Public Procurement, Credit, and Firm Dynamics

Pitch discussion

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What this paper does/will do

The question: how does doing business with the government - through public procurement contracts - affect firms' access to credit and investment?

The strategy:

- Granular data on procurement contracts complemented with the well-known Portuguese firm level admin data -- 2009-2019 panel
- Measure elasticity of credit/investment with respect to the value of awarded contracts
  - How credit/investment changes after award [also extensive margin in full version]

The results so far:

- avg. $\uparrow$ in credit $\approx$ 5%, avg. $\uparrow$ in investment $\approx$ 10%
- credit effect from loans with personal guarantees $\Rightarrow$ evidence of cash-flow based lending
- credit and investment effects come from small $\Leftrightarrow$ credit constrained firms

There is much to like here

Very cool data work

- Smart idea to scrape contract data from the government web portal
  - Q: any systematic difference to public contracts?

Public procurement is indeed a big deal: 12% of GDP and 20% of G! (OECD)

- Q: % of firms who engage in contracts? Sectoral composition? Easy in this data
- Interest for firm investment and cash-flow based lending questions evident

Breaking down "Big G" very relevant also from macro side

- Links to a very new literature (Cox et al. 2021, Bouakez et al. 2020, Moro and Rachedi 2020) looking at how (sectoral) heterogeneity in gov. spending affects the transmission of fiscal policy
  - Not sure I would start from fundamental theory questions on fiscal policy? (Also as aggregate implications of the paper are not, so far, evident)

How might this work?

What is the counterfactual here? What is special about procurement contracts?

- How do public procurement contracts differ from other sales (to private customers)?
  - Surely much bigger (vs. avg. sales per client)? More long-term commitments = $\downarrow$ revenue risk? Higher margins?

How does the effect on credit work? (I.e. what does increased collateral mean?)

- E.g.: $\uparrow G$ => longer-term contracts => $\downarrow$ revenue risk => cash-flow based lending

And the effect on investment? Is it simply the financial accelerator?

- Or is there something specific here? Must firms invest more to meet contract requrements?
  - Elasticity on impact seems consistent with this?
- Is reverse causality possible? If firms invest (more) to try to *win* (bigger) contracts?

Further implications?

For credit supply / financial frictions

In what sense are financial frictions "alleviated"?

- Also depends on systematic difference between public procurement contracts and others?
- If it's the same as any other sales shock, not clear if this is really reducing monitoring costs / information asymmetries

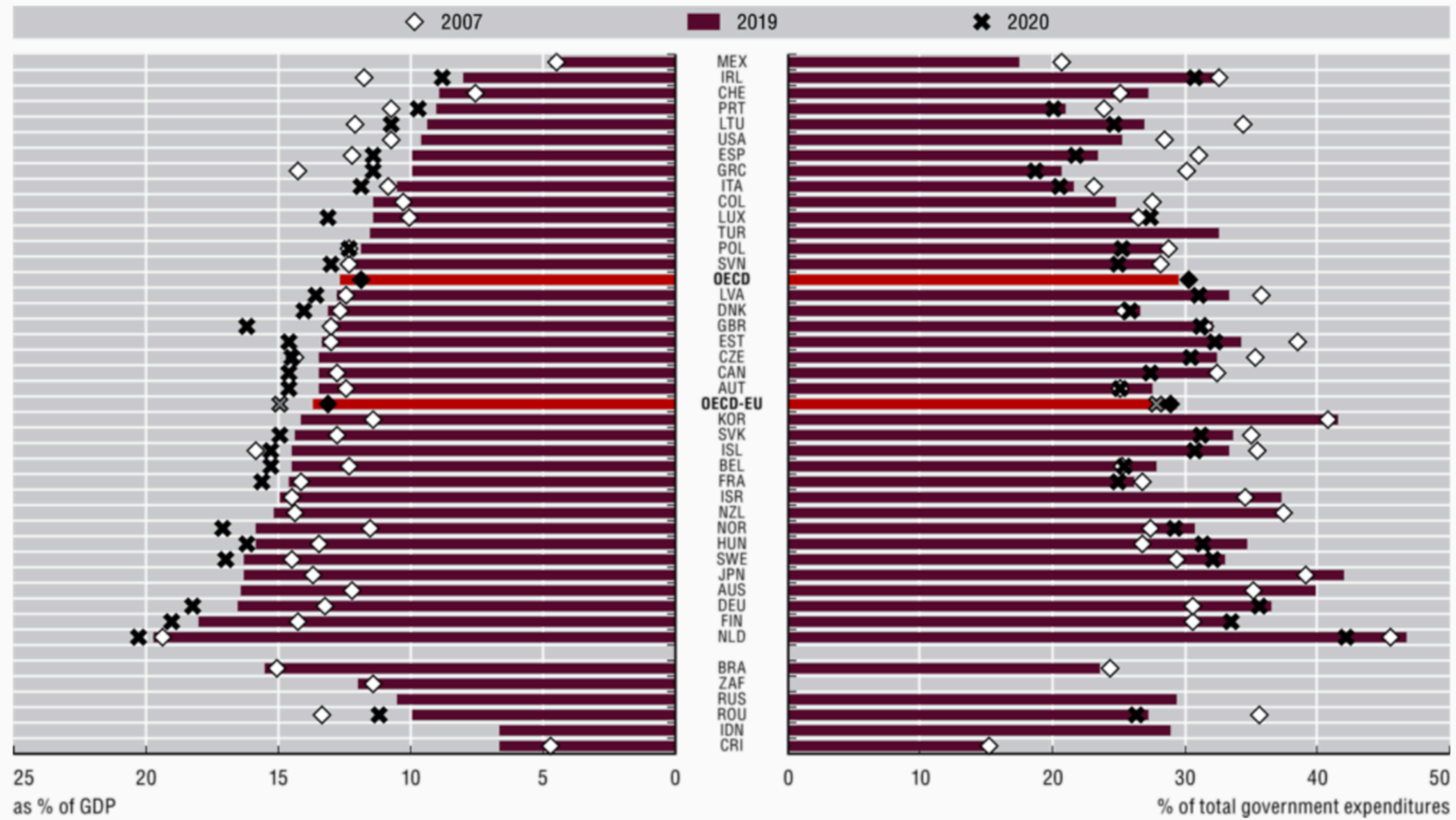
Can you check default rates?

- Is increase in credit supply is matched by lower default rates?

Macro / "big G"

- How representative are the firms here? In terms of sectors and sizes?

Public procurement / G



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Thanks!