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RESEARCH ARTICLE

The Regulation of Informal Trade Credit (*Ograyi*) in Afghanistan

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Abstract

This article explores the creation, circulation, and regulation of informal trade credit or "*ograyi*" in Afghanistan. The practice of *ograyi* allows businesses to access short-term credit, from either their suppliers or third parties, to acquire specified goods. This paper provides an account of the non-legal practices that regulate *ograyi* transactions. *Ograyi* vitally depends on the development of trust between parties. Clientelism helps to maintain stable relationships that can offset market unpredictability. Widespread market norms and practices establish the general behaviour of participants. Parties also renegotiate the terms of the contract if circumstances make it impossible for the creditor to repay the loan in the agreed timeframe. Furthermore, bank credit remains largely unavailable or unappealing to many businesses, and the legal system provides limited recourse in the case of contractual breach. Thus, the non-legal practices regulating *ograyi* serve as a substitute for legal coercion.

Keywords: informal trade credit; law; Afghanistan; trust; banking; economy

1. Introduction

Despite international and domestic efforts geared at strengthening Afghanistan's legal system, state law remains completely absent in much of Afghan social life. Nearly two decades of research have documented the profound normative pluralism that marks society.[1] Alongside enacted laws, Islamic and customary norms remain widely in circulation—often fusing with one another, thereby assuming a hybrid form that mixes the two though staying true to neither.[2] In many ways, this arrangement has not only been viewed as desirable, but even as necessary for the functioning of the state, since unofficial normative practices help to provide a source of order and stability that cannot be achieved solely through the formal legal system.[3]

Against this backdrop, this article looks at the creation, circulation, and regulation of informal trade credit in the Afghan economy. When goods are transferred between a seller and a purchaser, the latter may lack the requisite funds to complete the transaction but may nonetheless be in a position to repay any funds received once he has acquired the items and resold them. Such instances are very common in Afghanistan, particularly since individual wealth is low, but traders and merchants still import a significant quantity of goods from abroad involving the regular turnover of high volumes of funds. The economy

[1] Ahmed (2007); Barfield (2008); Barfield (2010); Choudhury (2014); Choudhury (2017); Khan (2015); Meininghaus (2007); Rahbari (2018); Yassari and Saboory (2010).

[2] De Lauri (2013), p. 540. More generally, for literature on third space, see e.g. Bhabha (1994).

[3] Choudhury (2017), *supra* note 1.

has thus developed a practice known as "*ograyi*," which allows businesses to access short-term credit for their transactions in the form of trade credit, usually from their suppliers, but also from third parties. *Ograyi* is pervasive throughout the country, as anyone involved in business activities will be familiar with its operation, despite remaining relatively unknown to lay individuals. One cannot properly understand the Afghan economy unless one appreciates the functioning of *ograyi*, as it plays such a crucial role in the way businesses transact with one another. This study focuses on the regulatory practices that facilitate the operation of *ograyi*. This study shows the combination of factors that businesses rely upon to regulate their credit relations: (1) investing in relationships, thereby allowing trust to accrue over time; (2) relying on clientelism; (3) acting according to widespread market norms and practices; and (4) renegotiating contract terms in the event of a breach. This study further explains the challenges that banks face in providing businesses with credit and the difficulty in relying on courts for contractual enforcement.

The second part of the paper provides a brief review of how communities in different settings globally have been able to provide informal credit to individuals and businesses. The third part details the research methodology employed. The fourth part provides a background on Afghanistan's economy and its markets, which helps to explain the need for informal credit. The fifth part details the general practice of *ograyi* in Afghanistan. The sixth part is the heart of the paper and details the factors that facilitate the regulation of informal trade credit. The seventh part explains the shortcomings of the country's banking system, which bolsters the widespread practice of *ograyi*. The eighth part details the challenges of seeking recourse through courts. The paper strives to show how informal credit in Afghanistan—an economy-wide practice—is regulated almost entirely through a combination of personal trust, non-legal practices, and community norms. These factors serve as a substitute for formal legal coercion, as the courts provide limited relief to aggrieved businesses.

2. Background on local-level credit

The availability of credit is an essential aspect of a functioning market system.[4] Credit facilitates macroeconomic growth by allowing businesses to expand their activities by gaining access to resources that would otherwise be unavailable.[5] While, in developed societies, banks are the primary mode through which people are able to acquire credit, individuals in many developing societies remain unable to access such channels. A significant portion of people across the world work in the informal economy—that is, in economic activities that lack registration and that are not directly regulated by the state.[6] Such societies have often created their own community-level mechanisms that provide individuals with credit so that they may meet their respective needs. In general, these lending practices may be termed "informal credit" and the markets they create may be referred to as "informal credit markets."[7]

[4] Coghlan (2011), p. 27; Gilchrist & Zakrajšek (1998), p. 129.

[5] *Ibid.*, p. 129; De Gregorio & Guidotti (1995).

[6] Various definitions exist regarding the informal economy. However, I intentionally avoid this discussion, since it is not a central theme of this paper. For a more detailed discussion on the notion of "informal economy," see e.g. Portes & Haller (2010).

[7] A variety of reasons explain the emergence of an informal credit market: licences are not required; it is not regulated by the central bank; it facilitates small savings; it is not always profit-motivated; it may possess its own organizational structure; it does not require collateral; its services are localized and often personalized; the identity of borrowers is well known; it may have multiple proprietorship as in the case micro-credit; it relies on close informational links between individuals; repayment rates are better than bank rates; it encourages reciprocal credit disbursal; it encourages community participation. See e.g. Srinivas (2016).

Three common arrangements designed to provide informal credit include rotating savings and credit associations (ROSCAs), pawnbrokers, and trade credit.[8] In a ROSCA, a group of people agree to individually contribute money towards a communal savings fund over a fixed period of time.[9] The total funds are then made available to each member on a rotating basis until all of the members have once been able to use the full pot of collected funds, after which the funds are returned to their respective contributors. Pawnbrokering involves a broker who provides another party with credit after detaining some form of collateral from the latter, often gold, jewellery, or some other movable item of value, thereby mitigating the risk of non-payment.[10] Pawnbrokering is likewise widespread across the developing and developed world, largely owing to its simplicity.[11] ROSCAs and pawnbrokers allow parties to avoid both the bureaucracy associated with formal institutions[12] and credit evaluations.[13]

Afghan society hosts a number of practices that bear functional similarities to ROSCAs and pawnbrokering. The sharing of credit amongst a group of individuals is often accomplished through the *qawm*—a porous concept often used to describe a "community," which demarcates social insiders and outsiders.[14] Afghanistan is a networked society in which people are held together by densely overlapping social ties between family members and close friends.[15] Wealth is often maintained within these communities, as members will support each other with loans if a member requires assistance.[16] Nonetheless, while a *qawm* may provide a minimum social safety net for its members, it often lacks the necessary wealth for businesses to be able to scale up their activities. Pawnbrokering in Afghanistan is accomplished through the practice of *gerawi*, which involves the pledge of property—usually land—to a creditor in exchange for financing.[17] The level of credit provided is usually much less than the value of the land detained, and the land is returned to the debtor once the loan is repaid. During this period, the creditor is able to benefit from the use of the land, whether for his own use or in leasing it out to a third party.[18] One of the limitations of *gerawi* is the limited size of loans provided. As will be explained in this paper, sizeable credit is often required by traders, who buy and sell high volumes of goods but who do not necessarily own significant collateralizable wealth.

