

In this paper, I introduce value-enhancing hidden cooperative investment by the seller into a standard sequential screening model of procurement. Due to the trade-off between the buyer's hidden information and the seller's hidden action, the second-best contract in the static setting requires distortions in allocative efficiency. Moreover, it limits the implementable sequential screening contracts. Although sequential screening is feasible for some cases, such as when the type and the investment are perfect substitutes and the investment cost is linear, the optimal contract is static for the other cases because sequential screening is impossible.