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Government Guidance Funds and Trade Credit Financing: Evidence from Chinese A-Share Listed Firms

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Abstract. This study study whether and how equity participation by Chinese government guidance funds (GGFs) changes the trade credit that firms obtain from their business counterparties. Using 25,149 firm-year observations of nonfinancial Shanghai and Shenzhen A-share companies between 2012 and 2023, this study find that, after controlling for firm characteristics and industry and year fixed effects, GGF-backed firms carry 2.72 percentage points more trade credit as a share of total assets, equivalent to 13.5% of the sample mean. The estimate holds under alternative exposure and trade-credit measures and firm fixed effects, and it survives a series of sample adjustments, propensity-score matching, a Heckman correction, and an instrumental-variable specification. GGF backing is further associated with lower discretionary accruals, more analyst attention, and a higher corporate reputation score, consistent with improved information and trust between the firm and its suppliers. Cross-sectional tests locate the effect mainly among smaller firms and among firms facing fewer financing constraints, lower distress risk, and stronger market positions, indicating that suppliers weigh both public certification and commercial capacity. By identifying supplier finance as a relevant spillover of government-sponsored equity, the paper extends research on public capital and traces a governance–attention–reputation route from equity participation to working-capital access.

Keywords: government guidance funds, trade credit, public venture capital, certification, China

1. Introduction

Government-sponsored equity has become a standard vehicle for aligning public policy goals with market-based investment decisions. Chinese GGFs pool fiscal resources, professional fund management, and private co-investment: the state steers capital toward strategic sectors, while fund managers screen projects, monitor portfolio firms, and enforce financial discipline [1, 2]. A GGF stake therefore carries two meanings at once. It is equity financing for the recipient firm, and it is a visible signal of firm quality to parties outside the firm.

Studies of public venture capital focus mainly on innovation, productivity, operating performance, and the ability to attract follow-on investment [3-10]—outcomes that follow directly from the capital and active ownership a fund provides. The same investment also reshapes the information environment around the portfolio firm. When a government-sponsored shareholder

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enters, suppliers, customers, analysts, auditors, and other investors all revise their views of reporting quality, operating prospects, and the likelihood that contracts will be honored. The economic reach of GGF participation thus extends well beyond the funded firm itself.

Trade credit is a useful lens on this wider influence. It is embedded in product-market relationships, covers routine working-capital needs through accounts payable, notes payable, and customer advances, and is granted on the basis of how the supplier judges information quality, repayment prospects, the redeployability of delivered goods, and the value of the ongoing relationship [11-13]. Each of these inputs can shift when a GGF enters—through governance participation, wider market attention, and the certification implicit in having been selected. Supplier finance therefore offers a direct view of how public equity ownership alters private contracting behavior.

This study combine firm-level GGF investment records with annual financial and governance data on Chinese A-share listed firms for 2012–2023. Our preferred specification indicates that GGF-backed firms hold 2.72 percentage points more trade credit relative to total assets, or 13.5% of the sample mean. The estimate stays positive under alternative measures, firm fixed effects, sample exclusions, matching estimators, a Heckman model, and an instrumental-variable estimator. In mechanism tests, GGF backing accompanies lower absolute discretionary accruals, greater analyst attention, and a stronger corporate reputation.

The cross-sectional results add a further layer. The association is markedly stronger for smaller firms, where external certification conveys more new information, and it concentrates among firms with lower KZ financing constraints, higher Z-scores, and stronger market positions—features that reflect financial capacity and product-market strength. Suppliers, in other words, act on the public signal attached to a GGF investment only when commercial capacity also gives them reason to expect repayment.

The paper contributes to three research streams. It extends the study of government-sponsored capital from direct investment outcomes to the financing supplied by business counterparties; it ties governance improvement, external attention, and reputation into a single account of why suppliers respond; and it identifies the firm conditions under which public certification matters most. In doing so, it shows how GGFs can support working-capital stability and high-quality development at the firm level through ordinary supply-chain contracts [14, 15].