An alternate way for a party to gain credit is directly from the supplier who provides the goods—a practice known as trade credit.[19] The purchaser takes possession of items on credit and repays the outstanding amount along with interest at a future date. The credit is usually provided by the supplier specifically for the acquisition of particular goods. One

[8] Other arrangements include informal credit unions and informal money lenders. See e.g. Srinivas & Higuchi (1996).

[9] Besley, Coate, & Loury (1993); Besley, Coate, & Loury (1994); Biggart (2001); Bouman (1977); Bouman (1995). ROSCAs have been the object of study for several decades. See Ardener (1964); Geertz (1962). Recent research has also focused on the governance of ROSCAs through the interplay of official laws and community practices. See Yimer et al. (2018).

[10] Bouman & Houtman (1988).

[11] Caskey (1991); Francois (2006); Skully (1994).

[12] Biggart, *supra* note 9.

[13] Skully, *supra* note 11.

[14] Barfield (2008), *supra* note 1; Barfield (2010), *supra* note 1; Rubin (2015).

[15] Beall & Schütte (2006), p. 51.

[16] Schütte (2009), p. 485.

[17] Klijn (2006), p. 17; Rahimi (2015), p. 744.

[18] The *gerawi* arrangement is highly flexible and may take a number of configurations. The creditor may occupy the pledged land for his own use; he may lease the land for his own use at a highly discounted price; he may lease out the land to a third party; he may allow the debtor to remain on the land and collect rents from the debtor. See e.g. Rahimi, *supra* note 17, p. 758.

[19] Biais & Gollier (1997); Bouman, *supra* note 9; Petersen & Rajan (1997); Seifert, Seifert, & Protopappa-Sieke (2013).

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reason why this arrangement persists is that suppliers may be in a better position than banks to assess and monitor credit arrangements.[20] For example, within New York's diamond industry, one finds an elaborate trade financing system between large diamond "sight holders" and smaller "dealers."[21] While banks may be reluctant to finance a dealer because they lack the specialized knowledge required to value gems, they may have greater confidence in financing larger sight holders who have better credit ratings; subsequently, these sight holders can use this credit to finance dealers while also assuming the monitoring costs as an industry insider.

In developing countries, small and medium-sized enterprises often find trade credit crucial for their business.[22] Many enterprises operate in the informal economy, or alternately may be formally registered but still unable to receive a bank loan. These businesses thus turn to informal credit for acquiring goods. Suppliers in countries with weak legal systems must be particularly cautious in ensuring that a potential debtor business can be trusted to repay the loan. New businesses thus face particular challenges in gaining credit, since, in the absence of a strong state or functioning legal system, firms depend on trust and reputation, which new entrants are naturally lacking.[23] Relational contracting is one means by which suppliers and purchasers are able to build trust with one another.[24] The supplier can rely on repeated-game incentives, since the purchaser will want to maintain ties with the supplier for future opportunities.[25] In the event of an eventual breach of contract, a party may not always be able to rely on sanctions such as reputational damage within the community of businesspeople.[26] Suppliers will often go to great lengths to renegotiate the terms of the contract, even if it entails a loss, since they see no hope of legal recourse.[27]

A series of studies by John MacMillan and Christopher Woodruff looks at the regulation of informal credit in Vietnam. Within the Vietnamese private sector, businesses provide informal credit without relying on courts[28]; instead, businesses ensure contractual fulfilment by scrutinizing potential partners, invoking community sanctions, using written contracts to avoid ambiguities, and taking partial payments in advance for goods supplied.[29] Spreading negative gossip across business networks can also provide a means of sanctioning recalcitrant parties. A comparison of Vietnam with Eastern European countries revealed that "[s]ocial networks and reputation appear ... to serve as substitutes for functioning legal systems, while business networks function better when courts are

[20] The proliferation of trade credit has a number of explanations beyond simply the inaccessibility of banks. See Fisman & Love (2003). First, trade credit is more likely to arise when the goods can be easily seized and resold by the seller. See Maksimovic & Frank (1998); Mian & Smith (1992). Thus, depreciable or highly specific goods are less likely to be suitable for trade credit. Second, trade credit can serve as a means for a supplier to signal the quality of its products. See Emery & Nayar (1998); Lee & Stowe (1993). Third, in industries that require complex inputs from suppliers, the latter may be more inclined to provide trade credit because of the ability to exact significant punishment in the case of non-payment. See Cunat (2001). Fourth, in industries with limited competition among suppliers, suppliers may be able to charge higher prices through trade credit when price elasticity is greater for cash customers than for credit customers (i.e. credit-customer demand is less sensitive to price increases than the demand of cash customers), provided the market also exhibits adverse selection (i.e. sellers have information on buyers but not vice versa). See Brennan, Maksimovics, & Zechner (1988).

[21] Bernstein (1992), p. 118.

[22] Ghate (1992).

[23] Fisman & Love, *supra* note 20.

[24] Macneil (1978); Macneil (1985).

[25] Clay (1997), p. 210.

[26] Fafchamps (1996), p. 444.

[27] Hendley, Murrell, & Ryterman (2001), p. 56.

[28] McMillan & Woodruff (1999b), p. 1285.

[29] McMillan & Woodruff (1999a), p. 637.

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effective."[30] These seminal studies of the Vietnamese context demonstrate the importance of studying the local environments in order to understand how different legal and non-legal arrangements may help to sustain informal credit markets.

The existing literature on informal credit largely focuses on the economic and structural details of the arrangement: the barriers faced by young firms in accessing trade credit[31]; the variations in the types of organizations that provide trade credit and under what conditions[32]; and whether trade credit complements or substitutes for credit from financial institutions.[33] This literature has been far less preoccupied with the governance mechanisms of informal trade credit. While the works of MacMillan and Woodruff make a significant contribution in addressing this gap, the limited scope of their studies—based on quantitative data and interviews—leaves the door open for more varied explorations of the various governance mechanisms that may be implicated.

