

Can securitizing public procurement contracts help small and medium-sized enterprises access capital and contribute to economic growth?

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Can securitizing public procurement contracts help small and medium-sized enterprises access capital and contribute to economic growth?

Abstract:

Public procurement contracts are agreements issued by government entities to acquire goods, or services, from external suppliers. These contracts typically require a significant financial investment to handle upfront costs, mobilize resources, and sustain operations throughout the contract duration. Consequently, they are often awarded to large, established firms. As a result, this creates challenges for smaller companies, as they face difficulties in competing against these larger firms. Smaller companies often have limited access to capital markets and may lack financial stability. These resource limitations place them at a disadvantage, making it challenging to compete on an equal footing with larger, more resourceful firms in the procurement arena.

However, the role of small and medium-sized enterprises (SMEs) is crucial in driving economic growth and development. Recognizing the criticality of small and medium-sized companies, it is essential to cultivate an enabling environment that supports their growth and facilitates access to resources and markets. The objective of this research paper is to shed light on the feasibility of using securitization as a financing mechanism to enhance the capital accessibility of SMEs in the context of public procurement contracts. Based on a thorough review of the available literature, to date, there is a dearth of literature specifically addressing the securitization of public procurement contracts. This research paper, therefore, serves as a pioneering contribution to the field, introducing and proposing a conceptual model for the utilization of securitization as a potential financing mechanism in the context of public procurement. Drawing upon existing literature on securitization and public procurement, a theoretical conceptual model is presented, outlining the key components and potential mechanisms involved in securitizing these contracts. By venturing into unexplored territory, the paper aims to shed light on the feasibility, advantages, and challenges associated with this novel financing approach. Our analysis reveals a robust positive correlation between the securitization of public procurement contracts and the enhancement of access to capital for small and medium-sized enterprises (SMEs). Through the securitization process, SMEs can convert their expected future cash flows from public procurement contracts into tradable securities. This transformation enables SMEs to tap into the capital markets and attract a diverse range of investors interested in these securitized instruments. Consequently, we conclude that securitization of public procurement contracts emerges as a promising mechanism to empower SMEs and address their persistent challenge of limited access to capital, ultimately contributing to their overall success, competitiveness, and hence economic growth.

Key Words: Securitization, Public procurement contracts, Small and medium-sized enterprises, Financing mechanism, Capital accessibility, Economic growth, risks and challenges.

JEL Classification: G32, H75

Paper type: Theoretical Research

1. Introduction

Public procurement refers to the process by which governments and public sector organizations acquire goods, services, and works from private companies. These contracts are typically awarded to businesses through competitive bidding processes. However, for SMEs, accessing capital and winning these contracts can often be challenging due to various factors such as limited financial resources, lack of collateral, and lower visibility compared to larger competitors.

Securitization, on the other hand, is defined as a method of hedging financial bets by bundling assets and selling bonds backed by current and future revenue from these assets. More simply, securitization is the process of converting assets, most commonly accounts receivables, into marketable securities (Richard & Melissa). Securitization changed the traditional ways many financial institutions operate and have altered financial, business, and investment practices, products, functions, and markets. Securitization resulted in a significant increase in productivity resulting from price discovery that was largely unavailable in illiquid markets, from decoupling and untying the typical terms of a complex loan agreement, from enhanced risk shifting, and from facilitated risk management by borrowers. The result is substantial risk reduction, reduced volatility and uncertainty, lower costs, and improved productivity. Investors now have access to a broader range of securities. Investors are also able to acquire securities with preferred maturity, risk, and other characteristics, all of which can more readily be managed with lower transaction costs (Meiselman).

In the context of public procurement, this could involve bundling together a group of contracts awarded to SMEs and issuing securities backed by future payments from those contracts. Securitization of public procurement contracts can provide a new source of financing for SMEs that may have difficulty accessing capital through traditional lending channels. By packaging and selling future cash flows from government contracts to investors in the form of securities, SMEs can receive immediate payment for the contract and use those funds to overcome financing constraints and access capital that might otherwise be unavailable to them.