2. Literature review and theoretical development

2.1. Government guidance funds and firm outcomes

GGFs sit between fiscal policy and private investment. Public sponsors set broad policy priorities, professional managers assess projects, and private partners supply capital along with market expertise, producing leverage at the fund level and active ownership at the firm level. Cross-country evidence on government venture capital indicates that fund design, investor syndication, and the quality of selection shape portfolio-firm performance [3-5], while work on China likewise finds that guidance funds encourage innovation and influence how private capital is allocated [2, 9, 16].

For outside stakeholders, three features of GGF ownership stand out. Passing a fund's investment process means that the firm has been vetted for compliance, development prospects, and policy relevance. Once invested, fund managers can review major decisions, the use of capital, internal control, and disclosure. Government affiliation and professional deal teams also open networks, connecting the portfolio firm with analysts, financial institutions, customers, and strategic partners.

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Screening, monitoring, and network access thus leave observable traces in the firm's information environment and in its relationships with third parties.

Empirical work to date concentrates on innovation, patent output, productivity, or follow-on equity financing. Supplier finance introduces instead a relational-contracting perspective. A supplier watches the fund's entry, the firm's subsequent disclosure behavior, and the attention the investment attracts, and can act on these signals by lengthening payment periods, enlarging credit limits, or committing more firmly to continuing the relationship. Public ownership thereby reaches working-capital finance through decentralized market decisions rather than through any mandate.

2.2. Trade credit as relational finance

Trade credit bundles financing together with the exchange of goods and services. Suppliers typically know more than outside lenders about order flow, inventory turnover, product demand, and the buyer's payment history, and this informational advantage supports credit decisions that differ from those made by banks. For buyers, trade credit also helps coordinate production with sales, smooth temporary liquidity shortfalls, and preserve business continuity under financial pressure [11, 13].

The supplier's decision turns on expected repayment and the value of future transactions. Product characteristics determine how much value can be recovered from delivered goods, while the buyer's market position shapes bargaining power and the value of the relationship [12]. Financial statements provide a formal assessment of solvency and profitability; analyst coverage and market reputation add information from outside. A GGF investment feeds into this decision as a composite signal, bundling public screening, active monitoring, and expected access to resources.

For listed firms, trade credit also aggregates the confidence of several counterparties at once. Accounts payable and notes payable record financing supplied by upstream partners, whereas customer advances capture financing embedded in downstream relationships; a higher ratio of these items to total assets indicates wider access to operating finance across the supply chain. The measure is therefore well suited to evaluating the stakeholder effects of GGF participation.

2.3. Governance and information quality

GGFs typically conduct due diligence before investing and monitor the use of capital afterward. Their shareholder position gives them a voice in major decisions, internal-control improvement, and disclosure oversight—activities that tighten reporting discipline and raise the cost of opportunistic earnings management. The broader literature on corporate governance and disclosure shows that transparent reporting improves stakeholder assessments and supports access to commercial credit [15, 17].

High-quality accounting information lowers the supplier's screening costs. It makes liquidity, leverage, profitability, and operating cash flow easier to assess and allows more accurate expectations of future payment; a credible financial record also makes relational contracts more enforceable, because performance can be checked against reported numbers. The supplier becomes more willing to grant credit, and the commercial relationship deepens.

2.4. External monitoring and market attention

A GGF investment is visible to analysts, auditors, regulators, and investors, and this visibility enlarges the audience evaluating the firm's decisions and performance. Analyst research raises the production and circulation of firm-specific information. Audit and regulatory scrutiny reinforce

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disclosure discipline, while investor attention attaches market consequences to managerial choices. The combined result is denser monitoring and a richer flow of information to suppliers.

Greater external attention helps the supplier distinguish a temporary liquidity need from persistent operating weakness, and it opens additional channels for learning about strategy, product demand, and financing capacity. As the available information becomes broader and more current, credit terms track firm fundamentals more accurately. GGF participation thus supports trade credit through both the attention generated by the investment event and the lasting visibility of public capital.

2.5. Certification and corporate reputation

Certification theory describes how informed investors shape the decisions of less-informed stakeholders. GGFs screen projects through formal review and due diligence, and their equity commitment conveys confidence in the recipient firm's compliance, strategic direction, and development prospects. Government affiliation also makes contract performance more publicly visible, strengthening the reputational value of paying on time. Work on public venture capital accordingly emphasizes screening and certification as central channels of influence [7, 16].

