

TRUST AND ACCESS TO CREDIT ACROSS FIRMS IN TRANSITIONAL COUNTRIES

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Abstract

Developmental impact of social trust, the natural complement of institutions, has become increasingly popular in economic literature in the last years. Despite the fact that some authors found strong evidence on the relevance of social trust for overall economic performance, some questions remain unclosed particularly when it comes to association between social trust and financial development. The purpose of our article is to complement and extend the existing discussion on this to the cross-firm level. In our study we use the Business Environment and Enterprise Performance Survey (BEEPS) of the EBRD that combine data from 11,500 firms operating in 30 transitional countries. Using this primary data, the core objective of our study is to investigate whether high inter-organizational trust associates with better access to bank credits in the transitional countries. The results of our study contribute to the stream of economic development literature in two main ways. First, the degree of prepayment demanded by firms from their customers appears to be a good measure of (dis)trust in business transactions among firms. In transitional countries, a firm that needs prepayment for its sales is found to be a strong indication of distrust in a customer and/or lack of confidence in the contract enforcement at the country level. Second, our econometric analyses suggest that the enterprises in the countries with high inter-firm trust have large probability of access to bank loans and line of credits. This result remains robust to the inclusion of many controls at the firm and country level. Our results also remain robust to various specifications checks as well as econometric adjustments for the potential endogeneity of trust and financial development.

Key words: access to credit, inter-firm trust, prepayment, transitional countries

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