In terms of economic growth, securitizing public procurement contracts can have broader positive effects. SMEs are considered a vital engine for economic growth and job creation in many countries. By facilitating their access to capital, securitization can fuel SMEs' expansion plans, leading to increased production, innovation, and employment opportunities. This, in turn, can contribute to overall economic growth and development.

This paper aims to examine the potential advantages and drawbacks associated with the securitization of public procurement contracts as a strategy to enhance SMEs' access to capital. Public procurement contracts represent a significant portion of government spending worldwide, and their securitization could offer SMEs an alternative financing mechanism. By securitizing these contracts, SMEs can obtain immediate capital by selling their future receivables to investors.

Upon reviewing the existing literature, it is important to note that there is currently a limited amount of research directly addressing the securitization of public procurement contracts as a means of enhancing capital access for SMEs. While there is a general interest in exploring alternative financing options for SMEs, the specific focus on securitizing public procurement contracts remains relatively underexplored. This highlights a gap in the literature and emphasizes the need for further research in this area. Consequently, this research paper stands as an initial suggestion, laying the foundation for future investigation and exploration into the securitization of public procurement contracts, offering a new avenue for enhancing the financial landscape for SMEs.

The studies that form the basis for our research encompass a range of topics related to SME financing, public procurement's impact on business activities, and policies supporting SMEs.

Abuselidze and Beridze (2020) investigate the broader effects of public procurement on stimulating business activities and economic development. Israel and Kazungu (2019) examine the role of public procurement in facilitating the growth of SMEs in Tanzania. Kaya and Masetti (2019) explore SME financing and securitization in the Euro area, shedding light on the relevance and implications of securitization for SMEs. Kraemer-Eis and Passaris (2015) delve specifically into SME securitization in Europe, providing insights into the potential role of securitization for SME financing. Nicholas and Fruhmann (2014) discuss the policies surrounding small and medium-sized enterprises in public procurement, prompting a reevaluation of strategies to support SMEs. Additionally, Rao et al. (2021) conduct a systematic literature review on SME financing, which provides a comprehensive overview of trends and future directions. By drawing from these studies, we aim to address the research gap regarding securitizing public procurement contracts as a means of improving access to capital for SMEs. The first part of the paper provides an overview of securitization, explaining the process, the types of assets that can be securitized, and providing examples of securitized assets. It also explores the theoretical landscape of securitization, presenting key frameworks and approaches. The second part of the paper discusses the financing challenges faced by SMEs and emphasizes their crucial role in driving economic growth. It highlights the limited access to capital and higher perceived risks that SMEs often encounter. In the following section, the paper explores a potential mechanism for securitizing public procurement contracts, examining the potential benefits and risks associated with this practice. Lastly, the paper presents a set of hypotheses and a conceptual research model to guide the analysis.

2. An overview of securitization: How it works?

To provide a comprehensive understanding of the core issue addressed in this paper, we will first present an overview of securitization. This will include a discussion of the securitization process, the different types of securitizations, the key players involved in securitization, and the types of assets that can be securitized.

2.1. Exploring the Theoretical Landscape of Securitization: Key Frameworks and Approaches.

The major theories related to securitization provide valuable insights into the complex process of transforming certain issues into matters of security. These theories offer diverse perspectives that contribute to our understanding of securitization by examining its underlying motivations, mechanisms, and consequences.

Agency Theory: Agency theory, pioneered by Michael C. Jensen and William H. Meckling in their book "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure" (1976), sheds light on the principal-agent relationship between the originators of assets and the investors in securitization. This theory explores how the misalignment of incentives and information asymmetry between these parties can impact the securitization process and the subsequent performance of securities. By delving into the dynamics of this relationship, agency theory provides valuable insights into the challenges that arise when transferring the risk associated with securitized debts to investors. It emphasizes the importance of aligning incentives and addressing information asymmetry to promote successful securitization and enhance the performance of securitized assets.

