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Social Networks Behind Trade Credit Guarantee Networks

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Abstract: *Trade on credit is a very common practice among industry participants both in less developed countries and advanced economies. The non-branded readymade garment manufacturing industry in Metiabruz and its adjoining areas of Kolkata is one of the largest such industries in India, where input sellers of the industry often extend trade credit to their buyers, i. e, manufacturer-cum-producers of the industry. In addition to that producers often extend trade credit guarantee facility among themselves and use their own social network for accessing and providing it. Out of a sample of eighty firms in Metiabruz, the seventy-one firms had acted as guarantors for around two to three firms on the average in the last two years, and seventy-seven firms had asked around three to four other firms to act as guarantors. It has been seen further from the primary survey that guarantors and the producers, who take trade credit guarantees from them, are tied by various kinds of social relationships and use these social ties for accessing trade credit guarantees. The central focus of the paper is to study the role of social networks behind this trade credit guarantee system. Empirical findings show that the producers who want trade credit guarantees often use their family ties, friendship ties and friends of friends for getting trade credit guarantees. Presence of social networks here enables producers to establish their creditworthiness as a potential borrower to a guarantor and makes this informal credit system a successful one.*

***Keywords*:** Social networks, trade credit, guarantors, readymade garments, production structure, family as production unit.

Introduction

Trade on credit is a very common trade practice among industry participants both in less developed countries as well as in advanced economies. There is ample international evidence of suppliers who extend trade credit to their buyers. It acts as an alternative source of fund when financial market is poorly developed and industries with higher dependence on trade credit financing exhibits higher rates of growth (Fisman and Love 2003). This sometimes acts as a "locking in" device that firms use to prevent their customers from moving away to other suppliers and trade credit is offered after the usual waiting period when creditworthiness is determined (Fisman and Love (2004)). However, social ties often play an important role in providing trade credit apart from business reputation. Fafchamps (1997) reports that all types of firms in Zimbabawe depend on trade credit, though there may be some bias against providing such credit to firms owned by native Africans. Fafchamps (2000) further reports that in Kenya and Zimbabwe, where some ethnic groups play a dominant role in manufacturing, blacks and women 'are disadvantaged in the attribution of supplier credit'. Fishman and Raturi (2004) finds that among African firms, a firm is more likely to get supplier credit from a firm owned by someone with the same ethnic origin than a firm owned by someone from a different ethnic group.

The non-branded readymade garment manufacturing industry in *Metiabruz* and its adjoining areas of Kolkata is one of the largest such industries in India, where industry participants often extend trade credit facility among themselves and use their own social networks for accessing it. This is an industry where existence of family businesses is very prominent. Young family members start active participation in family business at early ages. The entire family acts as a production unit here. What is observed in this industry is that input sellers of the industry often extend trade credit to those manufacturers cum wholesalers with whom they have a long-term relationship and who they think trustworthy. This is suppliers' side credit in nature, where buyers buy part of their total purchases, or the entire amount, on credit from the input sellers against promises to repay by some pre-specified date. Here suppliers of trade credit do not explicitly charge interest but purchases in cash cost less than purchases on credit. In addition to that manufacturers-cum-wholesalers extend trade credit guarantees to each other when such a need arises; producers who have good relations with input sellers act as a guarantor for another producer. However, a potential guarantor checks the creditworthiness of a potential borrower by using his own networks. A producer acts as a guarantor for another producer who he knows very well and thinks creditworthy. This trade credit guarantee networks adds another dimension to trade credit networks. This has become a common trade practice there and producers often use trade credit guarantee networks for accessing trade credit. The central focus of the paper is to study how the presence of social networks helps manufacturers cum wholesalers to access trade credit guarantees.

