor		-0.00675		-0.0570
		(0.0258)		(0.0577)
N	71594	71594	71594	71594
R-Sq	0.478	0.478	0.579	0.579
Fixed Effects	Firm and Year-FE			
Controls	Ln(Assets)_{t-1}, $\text{PBDITA/Revenue}_{t-1}$ and Debt/Assets_{t-1}			

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Value of Political Connection by State and Ruling Party

This table presents results on heterogeneity of new investment projects announced by electoral bond donors by their party-connections and the ruling party of their registered state. Investment projects are defined as greenfield projects, government infrastructure projects or production capacity expansions. The results represent the following regressions:

$$\ln(Y)_{ibt} = \beta_1 \times \text{Party Connection}_i \times \text{State Ruled by Party}_{st} + \beta_2 \times \text{Party Connection} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where *Party Connections* mean the firm has previously donated at least once to said party. I restrict focus to the four largest recipients of political donations. Each specification contains lagged Ln(Assets), PBDITA/Revenue and Debt/Assets as controls (X_{it}).All regressions contain NIC 3-digit Industry × Year and State × Year fixed effects. Columns (1-4) report results for the extensive margin and columns (5)-(9) has Number of Projects as the dependent variable. Projects data is from CMIE's CapExDx database, firm performance data is from ProwessDx and Bond Donation data is from ECI. Data spans 2019-2023. Standard Errors are clustered at the firm-level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	𝟙(New Project Announced)				Number of Projects Announced			
BJP Connected	0.0625***				0.148*			
	(0.0215)				(0.0794)			
BJP Connected × BJP Ruled State	0.109**				0.530			
	(0.0530)				(0.388)			
TMC Connected		0.0138				0.0994		
		(0.108)				(0.329)		
TMC Connected × TMC Ruled State		0.0438				0.134		
		(0.124)				(0.437)		
INC Connected			0.128***				0.327**	
			(0.0470)				(0.160)	
INC Connected × INC Ruled State			0.0334				0.165	
			(0.157)				(0.460)	
BRS Connected				0.104				0.547
				(0.0819)				(0.383)
BRS Connected × BRS Ruled State				-0.00647				-0.513
				(0.105)				(0.392)
N	73452	73452	73452	73452	73452	73452	73452	73452
R-Sq	0.0833	0.0813	0.0821	0.0815	0.0404	0.0385	0.0389	0.0388
Fixed Effects	Industry × Year - FE and State × Year-FE							
Controls	Ln(Assets)_{t-1}, $\text{PBDITA/Revenue}_{t-1}$ and Debt/Assets_{t-1}							

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 4: Political Donations and Firm Performance

This table studies the relationship between firm performance variables and electoral bond donation variables announced. The dependent variables for Columns (1) - (6) are Logged Capital Expenditure, Logged Wage Bill, Logged (Imputed) Employment, Logged Marginal Revenue Product of Capital and Growth in Total Factor Productivity respectively. Capital expenditure is measured as the annual change in gross plant, property and equipment. Wage bill is the total annual compensation to employees of the firm. Imputed employment is the employment derived by taking the ratio of compensation to employees and the median wage in the NIC-3 digit industry. I use this variable since total number of employees is not a mandatory disclosure in annual reports and hence missing for 87% of firms, while compensation data is missing for only 18% of firms. Marginal Revenue Product of Capital and Total Factor Productivity is produced using the replication code of Baqaee and Farhi (2020) on ProwessDx. The regression specification is:

$$\ln(Y)_{ibt} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where *Bond Donor* refers to firms who have made any electoral bond donation in the past while *Ln(Electoral Bond Donation)* represents the sum-total of donations made by the firm annually. Each specification contains lagged Ln(Assets), PBDITA/Revenue and Debt/Assets as controls (X_{it}). The upper panel presents Logged Electoral Bond Donation amount as the main independent variable while the lower panel as the main independent variable. All Specifications contain NIC-3 Digit Industry $\times$ Year and State $\times$ Year fixed effects. Data on election financing is from Electoral Commission of India and data on firm performance is from ProwessDx. Data spans 2019-2023. Standard errors are clustered at the firm level.