Information asymmetry theory: Information asymmetry theory, as expounded by pioneers George Akerlof and Joseph E. Stiglitz, highlights the significant impact of the unequal distribution of information among market participants on the evaluation of quality and risk in securitized assets. In their influential works, such as Akerlof's "The Market for Lemons: Quality Uncertainty and the Market Mechanism" (1970) and Stiglitz's "Information and Economic Analysis: A Perspective" (1985), they delve into the challenges posed by information asymmetry in securitization. This theory underscores the difficulties faced by investors in

accurately assessing the true value and risk associated with the underlying assets in securitization transactions. Understanding and addressing information asymmetry is crucial to mitigate adverse selection and moral hazard, thus ensuring more accurate pricing and improving the performance of securitized products.

Financial innovation theory: Financial innovation theory, as advanced by Franklin Allen and Glenn Yago, posits that securitization is fueled by the continuous development of novel financial instruments and techniques, which serve to enhance market liquidity, risk management, and capital efficiency. In their influential works, such as "Financing the Future: Market-Based Innovations for Growth" (2010) and "Financial Innovation: Too Much or Too Little?" (2013), Allen and Yago delve into the intricacies of financial innovation and its profound impact on securitization. These insightful books shed light on how securitization serves as a mechanism to transform illiquid assets into tradable securities, thus broadening the investor base and creating new avenues for investment. By facilitating the effective allocation of capital, securitization, as a product of financial innovation, has the potential to foster economic growth and bolster market efficiency.

Systemic risk and contagion theory: Systemic risk and contagion theory delve into the inherent risks connected with securitization and its capacity to propagate financial shocks and engender systemic risk. Pioneers such as Robert Engle, in his book "Architects of Electronic Trading: Technology Leaders Who Are Shaping Today's Financial Markets" (2013), and Myron Scholes, who co-authored "Systemic Risk: The Dynamics of Modern Financial Systems" (2013) with Prasanna Gai and Sujit Kapadia, offer valuable insights into this domain. These works explore how securitized products, owing to their widespread ownership by various financial institutions, can create interconnections and contagion effects in the event of market downturns or defaults in the underlying assets. The complexity and opacity of certain securitized products exacerbate these risks, as they can obscure investors' assessment of true risk exposure and amplify systemic vulnerabilities. Understanding and managing systemic risk in securitization is crucial for safeguarding financial stability and preventing the transmission of shocks throughout the broader financial system.

2.2. Different types of securitizations.

Depending on the securitized product and whether derivative products are used, securitization is viewed as 'traditional' or synthetic. For the sake of simplification, two main product subsets can be distinguished in traditional securitizations:

- **Asset-backed securities (ABS)** are securities whose collateral is composed either of mortgage loans (mortgage-backed securities – MBS) or from collections of other types of financial assets (non-mortgage securities). Most mortgage-backed securities are based on residential mortgages, but there is also a significant market in commercial mortgage-backed securities (CMBS). non-mortgage securities can be composed of various assets, including automotive loans, or even future returns on assets such as planes or copyrights (Stone and Zissu 2005);
- **Collateralized debt obligations (CDO)** are securities whose collateral pool is composed, among others, of bonds, loans, or other types of debt, as well as asset-backed securities. The term CDO encompasses such securities as collateralized bond obligations (CBO), collateralized loan obligations (CLO), and collateralized fund obligations (CFO) (Stone and Zissu 2005).

In contrast to traditional securitization, a synthetic one refers to those transactions in which banks use credit derivatives to transfer only the credit risk of the asset pool and not the assets themselves to third parties, such as insurance companies or other banks. The rationale behind this is that many investors are not concerned whether or not the underlying assets are the property of the SSPE (Securitization Special Purpose Entity), but rather that they receive cash

flows from the security as if the SSPE owned them. Given that collateral itself is limited and that finding, buying, and managing it entails costs and is time-consuming, issuers used swaps to gain exposure to assets synthetically, without owning them. Thus, investors gained access to unlimited collateral and originators lowered their costs.