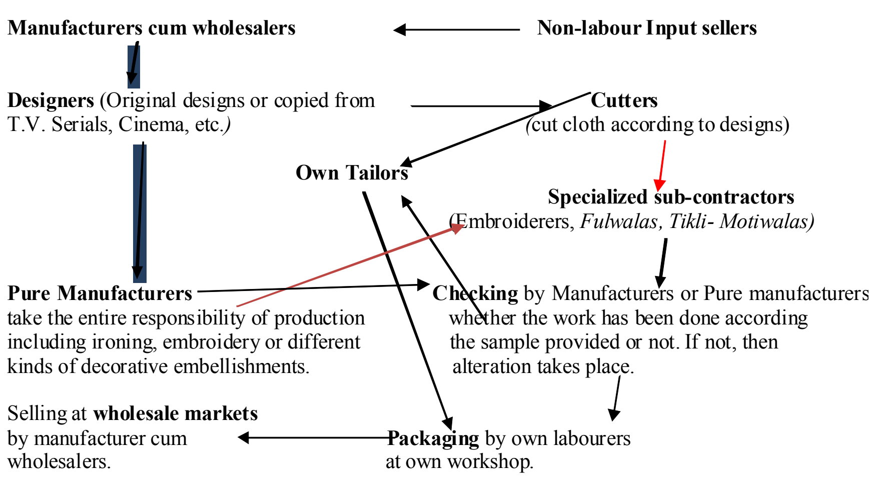
This is an industry where financial data is closely held; no public disclosure and hence no secondary data are available. A primary survey has been conducted for collecting information from industry participants using free flowing repeated interviews and structured questionnaires. Total number of firms that have been surveyed is 80. Empirical findings show that manufacturers cum producers often use family ties, marriage ties, friendship ties, and extended family ties for accessing trade credit guarantees. As industry participants are engaged in their respective lines of production generation after generation, stay in the same or adjacent neighbourhoods, and have their own family reputations and family connections, it helps them to build trust and asking for guarantees from each other if such a need arises. Social networks thus play an important role in forming trade credit guarantee networks. In particular, in the study of the sample of eighty firms in Metiabruz, the seventy-one firms had acted as guarantors for around two to three firms on the average in the last two years, and seventy-seven firms had asked around three to four other firms to act as guarantors at least the last two years. The paper proceeds as follows: Section 2 presents industrial production structure and the nature of participating agents, Section 3 trade credit generation, Section 4 discusses social networks behind trade credit guarantee networks, Section 5 concludes.

2. Production Structure and the Nature of the Participating Agents

There are sharply defined community divisions in the production process. Divisions of different types of participants at different production layers are along religious lines and are sometimes ethnic community specific. Industry participants are manufacturers cum wholesalers who are locally known as *Ostagars,* pure manufacturers, who are locally knows as *Petty-Ostagars*, specialized subcontractors, input sellers, cutters, designers, and hired workers. For the most part, manufacturer cum wholesalers, pure manufacturers and specialized subcontractors, excluding embroiderers, are Muslims, the non labour input sellers are Marwaris and, in contrast, one can find both Hindus and Muslims working as hired workers. Much of the wholesale trade is carried out in wholesale markets, locally known as *haats*, housed in buildings lined with small wholesaler shops. In addition to these, there are temporary stalls clustered around these buildings where relatively smaller manufacturer cum wholesalers ply their trade. Some of these new entrants are Hindus, and a more recent phenomenon is that of the Marwari input sellers financing people who have the requisite knowledge and skills to set up their own firms.

At the top of the hierarchy of firms are the manufacturers cum wholesalers who produce all, or part, of their output, subcontract out work to firms that are pure manufacturers and to firms that do specialized work on the garments. These firms, from the wholesaler cum manufacturers at the top of the hierarchy, down to the smallest pure manufacturing firms, specialize in the kinds of garments they produce. For example, those who produce trousers and shirts for boys up to ten years of age (*baba suits*) do not produce lady's garments like *salwar suit*. In a similar manner, product specialization exists among pure manufacturers. Specialization exists even among the group of specialized subcontractors: a sub-contractor, who does embroidery works, does not do bead work. The final marketing is done at the wholesale level by the wholesalers cum manufacturers who are at the top of each marketing channel. At the wholesale level, trade with buyers of the manufactured garments is carried out in wholesale markets (*haats*) set up for the purpose, which meet twice a week. Ready-made garment buyers come from other parts of West Bengal and from states like Bihar, UP, Delhi, Manipur, Punjab, Tamil Nadu, etc., across the country.