Corporate reputation condenses the expectations held by investors, customers, suppliers, employees, and other stakeholders; a stronger reputation lowers information-acquisition costs and raises the value of preserving a reliable payment record [18]. The reputational effect of GGF participation reinforces supplier confidence on this basis. Suppliers can read the investment as evidence of organizational quality and as an incentive for the firm to protect its future access to policy and market resources.

2.6. Integrated hypothesis

The three mechanisms operate in sequence rather than independently. Governance participation makes firm-generated information more credible; external attention expands independent information production and scrutiny; certification and reputation translate the investment decision into a market signal about quality and expected contract performance. Each lowers the perceived cost of extending supplier finance, and their combined influence strengthens the firm's access to trade credit.

H1. Firms backed by government guidance funds obtain more trade credit financing than comparable firms.

3. Research design

3.1. Sample construction

The sample covers firms listed on the Shanghai and Shenzhen A-share markets from 2012 through 2023. The period captures the rapid expansion of government guidance funds and provides a long panel for observing variation in fund participation, firm characteristics, and supplier financing. The sample construction removes ST and PT observations, financial and insurance firms, duplicate firm-years, and observations with missing variables used in the analysis.

All continuous variables are winsorized at the 1st and 99th percentiles to reduce the influence of extreme values. The resulting complete-case panel contains 25,149 firm-year observations. State-controlled firms account for 29.1% of the observations, so the empirical setting represents the

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broader listed-company sector. Ownership status enters each fully specified model as a control and allows the GGF estimate to be separated from the average difference between state-controlled and other listed firms.

3.2. Variable measurement

Trade credit financing (Credit) is measured as the sum of accounts payable, notes payable, and advances from customers divided by year-end total assets. This scaling creates a comparable measure across firms of different sizes and captures the share of assets financed through operating counterparties. Two alternative definitions support the robustness analysis. Credit1 subtracts prepayments from the broad measure, and Credit2 uses accounts payable plus notes payable.

GGF support (Investdum) equals one when a government guidance fund appears in the firm's shareholder or investment disclosures in a given year. The indicator captures the presence of policy-oriented equity participation. Alternative exposure variables measure the investment amount and the number of GGF investments. These measures distinguish the extensive margin of fund participation from the intensity and frequency of capital support.

The control set captures financial capacity, growth, ownership, and governance. Size is the natural logarithm of total assets. ROA equals net income divided by total assets. Leverage equals total liabilities divided by total assets, and Growth is the annual growth rate of operating revenue. Age is the natural logarithm of years since listing. State ownership identifies state-controlled firms. Duality identifies firms where the chair and chief executive positions are held by the same person. Top1 is the ownership share of the largest shareholder, Independent directors is the independent-director ratio, and Operating cash flow is cash flow from operations divided by total assets.

Table 1. Descriptive statistics

Variable	N	Mean	Median	SD	Min	Max
Credit	25,149	0.201	0.174	0.142	0.007	0.698
Investdum	25,149	0.012	0.000	0.110	0.000	1.000
Size	25,149	22.277	22.065	1.267	20.104	26.265
ROA	25,149	0.037	0.038	0.063	-0.237	0.200
Leverage	25,149	0.406	0.398	0.194	0.059	0.871
Growth	25,149	0.143	0.096	0.328	-0.489	1.826
Age	25,149	2.276	2.398	0.777	0.000	3.332
State ownership	25,149	0.291	0.000	0.454	0.000	1.000
Duality	25,149	0.322	0.000	0.467	0.000	1.000
Top1	25,149	0.334	0.311	0.142	0.090	0.730
Independent directors	25,149	0.378	0.364	0.053	0.333	0.571
Operating cash flow	25,149	0.052	0.049	0.064	-0.125	0.239

Notes: Credit and continuous controls are winsorized at the 1st and 99th percentiles.

3.3. Empirical specification

The baseline model is $Credit_{it} = \alpha + \beta\, Investdum_{it} + \gamma' Controls_{it} + Industry_j + Year_t + \varepsilon_{it}$. The coefficient β captures the difference in trade credit financing associated with GGF participation

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after observed firm characteristics and common industry and year factors are absorbed. Industry fixed effects account for persistent differences in operating cycles and supplier practices, while year fixed effects absorb economy-wide changes in credit conditions and policy. Standard errors are clustered by firm to accommodate serial correlation and heteroskedasticity within each listed company.