The current study on informal credit practices in Afghanistan provides a granular account of the practices, social structures, and market forces that provide a regulatory framework. A sustained study of the markets of Kabul sheds light on the microdynamics of interactions between actors that animate business life. Supplanting interviews with prolonged participant observations of market activities helps to provide a thick description of the various factors impacting the regulation of credit without making a priori assumptions on dependent and independent variables—and their relative weighting—characteristic of qualitative studies.[34] This study shows how a combination of trust relationship, clientelism, market norms and practices, and contract renegotiation help to ensure that trade credit transactions are fulfilled by debtors.

Informal credit permeates virtually every aspect of the Afghan economy despite the limited attention it has received within existing scholarship. Informal credit practices have been recorded from at least the late nineteenth century when *hawala* transfers (i.e. informal money transfers) represented Bills of Exchange.[35] At present, the informal mobile vendors that inundate the streets of Kabul largely rely on informal trade credit.[36] These vendors acquire their goods on credit and then repay their suppliers in instalments. In rural areas, informal credit helps to play a consumption-smoothing role, since families, largely relying on agricultural income, may face income shortages.[37] In the illicit opium market, opium cultivation is one of the few available sources of credit for poor people through the practice of *salaam* in which advances are made by landowners or third parties for future crops.[38] The existing literature nonetheless fails to capture the extent to which

[30] McMillan & Woodruff (2000), p. 2450.

[31] Fisman & Love, *supra* note 20.

[32] See e.g. Cull, Xu, & Zhu (2009). Their research shows that, in China, poorly performing state-owned enterprises are more likely to provide trade credit to firms with limited access to credit, whereas profitable (rather than unprofitable) private firms are more like to provide credit to customers with limited credit access.

[33] Demirgüç-Kunt & Maksimovic (2001). This World Bank study involving a mixture 39 developed and developing countries finds that trade credit complements bank loans. Conversely, Bose (1998) finds that, in less developed countries, the availability of cheap credit in the formal sector worsened credit terms and availability in the informal sector.

[34] Nelken (2004), p. 9. To help to interpret the participant observations arising during the course of the fieldwork, this study draws on literature from sociology and anthropology.

[35] Hanifi (2004), p. 200. For a discussion more generally on *hawala*, see Thompson (2011).

[36] Schütte, *supra* note 16, p. 477.

[37] Klijn & Pain (2007), p. 19. Also see e.g. Mallett & Pain (2017); Minoia, Mumatz, & Pain (2014); Minoia & Pain (2017); Shaw & Ghafoori (2019). Agriculture is mentioned due to the widespread dependence on agriculture-related work in the countryside. However, people in any occupation may occasionally require credit. Families dependent on remittances from labour migrants or causal labourers may go through periods with less funds. Even teachers and government employees may not receive their salary for several months, thus requiring credit to meet their immediate needs.

[38] Mansfield & Pain (2007), p. 13. Also see Pain (2008); Ward et al. (2008).

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informal trade credit pervades the overall economy, as it is integral for the operation of businesses throughout the country, particularly those acquiring goods from abroad. Furthermore, virtually no study focuses on the governance aspects of the circulation of informal credit, which seems particularly important given the risks inherent in credit, the weaknesses of the legal system, and the economy-wide shortage of resources. This article thus addresses a gap in the current literature by focusing on the governance of informal trade credit in Afghanistan, as the practice helps to mobilize large amounts of capital amongst businesses.

3. Research methods

Various methods were employed during the course of this study, particularly interviews and participant observation. The researcher conducted an ethnographic study of Afghan markets between August 2017 and July 2018 for a wider doctoral project, and the data for this paper are based on a subset of the interviews and observations. In total, 57 interviews inform this study and can be broken down as follows: 31 business persons; 12 bank officials; five government officials; five central-bank officials; two judges; two litigation lawyers.

3.1 Semi-structured interviews

Significant time was spent in the markets of Kabul speaking with businesses to understand how they conducted transactions. Businesses ranged in size from a single person to a business with over 100 employees. The size of the latter was a distant exception, as businesses with 5–20 employees was the norm.[39] All interviews were conducted in Kabul, and the majority took place in *Mandawi*, the central market for merchants and traders.

Business people were generally suspicious towards questions on their affairs. Academic research is still in its infancy in the country, particularly on economic matters. Thus, a continued issue that I faced was being viewed as a spy or—just as bad—an undercover tax collector. I thus relied on introductions by third parties.[40] Periodic visits also helped to build trust, as businessmen were happy to see my continued presence over a sustained period of time. Conversations with banking officials allowed me to understand how credit could be accessed through the banks.

3.2 Participant observation

I spent much of my time in the market-place alongside businessmen to understand the rhythm of their lives. Being in the market over the course of several months gave me exposure to some of the mundane practices that often go unnoticed. For example, shop owners would spend significant amounts of time talking with others in the market, whether over *chai* or in chance encounters. Such meetings helped to reaffirm social ties while also playing an information-sharing role. I also spent significant time in the offices of banking officials, observing their day-to-day activities and engaging in casual conversations to understand how they balanced between objectively upholding banking standards and maintaining social ties with those around them.

[39] The Afghan market is replete with small and medium-sized enterprises, with very few large businesses. Nonetheless, I do not differentiate businesses according to size, as this was unnecessary for understanding the regulation of informal credit.

[40] Scholars have noted that it is sometimes necessary for a researcher to build a personal "tribe" of interconnections that they can rely upon for introductions to third parties, as its members can vouch for the name of the researcher. See Malejacq & Mukhopadhyay (2016). These discussions relate to a slowly emerging body of scholarship on conducting fieldwork in dangerous areas. See Massoud (2016).

3.3 Judicial decisions

Unfortunately, written decisions were not particularly helpful, as the records were incomplete and, even when they existed, they often lacked many substantive details.[41] Thus, an alternate strategy was to collect the laws related to businesses, credit, and court procedures, and then gauge them against the experiences of those involved in court proceedings. For the latter, I gleaned information from judges, lawyers, and litigants, particularly businesses that decided to take their disputes to court.