Figure 1: Production Structure



Manufacturers cum wholesalers purchase their non-labour inputs, mainly fabric, thread, and other variable inputs from local input sellers. In-house cutters cut the cloth according to the designs given by designers, though there is a recent trend of subcontracting this part to cutting houses. At this stage of the production process, manufacturers cum wholesalers decide whether they want embroidery, or other forms of decorative embellishments done on the garments. If they do not want to do any of these, the cut pieces are sent directly to their own tailors for stitching. Manufacturers cum wholesalers have some permanent tailors throughout the year who work at their workshops. Large manufacturers cum wholesalers often outsource the entire production process to smaller operators (*Petty Ostagars*) because it saves them money and transaction expenses and the search costs to find different small reputed tailors, and also the time spent on monitoring them. However, manufacturers cum wholesalers, whose scale of operation is not so large, prefer to subcontract to the specialized agents like embroiderers, *zari* workers, tailors, separately as do the pure manufacturers.

Manufacturers cum wholesalers monitor and check the subcontracted-out output when sub-contractors submit them. If minor disputes arise, the contractor does alteration and the manufacturers-cum-wholesalers delay payment for the entire output till the rectifications are done. However, if major dispute arises then sub-contractors are penalized in monetary terms; a part from their payment, usually 10-15 percent from the total payment agreed upon for bigger is deducted, and in extreme cases, the contractor has to pay the wholesale price of the damaged items.

The final stage of production is packaging. There are several permanent workers who package these finished products at the workshops of the manufacturers cum wholesalers. An interesting feature of this industry is that women family members also actively participate in the production process. Participation of female members in the production process is absent for the sub-contractors and manufacturers cum wholesalers whose scale of operation is large and family members, who are engaged in the production process, mainly do the managerial work. In smaller firms, especially in the specialized contracting firms, women mainly do ironing, stitching of pants' folds or shirt's folds, and embroidery work. Some of them also do packaging as well. On an average one female family member actively participates in the business and, sometimes two to three female family members (wife, mother, and daughter) are engaged in the business for the manufacturers cum wholesalers, or sub-contractors who business sizes are small.

3. Generation of Trade credit and Trade Credit Guarantees

Producers require working capital to run their production process throughout the year. In many instances, trade credit facilities extended by input suppliers enables producers to produce when the latter face shortages of working capital, and formal sector financing is limited. However, one producer can have multiple trade credit relationships simultaneously. In a similar manner, each input seller maintains business ties with several manufacturers cum wholesalers. In general, an input seller agrees to extend trade credit to a producer if there is a significant growth in the volume of transactions with him overtime. Lenders form estimates of the credible limits for loans to their borrowers based on the past business transactions between them. Consider a producer who purchases fabric worth Rs. 4 lacs per week from an input seller. Suppose he has made a purchase of Rs. 4.5 lacs and has only Rs. 4 lacs. Therefore, he needs trade credit equivalent to Rs. 50,000 and the input seller gives him the facility. On his next visit to the market, he purchases fabric worth Rs.4.5 lacs from him and pays Rs.4.2 lacs. Therefore, Rs. 80,000 is the total outstanding credit and he continues to do this. At the end of the year (in general before *Durga Pujas*, or before an *Eid)* the producer clears all outstanding dues. This is what is called rolling credit in the industry. If the mode of transaction is weekly, then it takes a minimum of one year to form a trade credit relationship. If the mode of transaction is monthly, then it takes a minimum of two years to form a trade credit relationship.