	(1) Ln(CapEx)	(2) Ln(Wage Bill)	(3) Ln(Imputed Employment)	(4) Interest Coverage Ratio	(5) Ln(MRPK)	(6) TFP growth
Ln(Electoral Bond Donation)	0.0468***	0.0449***	0.0468***	-7.673	0.0162	-0.0171
	(0.0165)	(0.0119)	(0.0116)	(5.301)	(0.0255)	(0.0105)
R-Sq	0.556	0.715	0.718	0.00548	0.224	0.0258
Bond Donor	0.242***	0.280***	0.299***	-51.51*	-0.240*	-0.156**
	(0.0918)	(0.0659)	(0.0639)	(27.81)	(0.141)	(0.0701)
R-Sq	0.557	0.715	0.718	0.00548	0.224	0.0258
N	49620	69903	68166	64926	65024	66445
Fixed Effect	Industry $\times$ Year and State $\times$ Year					
Controls	Ln(Assets)$_{t-1}$, PBDITA/Revenue$_{t-1}$ and Debt/Assets$_{t-1}$					

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 5: Lending to Bond Donor Firms during Close Elections

This table examines the bank-firm level data from the Ministry of Corporate Affairs' Index of Charges on lending to politically connected firms i.e. electoral bond donors. The loan-level data allows me to track each loan made to Prowess firms during the time period 2018-2024. Columns (1) and (2) have the indicator for a loan given to a firm as the dependent variable and Columns (3) and (4) have the Ln(Loan Amount) as the dependent variable. Columns (1) and (3) represent the sub-samples of states undergoing a close election. Close election is defined as one with a winning margin less than 5%. Columns (2) and (4) represent the rest of the sample. The following specification

$$\ln(Y)_{ibt} = \beta_1 \times \text{Bond Donor}_{it} \times \text{PSB}_b + \beta_2 \times \text{PSB}_b + \beta_3 \times \text{Bond Donor}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{ibt}$$

where *Bond Donor* refers to firms who have made any electoral bond donation in the past. *PSB* refers to Public Sector (i.e. Government Owned) Banks. Each specification controls for lagged Ln(Assets), PBDITA/Revenue and Debt/Assets of the firms. Panel A represents the version with NIC-3 Digit Industry × Year and State Fixed Effects. Panel B represents the version with Firm × Year fixed effects. The T-stat of the t-test of difference between the coefficient in the Close-election sample versus rest of the sample are reported in each panel Standard Errors are clustered at the firm-level.

Panel A: Within Industry and State

	(1)	(2)	(3)	(4)
	1{Loan Given}		Ln(Amount)	
	Close Election	Rest of the Sample	Close Election	Rest of the Sample
Bond Donor	-0.0828**	0.00699	-0.247	0.106
	(0.0356)	(0.0114)	(0.228)	(0.0780)
PSB	-0.0352**	0.0361***	-0.227***	0.124***
	(0.0158)	(0.00336)	(0.0829)	(0.0179)
Bond Donor × PSB	0.161**	-0.0218	1.333**	-0.0627
	(0.0693)	(0.0245)	(0.549)	(0.184)
N	7161	137294	7161	137294
R-Sq	0.0532	0.0144	0.0908	0.0407
Fixed Effects	Industry × Year and State-FE			
Controls	Ln(Assets)_{t-1}, $\text{PBDITA/Revenue}_{t-1}$ and Debt/Assets_{t-1}			
T-stat of difference b/w coeff.	120.36			116.14

Panel B: Controlling for Firm-demand

	(1)	(2)	(3)	(4)
	1{Loan Given}		Ln(Amount)	
	Close Election	Rest of the Sample	Close Election	Rest of the Sample
PSB	-0.0553***	-0.000562	-0.272***	0.0101
	(0.0165)	(0.00330)	(0.0933)	(0.0189)
Bond Donor × PSB	0.135**	-0.0343*	0.900*	-0.217
	(0.0671)	(0.0197)	(0.540)	(0.143)
N	8011	187538	8011	187538
R-sq	0.237	0.261	0.248	0.268
Fixed Effects	Firm × Year-FE			
T-state of difference b/w coeff.	98.69			81.06

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 6: Lending to BJP Donors

This table examines lending to politically connected firms against their degree of exposure to the ruling party. Data on lending is from the Ministry of Corporate Affairs' Index of Charges. The loan-level data allows me to track each loan made to Prowess firms during the time period 2018-2024. Columns (1) and (2) test the extensive margin of getting a loan while columns (3) and (4) have the logged loan amount as the dependent variable.

$$\ln(Y)_{ibt} = \beta_1 \times \text{Share of Donations to BJP} \times \text{PSB} + \beta_2 \times \text{Share of Donations to BJP} + \beta_3 \times \text{PSB} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{ibt}$$

where *Share of Donations to BJP* is the ratio of sum of annual amount of bonds given to BJP and the sum total of all electoral bond donations.. *PSB* refers to Public Sector (i.e. Government Owned) Banks. Each specification controls for lagged Ln(Assets), PBDITA/Revenue and Debt/Assets of the firms. Columns (1) and (3) represents the version with NIC-3 Digit Industry × Year and State Fixed Effects. Columns (2) and (4) represents the version with Firm × Year fixed effects. Electoral Bond data is from the Election Commission of India (ECI). Firm level characteristics are from ProwessDx. Standard Errors are clustered at the firm-level.