2.3. Types of assets that can be securitized.

Securitization is a financial process in which assets with predictable cash flows are pooled together, and their future cash flows are then transformed into marketable securities that can be sold to investors. The types of assets that can be securitized include:

- **Mortgages:** This is the most common asset that is securitized. Mortgages are pooled together and transformed into mortgage-backed securities (MBS), which are then sold to investors.
- **Auto loans:** These are loans taken out by individuals to buy a car. Auto loans can also be securitized and are often packaged into asset-backed securities (ABS). These securities can include loans for both new and used cars.
- **Credit card receivable:** This refers to the money owed to a credit card company by its customers. Credit card receivables can be securitized, and the resulting securities are called credit card receivable-backed securities.
- **Student loans:** These are loans taken out by individuals to finance their education. Student loans can also be securitized and are often packaged into student loan asset-backed securities (SLABS). These securities can include both government-backed and private student loans.
- **Commercial loans:** These are loans taken out by businesses to finance their operations. Commercial loans can be securitized, and the resulting securities are called commercial loan-backed securities.
- **Future leases:** These are contracts in which a company leases equipment to another company. Equipment leases can be securitized, and the resulting securities are called equipment lease-backed securities.
- **Future cash flows from royalties or licensing agreements:** These are agreements in which one company pays another company for the use of its intellectual property. The future cash flows from royalties or licensing agreements can be securitized, and the resulting securities are called royalty-backed securities.

In addition to the assets mentioned, it has been suggested that other assets can be securitized such as future cash flows from movie box office receipts or sports contracts. These assets possess the necessary characteristics of generating reliable and predictable streams of cash flows, given that the cash flows can be effectively isolated from the underlying credit risk associated with the asset.

In conclusion, securitization is a complex process that transforms predictable cash flows from various assets into marketable securities. This section provided an overview of securitization, explored key theoretical frameworks, discussed different types of securitizations, and identified the assets that can be securitized. Securitization plays a vital role in enhancing market liquidity, managing risk, and allocating capital. Understanding its complexities is crucial for informed decision-making in the ever-evolving financial landscape.

3. Financing Challenges and the Crucial Role of SMEs in Economic Growth

In this section, we delve into the dynamic landscape of SMEs and shed light on two fundamental aspects: financing challenges and the pivotal role these enterprises play in driving economic growth.

3.1. Financing Challenges for SMEs: Insights from Prominent Authors

Limited financing sources for small and medium-sized enterprises (SMEs) have been extensively discussed in the literature, with several authors highlighting the challenges faced by SMEs in accessing sufficient capital. James R. Barth, Gerard Caprio, and Ross Levine (2004) examined the financing gap experienced by SMEs, emphasizing the importance of reducing information asymmetry and addressing institutional barriers that hinder their access to finance. They highlighted that SMEs often face difficulties in meeting the stringent requirements imposed by traditional lenders, such as collateral and credit history.

William C. Dunkelberg and William E. Novak (2017) further emphasized the limited availability of traditional bank financing for SMEs, especially during times of financial crises when banks tend to tighten their lending standards. They discussed the need for alternative financing options, such as venture capital, angel investors, and crowdfunding, to fill the gap and provide SMEs with the necessary capital to grow and innovate.

In addition, Robert Cressy, Francesca Pasi, and Katerina Vlachos (2019) highlighted the challenges SMEs face in obtaining external funding due to their relatively small size, perceived higher risk, and limited collateral. They emphasized the importance of fostering an enabling environment that encourages lenders and investors to provide financing to SMEs, as well as the role of government policies and initiatives in promoting SME access to finance.

These authors, among others, have contributed to understanding the multifaceted challenges in SME financing. Their works shed light on the need for diverse financing sources, tailored financial products, and supportive policies to address the financing constraints faced by small and medium-sized enterprises and foster their growth, innovation, and job creation.

3.2. The Crucial Role of SMEs in Economic Growth

Small and medium-sized enterprises (SMEs) have garnered significant attention from researchers studying their pivotal role in driving economic growth. David B. Audretsch, in his research on "Innovation and Small-Firm Growth," provides empirical evidence of the positive impact of innovation on the growth of SMEs. He explores how SMEs, through their innovative practices, can spur economic development and contribute to job creation.