However, it may happen that the producer wants some bigger amount as a credit which his input seller is unwilling to provide. It may happen that the producer is about to face a high demand situation which is unobservable to his input seller but observable by another producer. In that case, the producer is searching for a guarantor who will guarantee him for credit. Usually, producers who belong to the direct network of a particular input seller, have long business ties, and take credit from the latter on a regular basis, are the potential guarantors for producers who do not have direct credit links with the input seller. The amount of loan that can be guaranteed by a guarantor depends on the guarantors’ own credit surplus, which is the difference between his credible loan limit and the amount of trade credit that he has actually taken from his lender. However, guarantors form estimates about how much trade credit can be guaranteed based on their private information about the borrowers’ business. Here the guarantor guarantees that the producer will be repaying the dues within a stipulated date to his input seller. However, guarantor’s right is not legal, and he can’t sue borrower in the court if the latter defaults strategically. Here, a guarantor is liable to pay on default. Hence, a guarantor needs to know whether the producer who is looking for a guarantee is trustworthy or not. And for that he uses his own social networks. The next section, Section 4 discusses the role of the social networks behind the formation of trade credit guarantee networks.

4. *Social Networks behind Trade Credit Guarantee Networks*

Manufacturers cum wholesalers often use their social networks for accessing information regarding who can provide a guarantee. Information sharing through networks among producers is important here because a producer needs to know whether the producer he approaches to act as a guarantor has a credit surplus that he can use. Conversely, a producer who has been asked to act as a guarantor would need to know if the person for whom he stands as a guarantor is reliable, creditworthy, and is likely to pay the dues on time. Input sellers rely on guarantors, who belong to their trade credit networks as it helps them to solve the adverse selection problem in the credit market as producers have better information about each other's reliability as a borrower, and only act as a guarantor for those borrowers who are likely to repay. The next subsection 4.1 shows empirical support of this by taking the help of some tabular representation on extension of trade credit guarantees among producers. Producers are denoted by 'firms' in the following sections.

4.*1 Empirical support on Trade Credit Guarantees*

This section discusses some empirical findings based on a primary field survey on trade credit guarantees that has been exchanged very frequently between producers. It shows the extent of trade credit guarantees among firms (firms and producers are the same)first and then the nature of social ties that is present among firms for accessing trade credit guarantees. These tables further show that how the existence of various kinds of social ties acts as a backbone of the provision of trade credit guarantees and helps to form trade credit guarantee networks between producers. Table 1 shows that asking for trade credit guarantees and offering to act as a guarantor are ubiquitous. It shows that most of the firms in each product category in the sample have acted as a guarantor for other firms. It further shows that most of the firms have taken trade credit facilities from other firms in last two years. On the average firms ask more than one other firm to act as a guarantor, and firms who have acted as guarantors have done so for more than one firm in the last two years. The firms, who offer to act as guarantors in the sample may, or may not, be offering to do so for firms in our sample. Also, those who ask other firms to act as guarantors may be asking firms who are not in my sample. This explains why the average duration of relationships between guarantors and firms for whom they have acted as guarantors differs from the average duration of relationships guarantor and receiver of guarantees relationships between firms. This further shows that firms help each other mutually when there is a need for that in spite of the fact that these type of helps are associated with some risks; the risk of default.

Table 1: Details of the Provision of Trade Credit Guarantees in the Readymade Garment industry in last 2 years

Details of Trade Credit Guarantees in last 2 years in the industry				
Type	No. of firms that acted as a guarantor for other firms	Average no. of firms for whom they acted as a guarantor	No. of firms taken trade credit guarantee from other firms	Average no. of firms that acted as a guarantor for them
T-Shirt	7	2	10	3
Jeans pants	8	3	10	3
Formal Pants	8	2	11	3
Formal Shirts	7	2	8	2
Fancy shirt	4	2	4	3
Kids wear (Girls)	16	2	15	3
Kids wear (Boys)	3	2	3	2
Western dress (Ladies)	6	3	6	3
Shirts and pants	3	2	3	2
Jeans jacket	1	2	1	3
Punjabi	3	2	3	3
Ladies Kurti	2	3	2	3
Pants (Jeans + Cotton)	1	3	1	3
Shirt (fancy + formal)	2	2	2	3