	(1)	(2)	(3)	(4)
	𝟙(Loan Given)		Ln(Amount)	
Share of Donations to BJP	-0.0352		-0.557*	
	(0.0410)		(0.299)	
PSB	-0.0947**	-0.140***	-0.561	-0.741**
	(0.0452)	(0.0428)	(0.344)	(0.316)
Share of Donations to BJP × PSB	0.122**	0.0915	0.736*	0.501
	(0.0613)	(0.0620)	(0.443)	(0.435)
N	1528	2171	1528	2171
R-Sq	0.141	0.202	0.151	0.214
Fixed Effects	Industry × Year and State × Year	Firm × Year	Industry × Year and State × Year	Firm × Year
Controls	Y	N	Y	N

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7: Political Donations and Industrial Concentration

This table studies the relationship between variables of firm market power and electoral bond donation variables announced. The dependent variables for Columns (1) - (4) are Markup, Logged NIC-3 digit Industry Sales Share, Number of Major Acquisitions and Number of Mergers respectively. Markup is the imputed ratio of price on marginal cost using the production function elasticity estimation method described in De Loecker et al. (2020). Firm-level industry sales shares is calculated using ProwessDx. Mergers and Acquisition data is also from ProwessDx. A major acquisition is described as one that gives the acquirer controlling stake in the target firm. The regression specification is:

$$\ln(Y)_{ibt} = \beta_1 \times \text{Bond Donor (or Donation)}_{it} + \eta X_{it} + \theta_{j(i)t} + \gamma_{s(i)t} + \epsilon_{it}$$

where *Bond Donor* refers to firms who have made any electoral bond donation in the past while *Ln(Electoral Bond Donation)* represents the sum-total of donations made by the firm annually. Each specification contains lagged Ln(Assets), PBDITA/Revenue and Debt/Assets as controls (X_{it}). The upper panel presents Logged Electoral Bond Donation amount as the main independent variable while the lower panel as the main independent variable. All Specifications contain NIC-3 Digit Industry $\times$ Year and State $\times$ Year fixed effects. Data on election financing is from Electoral Commission of India and data on firm performance is from ProwessDx. Data spans 2019-2023. Standard errors are clustered at the firm level.