4. Overview of Afghanistan's economy

Trade is the economic bloodline of Afghanistan. Traders and merchants ensure that every possible good is imported into Afghanistan, including electronic goods, foodstuffs, medicines, and clothing items. The greatest volume of imports come from the neighbouring countries of Pakistan, Iran, and China, as well as other nearby countries, including Uzbekistan, India, Tajikistan, Russia, Turkey, and the United Arab Emirates (UAE).[42] Even during the Taliban government in the 1990s[43] as well as during the early parts of the twentieth century,[44] trade formed a central component of the Afghan economy. Because all the major routes to Kabul—and Afghanistan—are by land, virtually all these items arrive by transport truck.[45] The items arriving from abroad ensure that people are able to meet their daily needs. The cost of transporting goods along with the very low income of people throughout the country results in the items entering the country being of infamously poor quality.[46]

The data below from the World Bank provide an indication of the extent to which imports play a central role in the economy (Figure 1). Since the fall of the Taliban in 2001 and the reconstruction of the country, the value of imports have amounted to well over 50% of the gross domestic product (GDP) (except in the last three years; see Figure 2).[47] In 2018, the countries supplying the most goods to Afghanistan were Pakistan (USD $1.3 billion), Iran (USD $1.2 billion), China (USD $1.18 billion), and Kazakhstan (USD $0.87 billion), corresponding to those countries in closest geographic proximity.

Many of these imported goods eventually find their way to the area of *Mandawi*. The famous street of *Mandawi* in the heart of Kabul has become shorthand for the central merchant market, covering an area of just a few square kilometres.[48] Incongruous buildings

[41] Afghanistan is a civil-law jurisdiction (at least nominally). Unlike common-law jurisdictions in which court decisions often contain legal reasoning, written decisions in civil-law jurisdictions often lack such details and instead contain a summary of the facts, the relevant provision of law, and a pronouncement of the outcome. For a discussion of civil-law jurisdictions generally, see Merryman & Pérez-Perdomo (2007).

[42] Marsden (2015); Marsden (2018); Rahim (2018). For a discussion on Afghanistan's geopolitical connections in the region more generally, see Monsutti (2013).

[43] Marsden (2016); Rashid (2001).

[44] Sadat (1999).

[45] Goods originating in more distant locations, such as China, Turkey, or the UAE, will travel by ship for the first portion of their trip until they reach the port cities of either Bandar Abbas or Charbahar, both in Iran. The Charbahar port specifically aims at increasing trade between Afghanistan and India. See Mutfi, Amirahmadian, & Sachedva (2018). From these two ports, goods may board a train to the Iran–Afghan border in eastern Iran; however, the final stretch into Afghanistan is always by truck.

[46] This factor also explains the size of the used-goods markets as well as the prevalence of repair stores for virtually every type of item. Luxury items are also imported from abroad and are sold to the small percentage of wealthy citizens.

[47] The last three years have also seen a corresponding dip in exports. This period has been characterized by an increase in insecurity, suggesting that insecurity may be adversely affecting the movement of goods into and out of the country.

[48] Many of the buildings are over 50 years old, having withstood decades of civil war and regime changes. The decayed walls of many buildings still have bullet holes, a near-permanent reminder of the suffering that once

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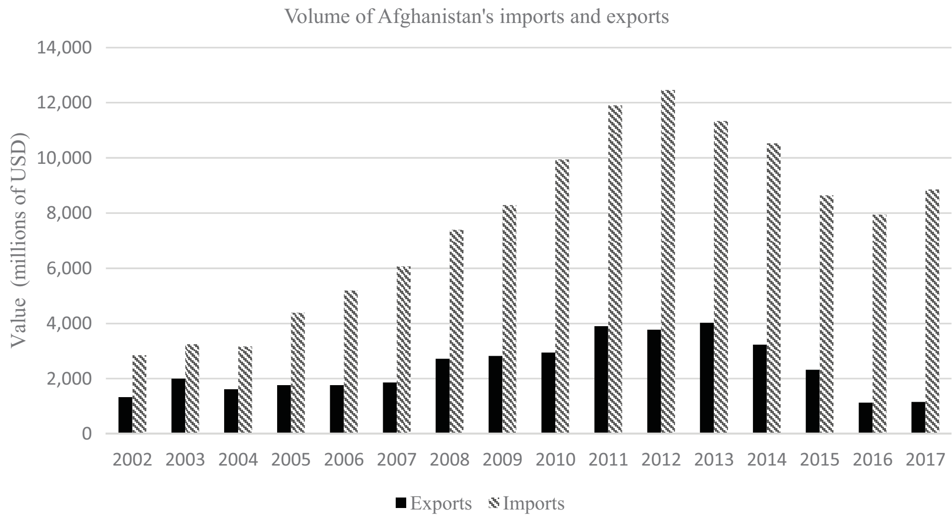

Figure 1. The value of imports and exports for Afghanistan. *Source:* Based on data from the World Bank.

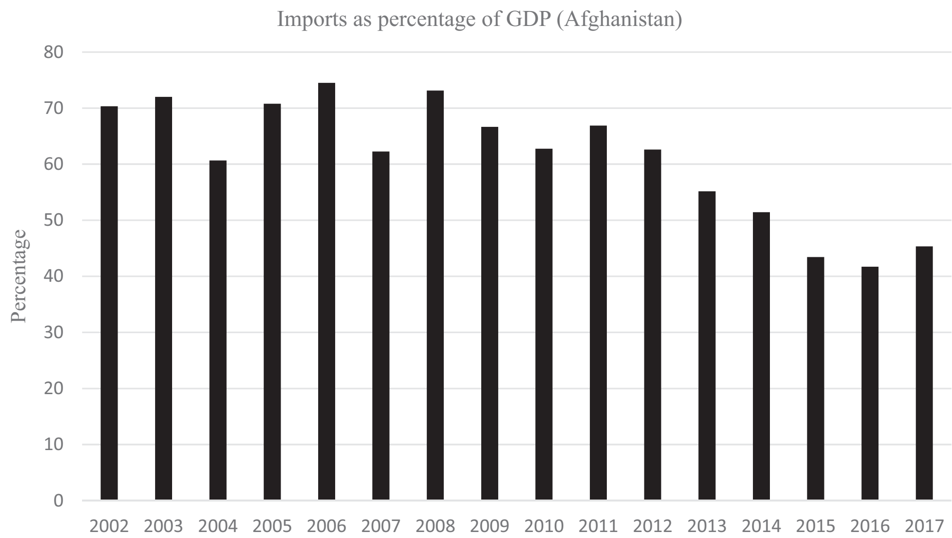

Figure 2. Imports as a percentage of the GDP. *Source:* Based on data from the World Bank.

occupy every nook and cranny, as businesses compete not only to sell their products, but also for a space in which to carry out their affairs. While, on the face of it, *Mandawi* may seem like any other sprawling bazaar in Afghanistan, its distinguishing feature is the role of its more innocuous traders and merchants. Those selling directly to the public occupy the storefronts facing the street, whereas traders normally have their offices in more discrete locations within building courtyards, away from the bustle of daily traffic.

marked the country. The streets are virtually impassable as people rush in every direction, cars and motorbikes deliver goods to their owners, and donkeys slowly plod along with moving stalls strapped to their backs. The poor electrical work of buildings alongside the high volume of usage has led to a number of fires in the market in recent years.