Source: Primary Survey

On the average each firm in the sample acted as a guarantor for 2-3 firms repeatedly in last two years. However, average number of firms that acted as a guarantor for the firms in the sample repeatedly is 3. This shows that provision of trade credit guarantees among firms is a very common trade practice and firms often have long-term relationships between them. Almost all the firms in the sample acted both as a guarantor for others and have taken trade credit guarantees from others.

Table 2 shows the average number of years over which firms have asked for and received guarantees from their guarantors. Their professional, or other social relationships may actually be of much longer duration. On the average each firm in the sample has been acting as a guarantor for other firms for 7 years. Firms which are producing readymade Pants show the maximum extent of this; each firm in this category has been providing trade credit guarantee facility over the last 14 years on the average to other firms. However, each firm in the sample is received trade credit guarantees over the last 10 years on the average from other firms. Firms which are producing Jeans Jacket show the maximum extent of this; each firm in this category has been receiving trade credit guarantee facility over the last 20 years on the average from other firms. This shows that there exists a strong bond between firms which take guarantees and their guarantors.

Table 2: Trade Credit Guarantee Relationships between Firms

Trade Credit Guarantee Relationships between firms		
Type	Average duration of the trade credit guarantee relationships	
	With the firms whom they provided credit guarantee facility	With the firms from whom they received credit guarantee facility
T-Shirt	4.0	6.3
Jeans pants	7.3	7.4
Formal Pants	5.4	6.4
Formal Shirts	5.1	7.6
Fancy shirt	5.0	11.9
Kids wear (Girls)	5.6	6.9
Kids wear (Boys)	11.8	7.4
Western dress (Ladies)	7.5	8.8
Shirts and pants	5.9	10.6
Jeans jacket	4.0	20.0
Punjabi	10.7	13.7
Ladies Kurti	6.7	9.7
Pants (Jeans + Cotton)	14.0	13.0
Shirt (fancy + formal)	4.8	10.8

Source: Primary Survey

What we can say as a whole is that there is a long-term trade credit guarantee relationship between firms and their guarantors. The firms in the sample used to take trade credit guarantees form other firms for meeting the working capital requirements first and then they started acting as a guarantor for other firms when their own reputation as a safe borrower has been established to their own input sellers.

Next two tables, Tables 3 and 4 indicate that for firms in my sample, guarantors largely belong to the same or very similar product group as the firms for whom they act as guarantors, suggesting that professional relationships between firms or producers within product groups matter. However, it may happen that provision of trade credit guarantee reduces the market share of the firms who provide guarantees as firms who receive guarantees belong to the same product groups and compete with their guarantors for selling product. However, my empirical observation reveals that firms don't afraid to provide the trade credit guarantees to the firms who are also engaged in the same line of business as these firms sell their product in other markets, or a different set of customers, or a different point in time. Table 3 in particular, shows the product categories of firms for whom the sampled firms provided trade credit guarantees in the last two years.

Table 3: Details of product categories of the firms who the sampled firms provided trade credit guarantees in last two years