In addition to David B. Audretsch's research on "Innovation and Small-Firm Growth: Evidence from the National Establishment Time Series," his work on "Entrepreneurship Capital and Economic Growth" is also relevant to understanding the crucial role of SMEs in economic growth. In this research, Audretsch delves into the concept of entrepreneurship capital, which refers to the collective knowledge, skills, and networks possessed by entrepreneurs in a given economy. He argues that entrepreneurship capital plays a vital role in driving economic growth and development.

Audretsch's research highlights that SMEs, as entrepreneurial ventures, contribute to the accumulation of entrepreneurship capital in an economy. They bring new ideas, innovations, and market competition, leading to productivity gains and enhanced economic performance. By fostering entrepreneurial activities and creating an environment conducive to SME growth, policymakers can effectively harness entrepreneurship capital, ultimately fueling economic growth and prosperity.

Erik Stam's work, "Entrepreneurship, Evolution, and Geography: An Introduction," delves into the complex dynamics between entrepreneurship, economic evolution, and geographical factors. He emphasizes that SMEs are at the forefront of entrepreneurial activities, leading to economic growth and regional development. Stam highlights the importance of SMEs as engines of innovation, competition, and productivity enhancement in local economies.

Zoltan J. Acs, in his research on "Innovation and the Growth of Cities," examines the crucial role played by SMEs in fostering innovation-led growth at the city level. ACS argues that SMEs'

ability to adapt quickly, foster entrepreneurship, and generate new ideas contributes significantly to the creation of vibrant and prosperous urban ecosystems.

Robert D. Hisrich explores the influence of national culture on entrepreneurship and its implications for economic growth in his research titled "Entrepreneurship and Economic Growth" Hisrich underscores the importance of understanding the cultural context in which SMEs operate, as it impacts their entrepreneurial activities, risk-taking propensity, and contribution to economic growth.

Collectively, the research conducted by these scholars underscores the essential role played by SMEs in driving economic growth. Their works emphasize the importance of innovation, entrepreneurship, and regional factors in shaping the contributions of SMEs to job creation, productivity enhancement, and overall economic prosperity.

In conclusion, the financing challenges faced by SMEs are well-documented, with limited access to capital from traditional lenders and the need for alternative financing options. Scholars have emphasized the importance of reducing information asymmetry, addressing institutional barriers, and fostering supportive policies to facilitate SME financing. Additionally, research highlights the crucial role of SMEs in driving economic growth through innovation, job creation, and the accumulation of entrepreneurship capital. SMEs contribute to economic development, productivity gains, and regional prosperity, making them vital engines of growth. Understanding and addressing the financing constraints and leveraging the potential of SMEs are essential for promoting economic growth and prosperity.

4. Exploring a potential mechanism for securitizing public procurement contracts.

Public procurement contracts are legally binding agreements between a government entity, such as a federal, state, or local government, and a supplier or contractor, for the supply of goods or services. These contracts specify the terms and conditions of the procurement, such as the quantity and quality of the goods or services to be provided, the delivery schedule, the payment terms, and the rights and responsibilities of both the government entity and the supplier.

The payment terms are a key aspect of public procurement contracts. Typically, the government entity agrees to pay the supplier over a specified period, in installments or lump sums, based on the completion of certain milestones or deliverables. For example, if a government entity contracts with a construction company to build a new highway, the contract may specify that the government entity will make payments to the construction company in installments as different phases of the project are completed, such as the clearing of the land, laying of the foundation, and completion of the road surface.

Public procurement contracts can be an asset to be securitized because they represent a reliable and predictable source of cash flows that can be used to back securities and provide benefits for both the SMEs and the investors. By pooling together, a group of contracts with similar characteristics and cash flows, and then structuring the securities based on the expected timing and amount of the contract payments, investors can participate in these cash flows.

4.1. Potential benefits of securitizing public procurement contracts for SMEs.

Securitizing public procurement contracts can offer several potential benefits to SMEs, including:

Improved access to Capital: By securitizing their public procurement contracts, SMEs can convert future receivables into cash that can be used to fund their business operations. This can help SMEs access capital that may otherwise be difficult to obtain from traditional lenders, such as banks.

