Public Certification, Information Asymmetry, and Investment

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In 2012, the Italian government introduced public certification to signal creditworthy firms not involved in corruption and accounting frauds, and with no connections to mafias. In the case of loan applications, this certification can determine lower credit costs due to the lower firm screening costs incurred by the banks. We provide evidence consistent with its effectiveness in mitigating financial frictions. Our results show that certified firms increase their tangible capital expenditure, and show also that the effect of the certification is stronger in areas where it is more difficult for the banks to assess firms' creditworthiness. This latter finding has implications for local development.