Details of product categories of the firms who the sampled firms provided trade credit guarantees in last two years									
Type	No. of firms for whom they acted as a guarantor	Product type of firms for whom they acted as a guarantor							
		T- Shirt	Jeans Pants	Formal pants	Formal Shirt	Fancy Shirt	Kids wear (girls)	Kids wear (boys)	Western dress (Ladies)
T-Shirt	15	8	0	3	4	0	0	0	0
Jeans pants	21	0	7	6	3	0	3	0	2
Formal Pants	18	1	0	9	6	0	0	2	0
Formal Shirts	18	4	0	3	9	0	1	0	1
Fancy shirt	9	1	0	2	3	3	0	0	0
Kids wear (Girls)	34	6	5	4	8	0	6	0	5
Kids wear (Boys)	7	1	1	1	2	0	2	0	0
Western dress (Ladies)	15	1	2	1	2	0	1	2	6
Shirts and pants	6	2	0	2	2	0	0	0	0
Jeans jacket	2	0	1	0	0	0	0	0	1
Punjabi	7	0	0	0	5	0	1	1	0
Ladies Kurti	5	1	0	0	0	0	0	0	4
Pants (Jeans + Cotton)	3	0	0	1	2	0	0	0	0
Shirt (fancy + formal)	4	0	0	1	2	0	0	1	0

Source: Primary Survey

This shows that guarantors and the firms who have taken guarantees from them are mainly engaged in the same line of production; they produce and sale similar products. This happens as firms can guarantee only to them who are willing to buy from their input sellers as their reputation as a guarantor is established to those input sellers with whom they interact on a regular basis. For example, a guarantor who produces and sells Western dress acts as a guarantor mainly for producers who produce and sell Western dress as his input sellers sell only the fabric which is required for producing western dress. Table 4 in particular, shows the product categories of firms who acted as guarantors for sampled firms in last two years. The same trend is seen here too.

Table 4: Details of product categories of the firms who acted as guarantors for sampled firms in last two years

Product categories of the firms who acted as guarantors for sampled firms in last two years										
Type	No. of other firms who acted as guarantors	Product type of firms who acted as guarantors								
		T- Shirt	Jeans pants	Formal pants	Formal Shirt	Kids wear (girls)	Kids wear (boys)	Western dress (Ladies)	Jeans Jacket	Punjabi
T-Shirt	23	7	2	0	0	0	0	0	0	0
Jeans pants	29	0	7	9	6	3	0	2	2	0
Formal Pants	30	3	2	13	9	1	1	1	0	0
Formal Shirts	19	2	1	3	8	2	2	1	0	0
Fancy shirt	11	0	1	4	5	1	0	0	0	0
Kids wear (Girls)	40	5	8	5	6	4	0	11	1	0
Kids wear (Boys)	7	1	1	1	1	0	1	1	1	0
Western dress (Ladies)	17	1	4	3	4	0	0	4	1	0
Shirts and pants	7	1	0	3	2	0	0	1	0	0
Jeans jacket	3	0	1	0	0	0	0	1	1	0
Punjabi	9	0	1	2	2	0	0	0	0	4
Ladies Kurti	6	1	0	1	0	3	0	1	0	0
Pants (Jeans + Cotton)	3	0	0	1	2	0	0	0	0	0
Shirt (fancy + formal)	5	0	0	1	4	0	0	0	0	0

Source: Primary Data

The next two tables, Tables 5 and 6 provide more details about the network relationships between guarantors and the firms for whom they act as guarantors. Family ties seem to be the most important link among them. Direct friendship ties as well as indirect friendship ties (friends of friends and friends of the family members) play an important role too, followed at a distance by purely professional or neighbourhood ties. In particular, Table 5 shows the existence of social networks between guarantors and the firms for whom the sampled firms acted as a guarantor for trade credit.

Table 5: Various types of Social Relationships between guarantors and the firms for whom sampled firms acted as guarantors: Existence of Social Networks for trade credit guarantees

Various types of Social Relationships between guarantors and the firms for whom sampled firms acted as guarantors: Existence of Social Networks for trade credit guarantees					
Type		Existence of Different types of Social Relationships			
	No. of other firms for whom they acted as a guarantor in last 2 years	Family ties	Friendship ties	Professional ties + Neighbourhood ties	Indirect ties (friends of friends+ family friends)
T-Shirt	15	8	4	0	3
Jeans pants	21	8	7	1	5
Formal Pants	18	8	4	0	6
Formal Shirts	18	9	2	1	6
Fancy shirt	9	4	1	0	4
Kids wear (Girls)	34	22	4	1	7
Kids wear (Boys)	7	6	0	0	1
Western dress (Ladies)	15	7	1	1	6
Shirts and pants	6	4	1	0	1
Jeans jacket	2	2	0	0	0
Punjabi	7	4	1	1	1
Ladies Kurti	5	1	1	0	3
Pants (Jeans + Cotton)	3	2	0	0	1
Shirt (fancy + formal)	4	1	2	0	1