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Traders—in the thousands in *Mandawi*—serve as clearing houses for goods that arrive from abroad.[49] Traders operate as wholesalers who distribute their goods to stores, businesses clients, or individual customers. This distribution network emanating from *Mandawi* extends well beyond the market and city into various parts of the country.[50] Traders are continually on the move, monitoring the delivery and quality of items from abroad and subsequently distributing goods to clients. They often travel around the city to collect payments from their customers.

Afghan traders possess a vast regional network that facilitates the well-organized movement of goods.[51] Many spend significant amounts of time outside the country where they are able to facilitate the initial acquisition of goods from abroad, leaving the day-to-day grunt-work to employees, often family members. Some traders set up offices in foreign countries, spending part of the year abroad purchasing goods and the remainder of the year distributing those goods in Kabul. Some even relocate to the foreign country altogether, thereby becoming involved exclusively in the supply-side of goods to Afghanistan.[52] Afghan traders thus form elaborate networks that facilitate the movement of goods from neighbouring countries to various parts of Afghanistan.

While the interactions of these traders with local and foreign businesses form the human architecture for the movement of goods, underlying these transactions are economic relationships. The practice of *ograyi* allows buyers to access credit to acquire goods, with the loan being repaid at a later time.

5. General practice of *ograyi*

Often, businesses will not have the requisite funds to pay their suppliers on the purchase date. Gaining access to credit is particularly difficult in Afghanistan given that the economy is stretched for resources. Potential creditors legitimately fear that their funds may disappear given the fluctuations in the market or as a result of a bad business decision on the part of the debtor (even those that are well intentioned). Debtors may also abscond with funds to another country, leaving the creditor without any recourse. Furthermore, banks are very conservative in their lending practices, making them largely inaccessible to traders. For this reason, market participants have come to rely on informal trade credit or *ograyi*.

Wholesalers are aware that the businesses that purchase their goods will often have insufficient funds to purchase a large stock outright. Rather, the purchaser will slowly accrue funds over a period of time by selling these goods. Thus, the purchaser will ask his supplier for an *ograyi* arrangement in which the stock of goods is acquired with a supply-side line of credit, thereby allowing him to receive the goods and pay the outstanding debt through weekly instalments. The two parties agree in advance on the weekly amount to be repaid. Often, an employee of the supplier's shop will make weekly visits to those businesses with which it has an *ograyi* arrangement to collect payments until their outstanding debts have been fully repaid. While different credit arrangements exist in Afghanistan, *ograyi* specifically relates to credit circulating amongst businesses to facilitate

[49] Wholesalers are often themselves merchants or, alternately, may work with a trader who imports particular goods.

[50] A wholesaler will provide goods to a variety of customers, many of whom will be outside of Kabul. The goods may pass through Kabul or may be transferred directly to a customer from the originating source if the wholesaler finds such an arrangement to be more expeditious.

[51] Marsden (2016), *supra* note 43; Marsden (2018), *supra* note 42.

[52] The decision to relocate abroad is often motivated by non-economic factors, as many traders relocate because of safety concerns.

the purchase and sale of goods.[53] Unlike other forms of credit available to parties, *ograyi* is generally unsecured and thus exposes the creditor to significant risks. *Ograyi* is the most common mode of financing for traders and merchants who import goods from abroad. The local industrial and production sectors in Afghanistan are very limited and incapable of meeting the needs of the population,[54] thereby necessitating foreign goods.

The supply chain of particular goods may involve several *ograyi* arrangements. For example, an initial supplier—possibly in China—may provide *ograyi* to a wholesaler in Kabul, who then provides *ograyi* to another business in Kabul, who subsequently provides *ograyi* to a smaller shop in the neighbouring province of Parwan (and the lay customers of this shop may even acquire the goods for personal use on credit). *Ograyi* thus facilitates goods being distributed widely throughout society. At each level, buyers will repay their immediate suppliers through periodic payments. While this network of connections created by *ograyi* may entail greater potential for profits, it also carries greater risks, since delays in payment by any debtor will have a cascading effect upwards in the supply chain. This risk is partially counterbalanced by the fact that creditors at each stage are generally better capitalized than their debtors. Furthermore, providing credit entails possessing a level of financial capital, since, below a certain threshold, any credit provided to a buyer would start cutting into the operating expenses of the creditor's business.

Ograyi may take two general forms: (1) supply-side credit; and (2) cash credit from a money currency exchanger for the purchase of specified goods. In both instances, the creditor reaps a profit from the transaction.[55] The first case of *ograyi* as supply-size credit is common when both businesses are located within Afghanistan and when the supplier possesses sufficient capital. When both businesses are within the country, the supplier is able to regularly interact and monitor the debtor, thereby exerting pressure to ensure repayment. The creditor sells the item at its regular price plus a markup, thereby profiting not just from the sale of the item, but additionally from the fee associated with the delay in payment.

The second form of *ograyi* becomes necessary when the supplier is unwilling or unable to provide credit, and thus a third party must be introduced to facilitate the transaction. Many businesses only accept full payment for the item being sought. Suppliers in neighbouring countries without a presence in Afghanistan may be particularly reluctant to provide goods on credit, as they are unable to continuously monitor debtors and would lack any recourse in the case of a recalcitrant party. In these instances, Afghan money currency exchangers play a crucial role in facilitating the transaction. Exchangers are able to provide funds to businesses in the form of credit tied to the acquisition of specified goods. In this way, the *ograyi* arrangement is between the exchanger and the business acquiring the goods, without the involvement of the supplier. The exchanger assumes the risk in the event of a default.[56] According to central-bank regulations, exchangers are not permitted to accept savings deposits or offer *ograyi* to their clients[57]; however, the challenges of strict financial oversight have allowed the practice to continue with minimal state interference.

[53] Two other credit arrangements are *gerawi* (see note 18 and the accompanying discussion in the main text) and *sar qulfi* (a deposit by businesses to the building owner for the right to use the shop location). Both of these arrangements are secured with collateral.

[54] OECD (2019).