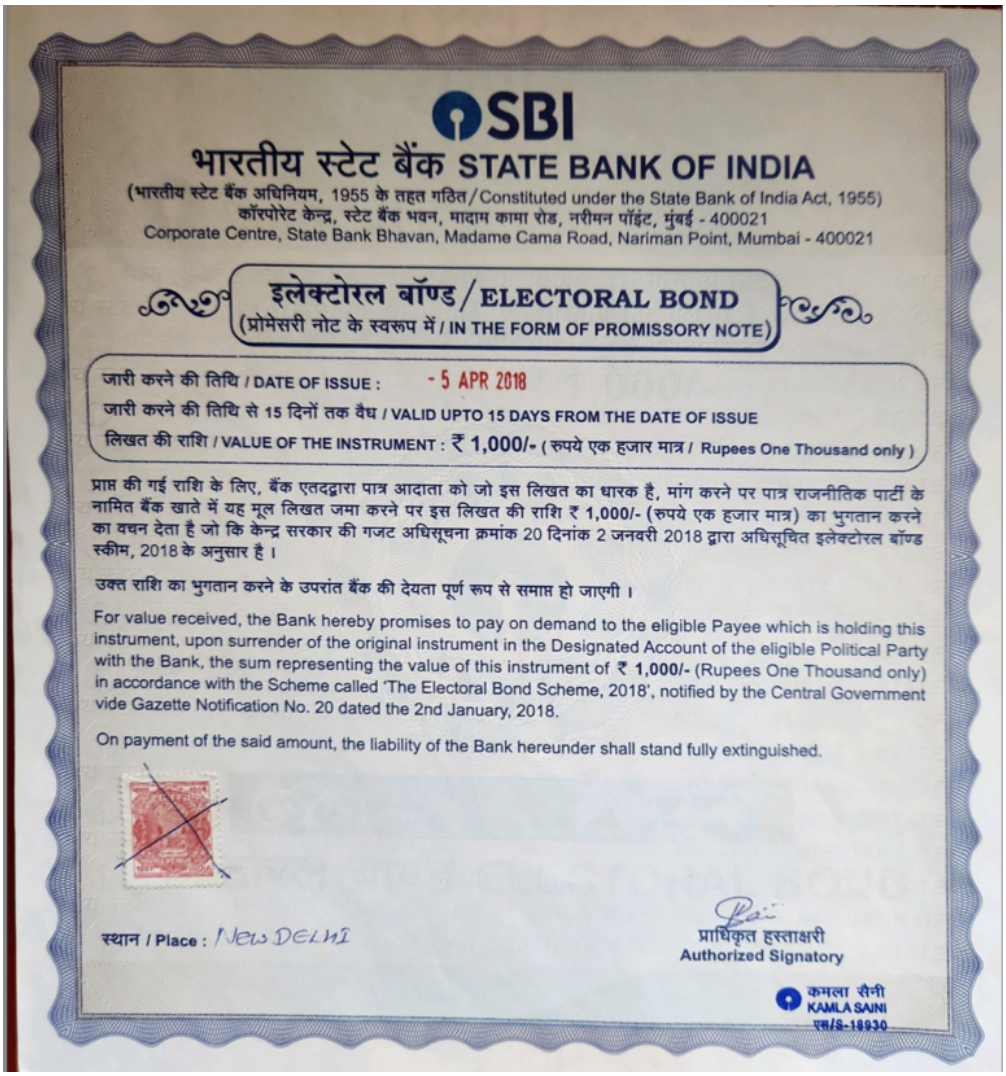
	(1)	(2)	(3)	(4)
	Markup	Ln(NIC-3 Ind Sales Share)	No. of Major Acquisitions	No. of Mergers
Ln(Electoral Bond Donation)	0.00885*	0.0404***	0.0227***	0.00845*
	(0.00500)	(0.0110)	(0.00702)	(0.00460)
R-Sq	0.0992	0.752	0.0315	0.0185
Bond Donor	0.0728***	0.145**	0.0874***	0.0661***
	(0.0175)	(0.0734)	(0.0238)	(0.0255)
R-Sq	0.0992	0.752	0.0311	0.0189
N	67425	70810	73452	73452
Fixed Effect	Industry $\times$ Year and State $\times$ Year-FE			
Controls	Ln(Assets)_{t-1}, $\text{PBDITA/Revenue}_{t-1}$ and Debt/Assets_{t-1}			

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Appendix

Figure 5: Sample Electoral Bond

The picture shows a sample electoral bond issued by the State Bank of India. The image is retrieved from the url: https://gijn.org/stories/reporting-electoral-bonds-exposed-political-fundraising/



SBI

भारतीय स्टेट बैंक STATE BANK OF INDIA

(भारतीय स्टेट बैंक अधिनियम, 1955 के तहत गठित/Constituted under the State Bank of India Act, 1955)
कॉरपोरेट केन्द्र, स्टेट बैंक भवन, मादाम कामा रोड, नरीमन पॉइंट, मुंबई - 400021
Corporate Centre, State Bank Bhavan, Madame Cama Road, Nariman Point, Mumbai - 400021

इलेक्टोरल बॉण्ड/ELECTORAL BOND
(प्रोमेसरी नोट के स्वरूप में / IN THE FORM OF PROMISSORY NOTE)

जारी करने की तिथि / DATE OF ISSUE : - 5 APR 2018
जारी करने की तिथि से 15 दिनों तक वैध / VALID UPTO 15 DAYS FROM THE DATE OF ISSUE
लिखत की राशि / VALUE OF THE INSTRUMENT : ₹ 1,000/- (रुपये एक हजार मात्र / Rupees One Thousand only)

प्राप्त की गई राशि के लिए, बैंक एतद्द्वारा पात्र आदाता को जो इस लिखत का धारक है, मांग करने पर पात्र राजनीतिक पार्टी के नामित बैंक खाते में यह मूल लिखत जमा करने पर इस लिखत की राशि ₹ 1,000/- (रुपये एक हजार मात्र) का भुगतान करने का वचन देता है जो कि केन्द्र सरकार की गजट अधिसूचना क्रमांक 20 दिनांक 2 जनवरी 2018 द्वारा अधिसूचित इलेक्टोरल बॉण्ड स्कीम, 2018 के अनुसार है ।

उक्त राशि का भुगतान करने के उपरांत बैंक की देयता पूर्ण रूप से समाप्त हो जाएगी ।

For value received, the Bank hereby promises to pay on demand to the eligible Payee which is holding this instrument, upon surrender of the original instrument in the Designated Account of the eligible Political Party with the Bank, the sum representing the value of this instrument of ₹ 1,000/- (Rupees One Thousand only) in accordance with the Scheme called 'The Electoral Bond Scheme, 2018', notified by the Central Government vide Gazette Notification No. 20 dated the 2nd January, 2018.