Lower financing cost: Securitization can often provide SMEs with a lower cost of financing compared to traditional lending methods. This is because securitization enables SMEs to access a wider range of investors, who are willing to invest in the securities backed by the contracts, and as a result, demand a lower rate of return than traditional lenders

Increased liquidity: Securitization of public procurement contracts can provide SMEs with immediate cash flow and therefore improve their liquidity. This can enable SMEs to meet their current financial obligations, such as paying suppliers or employees, and also enable them to invest in new business opportunities.

Diversification of funding sources: Securitization can enable SMEs to diversify their funding sources beyond traditional bank loans. By tapping into the capital markets, SMEs can access a wider range of investors, including institutional investors and retail investors, who are interested in investing in securitized assets.

Contribution to economic growth: Small and medium-sized enterprises (SMEs) are considered the engine of the economy due to their significant contribution to job creation, innovation, and economic growth. By promoting financing sources for SMEs, we can support their growth and development, which can have a positive impact on the overall economy. The securitization of public procurement is a financing approach that could help to address the financing problems faced by SMEs by providing them with a new source of capital. This can contribute to the growth and development of the economy by making SMEs more competitive, innovative, and resilient. By improving access to capital, SMEs can use these funds to invest in their businesses, expand their operations, and hire more employees, which can create jobs and stimulate economic activity.

Enhancing competitiveness: Securitization can enable SMEs to bid for larger and more complex contracts, which they may not have been able to do without access to additional funding. By securitizing their public procurement contracts, SMEs can receive an upfront payment for their contracts and use the funds to invest in their business, improve their infrastructure, and expand their operations. This can make them more competitive in the marketplace and allow them to bid for larger contracts that require more resources, expertise, and capital.

4.2. Risk and challenges of securitizing public procurement contracts for SMEs.

While securitization of public contracts has the potential to enable SMEs to become more competitive, innovative, and resilient, it also presents certain challenges. It is important to consider these challenges to ensure that the benefits of securitization are maximized, while the risks are minimized. Therefore, a careful evaluation of the advantages and disadvantages of securitization of public procurement as a financing solution is necessary to determine its viability as a strategy for supporting SMEs. Securitizing public procurement contracts can present certain risks and challenges for SMEs, including:

Complexity: Securitization can be a complex process, requiring specialized expertise and resources. SMEs may need to hire outside consultants or engage in lengthy negotiations with potential investors to structure and sell their securities, which can add complexity and cost to the process.

Uncertainty of cash flows: Public procurement contracts may be subject to a range of uncertainties, such as delays or changes in the delivery schedule or changes in the contract terms. This can make it difficult for SMEs to accurately forecast future cash flows, which can impact the value of the securities and the interest rates demanded by investors.

Legal and regulatory risks: The securitization of public procurement contracts is subject to a range of legal and regulatory requirements, which can vary depending on the jurisdiction and the type of securities being issued. SMEs may need to navigate complex legal and regulatory frameworks, which can be time-consuming and expensive.

Credit risk relative to the capability of the SME: The credit risk associated with the securities will be largely dependent on the creditworthiness of the SME. If the SME is not able to deliver on the contract, the investors may not receive their expected return, leading to potential losses. Time-Consuming risks: The securitization process can be time-consuming and may require significant resources from the SME, including time and money. This can divert the SME's attention away from its core business activities and impact its ability to execute other business opportunities.

Lack of standardization: Unlike mortgages or auto loans, which are often standardized and uniform, public procurement contracts can vary widely in terms of their terms and conditions. This lack of standardization can make it difficult to create a pool of contracts that is large enough and homogeneous enough to be securitized (Segoviano et. Al).

To summarize, securitizing public procurement contracts presents both opportunities and challenges for SMEs. It offers benefits such as improved access to capital, lower financing costs, increased liquidity, and diversification of funding sources. These advantages can contribute to SME growth, enhance competitiveness, and stimulate economic activity. However, it is crucial to be mindful of the associated risks, including complexity, uncertain cash flows, legal and regulatory considerations, credit risk, and the time-consuming nature of the process. Considering these factors is vital to make informed decisions about securitizing public procurement contracts as a financing strategy for SMEs.