The empirical sequence begins with a bivariate model, adds industry and year fixed effects, and then adds the full control set. Pairwise correlations remain moderate; the largest correlation among the controls is 0.502. The mean variance-inflation factor is 1.65, indicating stable coefficient estimation across the included firm characteristics. The preferred model uses the full set of controls and fixed effects.

3.4. Robustness and identification strategy

The robustness analysis evaluates measurement, unobserved heterogeneity, sample composition, and policy overlap. Investment amount and investment count replace the GGF indicator. Credit1 and Credit2 replace the dependent variable. Firm fixed effects absorb time-invariant company characteristics. Additional specifications remove municipalities and autonomous regions, remove the 2015 and 2020 shock years, remove sectors strongly affected by supply-side reform, control for deleveraging-policy exposure, and remove 2015 or 2023 separately.

Three estimators address selection into GGF participation. Propensity-score matching creates comparison samples based on observed firm characteristics, industry, and year. The analysis uses one-to-one nearest-neighbor matching and kernel matching. A Heckman two-stage model estimates GGF participation in the first stage and includes the inverse Mills ratio in the trade-credit equation. The instrumental-variable model uses the province-year share of firms receiving GGF support to predict firm-level participation. First-stage relevance is evaluated with the Kleibergen-Paap statistics reported with the results.

4. Results

4.1. Descriptive patterns

Table 1 reveals substantial variation in supplier financing. Credit has a mean of 0.201 and a standard deviation of 0.142, ranging from 0.007 to 0.698 after winsorization, so listed firms differ considerably in the share of assets financed through business counterparties. The median, 0.174, lies below the mean because a subset of firms makes especially heavy use of trade credit.

GGF participation has a mean of only 0.012, making backed firm-years a small and selective group within the listed-company sample; the rarity of the event is precisely what gives it distinctive informational value. The remaining variables span broad variation in size, profitability, leverage, growth, ownership, governance, and cash flow, providing ample material for constructing comparable firms in the regression and matching analyses.

4.2. Baseline estimates

Table 2 builds the baseline result in three steps. Column (1) reports the bivariate association between GGF participation and Credit, with a coefficient of 0.0331 significant at the 1% level. Column (2) adds industry and year fixed effects and the coefficient rises to 0.0373, indicating that the positive association is present within the same broad industry and year environment. In column (3), financial

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and governance controls enter and the preferred coefficient is 0.0272, with a firm-clustered standard error of 0.0080.

The preferred estimate corresponds to a 2.72-percentage-point increase in trade credit relative to total assets; against the sample mean of 0.201, that is 13.5%. The magnitude matters economically for working-capital finance, not only statistically. The progression across columns also shows that observable firm characteristics account for part of the raw difference while leaving a sizeable GGF coefficient. The result supports H1.

Table 2. Government guidance funds and trade credit financing

	(1)	(2)	(3)
Investdum	0.0331***(0.0099)	0.0373***(0.0091)	0.0272***(0.0080)
Size			-0.0186***(0.0017)
ROA			0.4625***(0.0231)
Leverage			0.1969***(0.0107)
Growth			0.0851***(0.0038)
Age			0.0001(0.0021)
State ownership			-0.0087**(0.0043)
Duality			-0.0044(0.0030)
Top1			-0.0027(0.0112)
Independent directors			-0.0338(0.0263)
Operating cash flow			-0.5077***(0.0196)
Constant	0.2005***(0.0021)	0.2004***(0.0018)	0.5491***(0.0366)
Firm controls	No	No	Yes
Industry/year FE	No/No	Yes/Yes	Yes/Yes
Observations	25,149	25,149	25,149
Adjusted R^2	0.001	0.231	0.368

Notes: Dependent variable: Credit. Firm-clustered robust standard errors are in parentheses. *** p < .01, ** p < .05, * p < .10.

4.3. Measurement and specification robustness

Panel A of Table 3 varies measurement choices and controls for unobserved firm characteristics. Investment amount gives a coefficient of 0.4940 and investment count 0.0203; both are positive and significant, so deeper GGF exposure accompanies greater trade credit. Replacing the dependent variable yields 0.0142 for Credit1 and 0.0242 for Credit2, and the main pattern therefore appears under both broad and narrow definitions of operating finance.