[55] For a discussion of the fees associated with *ograyi* as compared to a bank loan, see the discussion in the main text associated with note 109.

[56] An employee of the currency exchange shop will then visit the debtor each week to collect payments.

[57] The rules governing money exchangers can be found in the central-bank regulation *Muqarara Tanzim Fa-aliat hai Sarrafan va Fraham Konandagan Khidamat Puli* [The Regulation of the Activities of Money Exchangers and Money Service Providers] 1398 [2019].

Ograyi is an important transaction for exchangers, as it keeps their capital in circulation, thereby generating profits.[58] The debtor is able to acquire goods for his business while the exchanger benefits from the service charges associated with the credit transaction. Furthermore, when a money exchanger offers *ograyi*, it is often combined with other services. As the supplier of the goods is often located abroad, the exchanger facilitates the *hawala* transaction. The exchange rate for the money being sent abroad to purchase the foreign goods will be set by the exchanger and will include a profit margin.[59] The gains from these various services can quickly accumulate, especially if the business taking credit makes timely repayments to the exchanger and quickly requests new transactions. For an exchanger, if an excess of funds were to remain idle, it would potentially represent a lost opportunity.

Ograyi became particularly widespread in Afghanistan after 2002 when hundreds of millions of dollars in aid money starting flowing into the country.[60] In 2010, Obama announced his Afghanistan strategy, which entailed transforming the country into a functioning democracy with Western-style state institutions[61]; subsequently, imports drastically increased. Between 2009 and 2012, the level of imports increased by over 50%.[62] The circulation of credit in the market during this period can be likened to the US economy prior to the collapse of the market due to subprime mortgages. People had general confidence in the market (even if ill placed), with the belief that new opportunities would continue steadily.[63] The sheer volume of international aid kept the entire economy afloat, which in turn helped traders because of the greater demand for imported goods.

The country's economy took a drastic turn after 2014 when US troops began phasing out of the country and foreign funding largely dried up. Between 2014 and 2016, the level of imports significantly shrunk by nearly 25%.[64] Less foreign money entering the country translated into a significant reduction in the demand for goods across the economy. Many exchangers saw their reserves of capital shrink, whether due to businesses unable to repay their debts or investors who had reclaimed their funds. As the economy slowed after 2014, people lost their general confidence in the market and exchangers became much more cautious when providing *ograyi* to businesses.

Before going into the details on the informal regulation of *ograyi*, it is helpful to situate the practice within the wider institutional landscape of the country. In many societies, banks and other financial intermediaries perform the function of providing credit to eligible individuals and businesses.[65] Credit bureaus perform the role of gathering information so that creditors can make decisions about the creditworthiness of potential debtors. Many developing countries lack functioning credit bureaus and, even when present, they

[58] Businesses throughout Kabul often keep a deposit of funds with exchangers; subsequently, an exchanger is able to utilize these funds for other transactions, such as providing certain customers with credit.

[59] In this way, the exchanger is able to avoid directly charging interest by incorporating the profit level into the exchange rate. The *hawala* transfer also entails a separate fee.

[60] For the effects of foreign aid on the Afghan economy, see e.g. Bizhan (2018a); Bizhan (2018b); Suhrke (2011).

[61] Swenson (2017), p. 115.

[62] Between 2005 and 2012, imports increased by a staggering 184% (data based on World Bank statistics). Refer to Figure 1 showing the volume of inputs and exports from 2002 to 2017.

[63] I resided in Kabul for much of 2012–16. At the start of this period, US dollars had flooded the market to the extent that people could buy loaves of Afghan bread (each costing roughly $0.20) with USD $100 bills, and the bakers would know exactly how much change to provide. However, this economic reality was short-lived. During December 2018, the economy became significantly weaker. Between 2015 and 2017, the number of people living below the poverty line increased from 39.1% to 54.5%. See Data.adb.org (2017).

[64] In 2012, the US announced its intention to pull out from Afghanistan. Between 2012 and 2016, the volume of imports shrunk by 36%.

[65] Another obvious way in which a business can raise funds is by incorporating and subsequently issuing stocks and bonds. However, I do not explore this method of fundraising in this paper, since it is largely absent in Afghanistan.

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often only cover formally registered businesses even if a significant number of businesses operate in the informal sector. In such cases, assessments of creditworthiness end up being assumed by the creditors. In Afghanistan, banks face formidable challenges in assessing creditworthiness and, for this reason, they are overcapitalized and also have high collateral requirements.[66] Within the economic-development literature, some argue that stronger property rights can provide greater access to credit by making land collateralizable.[67] However, some 80% of land in Afghanistan is unregistered,[68] making it difficult for banks to use land as collateral in many cases.[69] Furthermore, businesses seeking to enforce contracts, including collateral contracts, require a functioning legal system with fair and efficient courts. However, corruption and inefficiency plague Afghan courts, rendering them amongst the worst legal fora globally for contractual enforcement.[70] *Ograyi* thus operates within an institutional environment in which banks are overcapitalized, collateral is suspect, property rights are weak, and the legal system is plagued by various shortcomings.

6. Informal regulation of *ograyi*

Ograyi allows parties to capitalize on opportunities lying outside of their immediate web of personal ties, since such networks may possess limited wealth. Building informal credit relationships with those outside of one's immediate social circle creates new opportunities, which, in Afghanistan, plays a central role in the running of the entire economy.

Thus far, the discussion over informal credit paints a picture of *what* happens within the economy. However, what crucially remains to be answered is *how* this system of informal credit works, as it entails significant risks for creditors. This section looks at the various mechanisms that informally regulate the circulation of informal trade credit. Credit vitally depends on the development of trust between parties. Clientelism helps to maintain stable relationships that can offset market unpredictability. Various norms and practices have also become widespread, thereby establishing a general routine of behaviour for market participants. Finally, in the event of contractual breach, parties make efforts to renegotiate the terms of the contract.

6.1 Developing trust between parties

At its very core, the issuance of credit requires trust between two parties. Credit will not be offered if the parties do not trust each another.[71] Unfortunately, rampant corruption has eroded trust in public institutions, as Afghanistan ranks as one of the most corrupt

[66] In 2010, Afghanistan established a collateral registry, which is administered by the Public Credit Registry of the central bank. The goal of the registry is to make information on collateralized properties available to creditors so that they can protect themselves against risks. One problem about the collateral registry is that creditors are not required to register collateral and thus the database is incomplete. According to Afghan bankers, the registry is checked before accepting collateral for a loan, but the final assessment also relies on other information possessed by the bank, such as past dealings, evidence of cash flow and profitability, and reputation. The barriers that Afghan businesses face in accessing bank loans is detailed in Section 7 of this paper.