5. Hypothesis and conceptual research model

In this section, we will delve into the hypothesis and conceptual model that form the foundation of our research. A hypothesis serves as a tentative explanation or prediction of the relationship between variables, guiding our investigation and providing a clear direction for our study. Building upon the hypothesis, a conceptual model outlines the theoretical framework and interconnections between key variables, offering a visual representation of the proposed relationships and mechanisms at play. By exploring the hypothesis and conceptual model, we aim to establish a solid theoretical framework and provide a roadmap for our research endeavors.

5.1. Hypothesis

Drawing upon the extensive literature review conducted, we put forth the following hypotheses to guide our research.

H1: Public procurement contracts can be securitized and transformed into tradable securities. This hypothesis suggests that public procurement contracts have the potential to be transformed into tradable securities through the process of securitization. By converting future payment streams associated with these contracts into financial instruments, these securitized assets gain value and can be utilized as collateral for accessing capital. This process allows for the monetization of these contracts and expands the possibilities for financing and investment.

H2: *Small and medium-sized enterprises (SMEs) often face challenges in accessing sufficient capital.*

This hypothesis highlights the challenges faced by small and medium-sized enterprises (SMEs) in obtaining sufficient capital. SMEs often encounter obstacles when seeking financing, primarily due to limited collateral and higher perceived risks associated with their smaller size and relative lack of established track records. These difficulties in accessing capital can hamper the growth potential of SMEs, impeding their ability to invest in expansion, innovation, and operational improvements.

H3: Securitizing public procurement contracts can attract private sector participation and investment.

This hypothesis proposes that when public procurement contracts are securitized, they can generate interest from the private sector, leading to increased participation and investment in public projects. By transforming these contracts into tradable securities, they become more accessible and appealing to private investors seeking opportunities to deploy their capital. The securitization process adds liquidity and marketability to these contracts, making them a viable investment option for private entities.

H4: Increased capital availability can support SMEs in business expansion, investment, and innovation.

This hypothesis suggests that when there is an increase in the availability of capital, particularly through securitization, it can support SMEs in various aspects of their operations. Increased capital availability can provide SMEs with the necessary financial resources to hire skilled employees, enhance training programs, and improve their competitiveness in the market.

H5: SME expansion, innovation, and job creation contribute to the prosperity of the economy.

The final hypothesis posits that by promoting SME access to capital and incentivizing private sector involvement, overall economic growth is stimulated. SMEs are recognized as vital contributors to economic prosperity, as their expansion, innovation, and job creation generate positive spillover effects throughout the economy. By addressing the financing needs of SMEs and fostering an environment that encourages private sector participation, the hypothesis suggests that the overall economic landscape can experience sustained growth and development.

5.2. Conceptual research model.

To clarify the relationship between the variables in our analysis, we will identify the factors that are hypothesized to have an impact on the outcomes (explanatory variables or independent variables) and the outcomes that are being investigated (response variable or dependent variable) based on the provided hypotheses.