On payment of the said amount, the liability of the Bank hereunder shall stand fully extinguished.

स्थान / Place : NEW DELHI

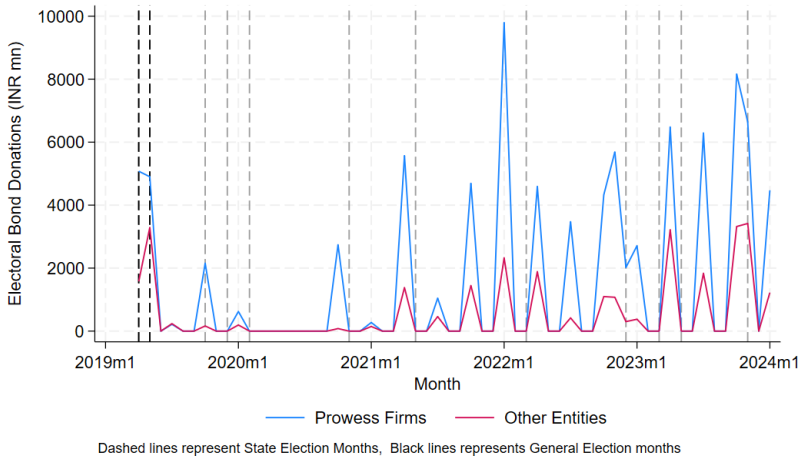
प्राधिकृत हस्ताक्षरी
Authorized Signatory

कमला सैनी
KAMLA SAINI
एस/S-18930

Figure 6: Coverage of Prowess firms

The figures below represent coverage of donation amounts and frequency of Prowess firms versus other donors such as individuals and unmatched firms which are not in Prowess. Panel A represents time-series of donation amounts by Prowess firms versus other entities. while Panel B plots the time series number of donations of Prowess firms and the rest. The data is from the Election Commission of India. Data ranges from 2019-2023.

(A) Donation Amounts of Prowess firms versus rest



(B) Donation frequency of Prowess firms versus rest

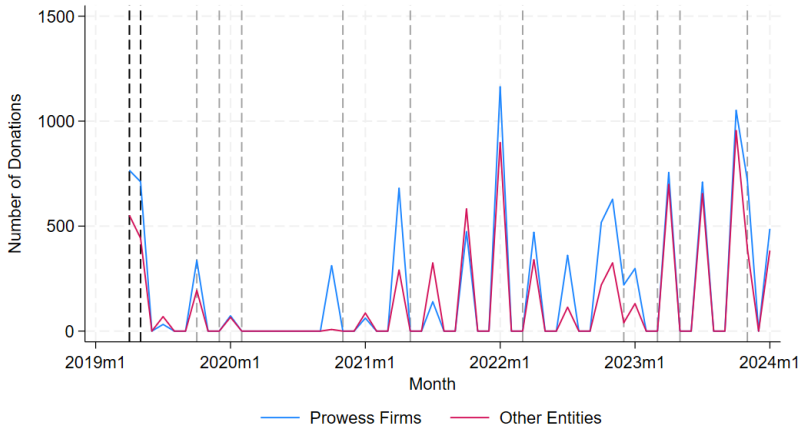


Figure 7: Robustness: Alternate Political Connection Assignment

The figures below show the coefficient plots of the following regression specification for the firm-level variables (1) Number of Projects Announced, (2) Logged Capital Expenditure (3) Logged Wage Bill (4) Logged MRPK (5) TFP Growth (6) Markup (7) Logged NIC-3 digit Industry Sales Share (8) Number of Major Acquisitions (9) Number of Mergers:

$$Y_{it} = \beta_1 \times \text{Connected}_i \times \text{Year}_t + \beta_2 \times \text{Connected}_i + \eta X_{it-1} + \gamma_{j(i)t} + \theta_{s(i)t} + \epsilon_{it}$$

where *Connected* refers to firms who have ever made any electoral bond donations in their lifetime. Each specification contains lagged Ln(Assets), PBDITA/Revenue and Debt/Assets as controls (X_{it}). All Specifications contain NIC-3 Digit Industry $\times$ Year and State $\times$ Year fixed effects. Data on election financing is from Electoral Commission of India, data on project announcements is from CMIE's CapExDx database and data on firm performance variables, mergers and acquisitions is from ProwessDx. Data spans 2019-2023. Standard errors are clustered at the firm level.