[67] The argument is made most strongly by De Soto (2000). Conversely, others are more cautious about the ability of property rights to promote economic activity. See e.g. Kennedy (2011).

[68] Gaston & Dang (2015), p. 3. It is estimated that less than 30% of land in urban areas and 10% of land in rural areas has been registered. See World Bank (2019). Efforts are underway to title more of the land throughout the country; however, this process will take many years. *Ibid*. For a review more generally of property rights and registration in Afghanistan, see Alden Wily (2013).

[69] According to my interviews, some banks will accept untenured land as collateral, being aware that the risks associated with such land are also higher.

[70] The problems plaguing the legal system are discussed in Section 8 of this paper.

[71] Distrust is not necessarily the opposite of trust, since both trust and distrust may be beneficial in protecting against harm. See Hardin (2001); Hardin (2004); Hawley (2014). Instead, it may be more useful to consider

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countries in the world (172 out of 180 countries in 2018 in terms of corruption)[72] with individuals harbouring suspicion towards the government. People have little faith in the ability of public institutions to hold individuals accountable and, as a consequence, generalized, impersonal trust between people is weak.[73] Businesses expend significant resources in developing channels of trust that can help to mobilize credit. The process of trust creation thus warrants attention.

6.1.1 Building a reputation

Reputation is crucial for any business in the market. A business's reputation has a direct impact on their ability to seek out opportunities. Building a reputation allows a business to signal to others that it is willing to undertake transactions that require faith in its abilities.

One of the principle means of building a reputation is by repaying debts in a timely manner. A business builds its reputation for being creditworthy by showing prompt repayments in a string of transactions over time. Timely debt repayments signal to others that a business is true to their word and thus can serve as a reliable partner. Conversely, being unpredictable or unreliable in repayments will damage a business's reputation and thus its ability to attract business partners with whom it can arrange an *ograyi* transaction. Parties are aware that their second-party interactions may bear on their future relationships with a wide range of businesses, as information travels quickly across the market.

Expanding operations is another means by which a business can bolster its reputation. When a business is able to increase the size of its operations, it signals that it is financially strong. Increasing the volume of its activities, number of employees, or number of branch offices can all play a role in indicating that a business is growing. When a business is performing well, information on its good standing circulates throughout the market.

Religion and morality also play an important role in bolstering the reputation of businesses. Good religious character is associated with economic success.[74] One customer attributed the success of his supplier to his religious character: "He's a good Muslim, that's why his business is doing so well." A business person signals his morally upright character through acts of charity, daily religious prayers, and religious gatherings for important events such as the purchase of a new house or the birth of child. Conversely, if a person cheats another or absconds with money, he may be accused of "not being a Muslim," which is not to be taken literally, but rather as an indication of the moral worth of the party.

The influence that religion has on one's reputation is most evident with respect to interest-bearing activities. Islamic law generally prohibits the charging of interest when funds are loaned to another party.[75] This prohibition on interest (locally called *sood*) is widely understood in the market and often serves as a metric of religiosity. Businesses engaging in interest-bearing transactions would be labelled *sood-khur* (a pejorative title that literally means "eating interest"). Other businesses would also distance themselves from the impugned business to protect their own reputation. Nonetheless, many businesses will devise workarounds, such as carrying out interest-bearing transactions in private or employing legal devices to hide the interest in a more involved transaction. An example of the latter is when the debtor is asked to repay the loan in a foreign currency

uncertainty in opposition to trust and distrust, since uncertainty renders it difficult to plan subsequent actions and decisions. See Luhmann (1979).

[72] Transparency.org (2018).

[73] Morris & Klesner (2010); Shapiro (1987); You (2018).

[74] The converse association—that good business people are generally religious—was not immediately evident, since business success could be attributed to many activities, including cheating and fraud.

[75] For a discussion on the prohibition of interest (referred to as *riba* in Arabic) in Islamic law, see Saeed (1999).

and the creditor sets a higher-than-normal exchange rate such that it covers the outstanding principle plus a markup, which effectively serves as interest.[76]

6.1.2 Pre-screening clients

A potential creditor starts the screening process of a debtor by entering into discussions with the goal of understanding its general activities. The creditor will amass information on its relationship with past and present clients, thereby assessing its reputation and character. This allows the creditor to gauge how co-operative the business has been in past dealings and its record in making timely payments. A visual inspection—possibly unannounced—of the business's office can help to reveal any potential irregularities, such as lack of any activity or maintenance.

It is not a requirement that a potential debtor should have a previous relationship with credit or be a family relation. The entire exercise of assessing a new debtor and building trust between the parties is meant to unlock untapped potential through new social and economic linkages. The parties will often be strangers, and thus the debtor will seek to prove that his business is successfully running and capable of turning a profit from the loan. Creditors are in fact particularly cautious about giving loans to close family members, as they often have difficulty in recuperating funds from such clients. One money exchanger mentioned:

> We give small loans to our friends. Sometimes for family members, friends, and so on, the loans are up to $10,000. However, after three to four months, they have still not returned [the sum] back to us. And we have difficulty reclaiming the full amount.

When the transaction is between family members or close friends, the economic ties may become blended with non-economic links, such as kinship, ethnicity, and otherwise. The creditor thus risks becoming bogged down due to over-socialization.[77] While the difference between socialized and over-socialized ties is a matter of degree, one distinguishing feature is whether the relationship *primarily* rests on economic or non-economic times. With close family members, since the ties are often primarily non-economic, debtors have a greater preponderance to be lax in their repayments, relying on their social ties to make up for the deficiency in their economic obligations.

Generally, potential creditors are wary about businesses that exhibit sudden changes in behaviour. If a new business rapidly expands its activity, a potential creditor will be suspicious about its source of wealth and customer base, particularly if the business is relatively unknown by others in the market.[78] Reputation is built gradually over time, and thus greater esteem is afforded to businesses that have expanded their operations incrementally as it evidences their ability to weather the contingencies of the market. Similarly, if a business with a long-standing presence in the market suddenly alters its conduct, either by suddenly seeking larger amounts of credit or changing its core operations (such as replacing its main product of sale with another), it may be an indication that the business is facing financial difficulty and pursuing a new strategy to remain afloat.

[76] In Islamic law, this arrangement would be considered a form of *hiyal*, which denotes "legal fictions" or "legal devices" that are "used to achieve a certain objective, law or not, through lawful means." See Horii (2002), p. 312.

[77] Granovetter (1985), p. 485.