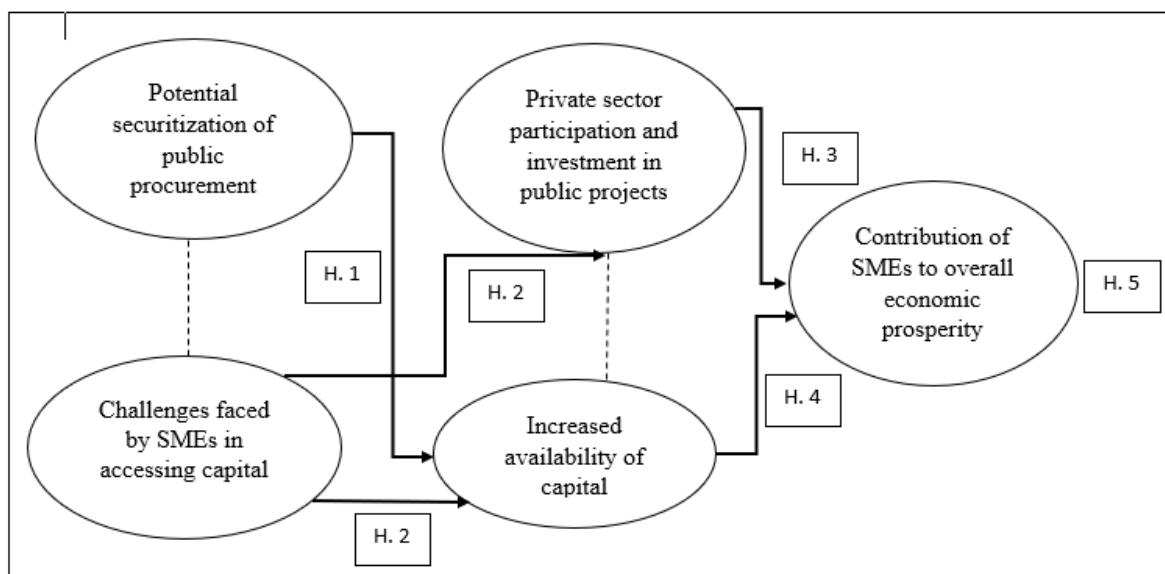
- **Explanatory variables (independent variables):**

- 1.H1: Potential securitization of public procurement contracts
- 2.H2: Challenges faced by SMEs in accessing capital
- 3.H4: Increased availability of capital
- 4.H3: Private sector participation and investment in public projects

- **The response variable (dependent variable):**

5. H5: Contribution of SMEs to overall economic prosperity

Figure 1: Research conceptual model



Source: Authors

This Research conceptual model examines the relationship between various explanatory variables and the response variable in the context of SMEs and public procurement contracts. The first explanatory variable, H1, focuses on the potential securitization of public procurement contracts. It aims to explore how the securitization of these contracts can affect SMEs' access to capital and their overall economic prosperity. The second explanatory variable, H2, investigates the challenges faced by SMEs in accessing capital, considering factors such as limited financial resources and stringent lending criteria. H3, the third explanatory variable, explores the impact of private sector participation and investment in public projects on SMEs. It aims to understand how SMEs can benefit from increased private sector involvement and investment. Finally, H4, the fourth explanatory variable, examines the increased availability of capital and its influence on SMEs' growth and their contribution to overall economic prosperity, which is represented by the response variable, H5. By analyzing these variables, this study seeks to provide insights into the relationship between securitization, capital access, private sector participation, and SMEs' economic impact.

6. Conclusion.

This research sought to explore the potential effects of securitizing public procurement contracts on SMEs in terms of accessing capital and its impact on overall economic growth. While the existing literature provides valuable insights into the financing challenges faced by SMEs and the crucial role, they play in driving economic prosperity, there is a research gap when it comes to specifically addressing the securitization of public procurement contracts. Therefore, by examining the existing literature and identifying research gaps, we aimed to develop a comprehensive conceptual model that analyzes the role of securitization in facilitating SME financing and its implications for economic development. Through this model, we sought to provide a framework for understanding how securitizing public procurement contracts can enhance SME access to capital and contribute to broader economic growth.

Our findings strongly suggest that securitizing public procurement contracts can indeed help small and medium-sized enterprises access capital and contribute to economic growth. The conceptual model we have developed provides compelling evidence to support this assertion. By transforming public procurement contracts into tradable securities through securitization,

SMEs gain the opportunity to leverage these assets to secure financing from private investors. This increased access to capital empowers SMEs to invest in their businesses, drive innovation, expand their operations, and ultimately contribute to economic growth.

Moreover, the framework we have established emphasizes the significance of capital access for SMEs. It highlights the potential benefits of securitizing public procurement contracts in expanding funding sources beyond traditional avenues. By attracting private sector participation and investment, securitization enhances the financial landscape for SMEs, fostering their growth and enabling them to realize their full potential.

Therefore, in response to the question, "Can securitizing public procurement contracts help small and medium-sized enterprises access capital and contribute to economic growth?" our research unequivocally suggests that the securitization of public procurement contracts holds immense promise in facilitating SMEs' access to capital and driving economic growth.

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