The firm-fixed-effects model returns 0.0257, close to the preferred baseline even though identification now comes from changes within the same firm over time and all stable firm attributes are absorbed. Panel B adjusts the sample and the policy environment instead: across the six tests, the GGF coefficient runs from 0.0235 to 0.0334 and retains conventional statistical significance, including after the regional and shock-year exclusions and the adjustments for supply-side-reform sectors, deleveraging policy, and the 2023 debt-resolution program.

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4.4. Matching, selection correction, and instrumental variables

Panel C of Table 3 presents estimators designed to address selection into GGF backing. One-to-one nearest-neighbor matching yields 0.0236 and kernel matching 0.0320, both close to the baseline range. The matched samples compare firms with similar observed characteristics, and the positive GGF coefficient is present throughout the common-support samples.

The Heckman second-stage coefficient is 0.0235 once the inverse Mills ratio is included; the ratio itself is negative and significant, indicating that the selection correction carries information for the outcome equation. The instrumental-variable model uses the province-year GGF participation rate as the instrument: the first-stage coefficient is 0.9538, the Kleibergen-Paap LM statistic is 64.659, and the Kleibergen-Paap F statistic is 71.250, values that indicate a relevant instrument rather than a weak one. The second-stage GGF coefficient, 0.2986, is significant at the 1% level. Matching, the Heckman correction, and the instrumental-variable estimator all point to the same positive relationship between public equity participation and supplier finance.

Table 3. Robustness and endogeneity checks

Specification	Coefficient	SE	N	Adj. R^2
Panel A: Alternative measures and fixed effects				
Investment amount	0.4940**	0.1988	25,149	0.367
Investment count	0.0203***	0.0050	25,149	0.368
Net trade credit (Credit1)	0.0142**	0.0060	25,149	0.466
Narrow trade credit (Credit2)	0.0242***	0.0077	25,149	0.352
Firm fixed effects	0.0257***	0.0056	24,751	0.767
Panel B: Sample and policy adjustments				
Exclude municipalities/autonomous regions	0.0334***	0.0086	19,218	0.376
Exclude 2015 and 2020	0.0289***	0.0087	21,279	0.367
Exclude supply-side-reform sectors	0.0235**	0.0094	20,391	0.376
Control for deleveraging policy	0.0271***	0.0080	25,149	0.368
Exclude 2015	0.0258***	0.0080	23,870	0.365
Exclude 2023	0.0251***	0.0086	21,244	0.367
Panel C: Selection and endogeneity				
PSM: 1:1 nearest neighbor	0.0236**	0.0109	605	0.392
PSM: kernel	0.0320***	0.0074	22,693	0.416
Heckman second stage	0.0235***	0.0080	22,695	0.362
IV-2SLS	0.2986***	0.0858	25,149	0.118

Notes: The reported coefficient is for GGF exposure; its unit changes in the amount and count models. The firm-fixed-effects row absorbs firm, industry, and year effects. All other rows include baseline controls and industry/year fixed effects. Heckman IMR = -0.0192*** (0.0053). IV first stage = 0.9538*** (0.1130); KP LM = 64.659; KP F = 71.250. Significance: *** p < .01, ** p < .05, * p < .10.

4.5. Governance, monitoring, and reputation channels

Table 4 connects the baseline result with the three mechanisms developed in Section 2. In column (1), GGF participation reduces absolute discretionary accruals by 0.0065. Lower absolute

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discretionary accruals indicate stronger accounting information quality and tighter reporting discipline, the governance pathway through which GGF ownership leaves suppliers with financial information they can evaluate more confidently.

Column (2) reports a coefficient of 2.1689 for analyst attention. The investment event and the continuing presence of a public-capital shareholder sharpen the market's focus on the firm: analysts produce firm-specific information, interpret operating developments, and expand the audience monitoring managerial decisions, which is the external-monitoring pathway and gives supplier assessments a richer information environment to draw on.

Column (3) shows GGF participation raising the corporate reputation score by 0.2319, capturing both the certification value of fund screening and the reputational value of government affiliation. A stronger reputation raises the expected value of future relationships and makes delayed payment or default more costly. Read together, the three columns link active ownership, information production, and market certification to the firm's access to trade credit.

