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The Value of Business Networks in Emerging Economies: An Analysis of Firms' External Financing Opportunities

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Abstract:
The paper argues that networked firms are likely to have an advantage in securing external finance in countries with weak l and judicial institutions since it helps financial institutions to minimize the underlying agency costs of lending. An analysis recent BEEPS data from fifteen Central and Eastern European (CEE) countries lends some support to this hypothesis. Eve after controlling for other factors, firms affiliated to business associations are more likely to secure bank finance. Importanc being associated with business networks is particularly evident among firms who borrow from private domestic and foreign banks, as these new banks attempt to minimize costs of adverse selection. Networking however discriminates against the small and medium sized firms' access to bank loans in the CEE regions. Results are robust in both single cross-section a panel data analyses.

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