Source: Primary Data

Table 6 in particular shows the existence of social networks between guarantors and the sampled firms who have taken trade credit guarantees from them. It shows that family ties have become very important for accessing trade credit guarantees which goes hand in hand with the empirical observation that family acts as a production unit here.

Tables 5 and 6 together show that family ties matter the most among other direct ties. They further show that indirect ties where the guarantors and the firms who have taken guarantees are connected via friends of friends and friends of family members. This shows the strength of social networks in this industry where not only direct links, but indirect links matters a lot. Taken together, Tables 1 through 6 suggest that families of manufacturers cum wholesalers and their friends and relatives are often engaged in the production of similar products. They form groups based on their own social networks and the existence of social networks enables them to engage in the provision of trade credit guarantees among themselves safely, without having the fear of voluntary default.

Table 6: Various types of Social Relationships between guarantors and the sampled firms who take guarantees from them: Existence of social networks for trade credit guarantees

Various types of Social Relationships between guarantors and the sampled firms who take guarantees from them: Existence of social networks for trade credit guarantees					
Type		Different types of social relationships			
	No. of firms that acted as a guarantor for them in last 2 years	Family Ties	Friendship Ties	Professional Ties + Neighbourhood ties	Indirect ties (friends of friends + family friends)
T-Shirt	23	11	7	4	1
Jeans pants	29	17	4	2	6
Formal Pants	30	16	6	2	6
Formal Shirts	19	8	4	1	6
Fancy shirt	11	8	1	0	2
Kids wear (Girls)	40	22	6	2	10
Kids wear (Boys)	7	1	0	2	4
Western dress (Ladies)	17	9	2	3	3
Shirts and pants	7	5	1	1	0
Jeans jacket	3	2	0	1	0
Punjabi	9	8	0	1	0
Ladies Kurti	6	3	1	1	1
Pants (Jeans + Cotton)	3	3	0	0	0
Shirt (fancy + formal)	5	3	1	1	0

Source: Primary data

In the readymade garment industry of Metiabruz, social and economic networks promote the trust, which is necessary for favour exchanges in terms of providing trade credit and trade credit guarantees among firms, and they also reduce the rate of strategic default by potential deviants. As information flows freely and quickly within a network and across the networks, this gives less incentive to a firm to default strategically as their future access to trade credit is dependent on their overall past repayment history. Further, even guarantors who have given them trade credit guarantees will not do so in the future if the borrower defaults strategically and, in addition to this, no one from the potential set of guarantors from the same network will be willing to act as a guarantor for him thereafter. This is a kind of trigger strategy backed by multilateral punishment. To make the threat of multilateral punishment credible potential guarantors develop business ties based on social ties among themselves, and form networks so that they can communicate with each other with ease. Thus, these networks act here as informal credit institutions and penal institutions which solve the adverse selection and moral hazard problems of lenders and help them to inflict multilateral punishment when they provide trade credit and trade credit guarantees.

Conclusion

As a whole we can say that the presence of social and economic networks makes the monitoring as well as collecting information less costly; gives a potential deviant the least incentive to deviate and behave opportunistically and reduces the search cost of identifying the right person. It is not a limited information system and the information transmission mechanism throughnetworks makes producers fully and quickly informed about the dispute and makes the system so successful even in the absent of formal legal credit repayment institutions. It is my conjecture that the informal legal structure that underlies the commercial interactions (provision of trade credit guarantees) of producers in the system is so stable because of its dependence on the network-based interactions.

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