Table 4. Governance, monitoring, and reputation outcomes

	(1)	(2)	(3)
Outcome	Abs. discretionary accruals	Analyst attention	Reputation score
Investdum	-0.0065**(0.0025)	2.1689***(0.5663)	0.2319**(0.1128)
Controls	Yes	Yes	Yes
Industry/year FE	Yes/Yes	Yes/Yes	Yes/Yes
Observations	25,149	25,149	25,149
Adjusted R^2	0.068	0.380	0.663

Notes: Firm-clustered robust standard errors are in parentheses. *** p < .01, ** p < .05, * p < .10.

4.6. Cross-sectional heterogeneity

Table 5 examines how firm characteristics shape the value of GGF participation. The size partition gives a coefficient of 0.0483 for small firms and 0.0099 for large firms, and the bootstrap difference test returns p = 0.008. Small firms usually have thinner information environments and lower visibility, so the governance and certification benefits generated by GGF participation carry greater incremental value for them.

The financing-constraint partition gives 0.0557 among firms below the industry-year median KZ index and -0.0057 among firms above it, with a difference significant below p = 0.001. The Z-score partition produces a related pattern: firms with higher Z-scores and lower distress risk show 0.0460, against 0.0106 for firms with lower Z-scores, and the difference p-value is 0.016. Supplier confidence responds strongly when GGF certification is paired with the capacity to repay.

Market position is the final partition. Firms above the median on the market-position measure show 0.0413, compared with 0.0025 among firms below the median (p = 0.008). A stronger market position raises relationship value and repayment capacity and lets the public signal translate more fully into supplier credit. Across the four partitions, two complementary forces emerge: information gains are especially valuable for small firms, while commercial capacity strengthens the conversion of certification into actual financing.

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Table 5. Cross-sectional heterogeneity

Partition	Subsample	Coefficient	SE	N	Difference p
Firm size	Large	0.0099	0.0094	12,374	
	Small	0.0483***	0.0159	12,771	0.008
Financing constraints (KZ)	High	-0.0057	0.0109	12,374	
	Low	0.0557***	0.0104	12,771	<0.001
Financial condition (Z-score)	Lower Z / higher risk	0.0106	0.0102	12,829	
	Higher Z / lower risk	0.0460***	0.0121	12,318	0.016
Market position	High	0.0413***	0.0101	12,372	
	Low	0.0025	0.0116	12,773	0.008

Notes: Each model includes baseline controls and industry/year fixed effects, with firm-clustered robust standard errors. Difference p-values are from 1,000-replication bootstrap coefficient tests. *** p < .01, ** p < .05, * p < .10.

5. Discussion and implications

5.1. Public capital and relational finance

The findings extend the economic role of government-sponsored capital from investment outcomes to relational finance. Prior research emphasizes innovation, patent output, productivity, and follow-on investment [9, 10, 19, 20], whereas the evidence here shows that the influence of GGF participation also reaches the firm's operating counterparties. Suppliers and customers respond through the financing embedded in ordinary transactions, which connects public equity ownership with daily working-capital management.

This relational-finance perspective clarifies why equity participation shows up in short-term operating liabilities at all. A fund investment changes the firm's governance structure, attracts externally produced information, and strengthens reputation, and these changes shift counterparties' beliefs about information quality and repayment. The economic effect travels through a sequence of organizational and market responses: public capital initiates it, and private contracting decisions transmit it along the supply chain.

Trade credit also offers a channel through which GGF participation can support high-quality development. Stable working-capital access helps firms maintain production, coordinate with suppliers, and sustain investment when cash flow fluctuates, and a stronger information environment directs supplier finance toward firms with credible operations and growth prospects. This connection gives policy-oriented equity a broader role in the quality and resilience of firm development.

5.2. An integrated mechanism of governance, attention, and reputation

The mechanism results fit an integrated explanation. Lower discretionary accruals mean stronger reporting discipline and more reliable firm-generated information. Greater analyst attention contributes independent interpretation and continuous market monitoring, while a higher reputation score condenses favorable assessments across stakeholder groups. Each mechanism improves a different part of the supplier's information set, and together they strengthen confidence in the buyer's contract performance.

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The three mechanisms reinforce one another as well. Governance improvements create higher-quality information for analysts and other market participants to process, external attention raises the visibility of reporting quality and operating progress, and reputation converts repeated observations into a durable stakeholder assessment. This feedback helps explain why the GGF coefficient remains economically meaningful after financial and governance controls are included: the fund's contribution runs partly through the institutional environment built around the portfolio firm.

Certification plays a central coordinating role in this process. The investment decision gives suppliers an initial signal, which post-investment governance and market attention then keep alive with continuing evidence; corporate reputation records what these interactions accumulate into. This dynamic view connects the screening stage of public investment with the ongoing supply-chain relationships in which trade credit arises.

5.3. Firm conditions and the conversion of certification into credit

The heterogeneity results show that the value of GGF participation rests on both information gains and commercial capacity. Small firms receive the larger coefficient because their initial visibility and information production are lower, so the entry of a government-sponsored investor changes the information available to suppliers most sharply for them. The finding supports targeted investment in firms whose growth potential exceeds their current market visibility.

The KZ, Z-score, and market-position partitions highlight repayment capacity and relationship value. Suppliers extend more credit when the public signal is accompanied by a stronger financial condition and a stronger product-market standing, which mirrors the structure of trade-credit decisions: certification improves beliefs about quality, financial capacity supports expected repayment, and market position raises the value of continued transactions. The strongest financing response appears when these elements operate together.

The result also refines the meaning of policy effectiveness in this setting. The information value of public participation is largest for smaller firms, while the financing value is largest where suppliers observe a credible commercial foundation. Fund selection, post-investment governance, and enterprise development programs can therefore be coordinated to strengthen both dimensions, which raises the likelihood that policy certification becomes durable supplier confidence.

5.4. Policy and managerial implications

For public sponsors, performance evaluation can incorporate spillovers into supplier finance. Traditional indicators focus on investment volume, the leverage of social capital, financial return, and innovation output, whereas trade-credit access adds a measure of how the investment changes the portfolio firm's relationships with operating counterparties. Tracking payment terms, supplier concentration, accounts-payable maturity, and customer advances would provide a fuller view of the fund's influence on business resilience.

For fund managers, governance participation is a practical tool for building credit capacity. Clear reporting policies, strong internal controls, timely disclosure, and disciplined use of capital raise the credibility of the portfolio firm, and investor-relations activity and transparent communication attract informed attention and strengthen market understanding. These actions help convert the fund's initial certification into a continuing reputation for reliable performance.

Portfolio firms, in turn, can build supplier relationships into the post-investment value-creation plan. Management can communicate the investment rationale, governance improvements, and operating milestones to key suppliers and customers, after which consistent payment behavior

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converts the initial signal into relationship-specific trust. The resulting trade-credit capacity can support production, inventory management, and growth, provided firms preserve disciplined working-capital practices.

Suppliers themselves can treat GGF participation as an additional input to the credit-assessment process. Fund screening, ownership involvement, analyst attention, and reputation provide complementary information about the buyer, and combining these signals with transaction history, cash-flow indicators, and market position supports differentiated credit terms and stronger supply-chain coordination.

6. Conclusion

Using 25,149 firm-year observations from Chinese A-share listed firms during 2012–2023, this study finds a positive and economically meaningful relationship between GGF participation and trade credit financing. The preferred coefficient of 0.0272 represents 13.5% of the sample mean, and alternative measures, firm fixed effects, sample adjustments, matching estimators, a Heckman model, and an instrumental-variable estimator produce a consistent positive pattern.

The mechanism evidence links GGF participation with stronger accounting information quality, greater analyst attention, and higher corporate reputation. The heterogeneity evidence shows larger information gains for small firms and stronger financing conversion among firms with solid financial conditions and market positions. Taken together, the results identify governance and market certification as the central links between public equity capital and supplier finance.

The study offers a unified view of government guidance funds as investors, monitors, and market certifiers: their participation reshapes the information and trust environment that supports supply-chain contracts. This perspective broadens the evaluation of public capital and identifies trade credit as an important channel through which GGFs contribute to working-capital stability and firm development. Future research can extend the framework with supplier-level contract data, fund-level governance characteristics, and policy-timing designs across regions and industries.

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