[78] A small number of creditors are keen to invest in new businesses; however, these tend to be the newer, younger, and less experienced creditors, who also have a greater propensity to incur losses. More experienced creditors are more heedful in their assessments of who may be creditworthy.

6.1.3 Gradual accretion of social capital

Similar to physical capital, trust between parties is a form of social capital that gains value over time.[79] Trust is highly valued because, like the millions of dollars being transacted daily, it is a scarce resource that is not openly available to all. Instead, individuals must exert time and effort, which allow trust to accrue incrementally. Trust emerges from the "concrete personal relations" between parties.[80]

The accretion of social capital commences before the two parties initially transact with one another. The pre-screening exercising helps to slot businesses into different categories depending on their reputation. When parties begin to deal with each other directly (not necessarily on credit), they will form opinions of each other, with positive interactions helping to close the "social distance" between them.[81]

If the supplier remains wary about the potential buyer, then he may require a full payment for the first several transactions, as it will give him time to assess the buyer's ability to make timely repayments, frequency of purchases, and general demeanour. When he eventually becomes satisfied with the performance of the purchaser, the supplier may begin to provide goods on credit through an *ograyi* arrangement. Through prompt repayments, the debtor will be able to increase his credit line as time progresses. Moreover, the time and effort invested by both parties into the relationship increase the level of social capital—sometimes called "goodwill"—between them. Parties may also supplement economic ties with social ties, such as by inviting business partners to dinners and special occasions. The combination of these economic and social factors helps to increase the stock of social capital between the two parties (though over-socialized ties also entail certain risks, as discussed in the previous section).

6.1.4 Third-party guarantees

Often, a debtor is introduced to a potential supplier-cum-creditor through a common third party. Third-party introductions can play an important role in placing the potential debtor and creditor in close social proximity to one another. Identifying a debtor through his association with a known third party helps the supplier to understand how the purchaser is embedded within a particular matrix of social relations. The purchaser thus indirectly benefits from the reputation of the third party.

The third party may play one of three roles. First, the third party may choose to become directly involved in the transactions with the other two parties. For example, he may agree to contribute funds or, conversely, assist in repaying the loan. Second, he may provide a financial guarantee for the debtor in the event of non-payment. Third, and most commonly, the third party often simply serves as a character reference for the debtor, and thus the supplier must still assess whether the latter can be trusted with credit. In the last case, if the debtor fails to repay the loan or disappears, the supplier will not direct recourse against the guarantor. Nonetheless, the guarantor's reputation would still be adversely affected, as it would signal that he cannot be trusted. For this reason, parties are generally cautious in providing third-party introductions and will only do so if they feel comfortable in vouching for the party in question.

6.1.5 Balancing trust and risk

Finally, it bears mentioning that a creditor's reliance on trust must be gauged against his eye for opportunity. If the level of trust between creditors and debtors is low, then the creditor assumes significant risks in providing a loan. However, a creditor may still be

[79] For a discussion on social capital, see e.g. Coleman (1988).

[80] Granovetter, *supra* note 77, p. 490.

[81] Granovetter (1973), p. 1361.

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willing to go forward with the transaction if he feels the potential for profits is high. As one businessman noted: "With big risks come big gains." Once a creditor has screened the potential business, he will weigh the potential risks and uncertainties against the potential for reaping profits. In deciding on a risky but potentially lucrative transaction, a creditor will consider his risk-taking preferences, his faith in the debtor's ability to complete the specific transaction in question, and, importantly, the potential profits of the transaction.

6.2 Clientelism

Trust is formed within a social milieu in which parties are constantly trying to promote stability while minimizing the uncertainties associated with market conditions and co-contractors. For this reason, clientelism helps in sustaining a level of familiarity by matching parties together over a period of time. Clifford Geertz's study of the Moroccan bazaar showed how "buyers and sellers, moving along the grooved channels clientelization lays down, find their way again and again to the same adversaries."[82] In this way, clientelism helps to provide stability over time. For Geertz, the term "adversary" connotes "egalitarian and oppositional" parties,[83] since each possesses a level of independence such that the master–slave relationship implied by patronage relations would not aptly capture the power dynamics. Parties are bound together by their complementary roles, as each possesses something the other requires. Solidarity between parties based on difference (what sociologist Emile Durkheim calls "organic solidarity") is arguably more valuable than solidarity based on similarity (or "mechanical solidarity"), since the former helps to capitalize on synergies.[84] Put otherwise, each party is able to focus on its own abilities, which, in turn, helps in the success of the partnership.

In *Mandawi*, co-operation between suppliers and their purchasers is value-enhancing, as it provides each of them with access to new opportunities, despite the oppositional nature of the contractual arrangement. In an *ograyi* transaction, both suppliers and purchasers are dependent on one another. Suppliers seek to distribute their goods as widely as possible while purchasers require an initial input of resources before they make goods available to their clients. Informal credit helps to slacken the stress between the parties and, while it places a debt on the purchaser, it does not turn the relationship into one of subordination. This is evidenced by the fact that a supplier expends significant effort in finding a reliable debtor and, once found, also invests in the relationship so that it continues. As one businessman remarked: "suppliers want to find reliable debtors. It helps their own reputation if their client is a prominent business."

The repeated interaction between suppliers and purchasers is advantageous for both parties. First, it reduces the searching costs of both suppliers and purchasers. Once the two have become matched, their relationship stabilizes, allowing each to direct their attention to other aspects of their business. Second, as the parties continue to interact with one another, they continue to accrue social capital, which helps to make greater amounts of credit available, while also increasing switching costs.

This is not to say that parties are forever locked into clientelistic relationships. Over time, switching costs may become less than the cost of remaining in the relationship, at which point the parties may terminate their dealings and go elsewhere.[85] Furthermore, Kabul's economic environment fluctuates rapidly, with businesses regularly closing their offices, merging with other businesses, moving locations, or changing their primary area

[82] Geertz (1978), p. 30.
[83] *Ibid.*, p. 30.
[84] See generally e.g. Durkheim (1984).
[85] While the social capital that has accrued between the parties will be dissolved, the debtor's reputation as a reliable business will continue to circulate in the market.

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of activity—all of which may extinguish credit relationships between suppliers and purchasers. Thus, while clientelism provides stability for a certain period of time, in the long run, these relationships may become undone, thereby allowing parties to adjust to new market conditions.

6.3 Norms and practices of the market

Ograyi transactions do not take place in a market devoid of meanings and symbols. Rather, the market is replete with practices that facilitate the formation of trust and the practicability of *ograyi*. Within the market-place, information flows quickly between different corners, allowing parties to make informed decisions. Parties behave with a level of reciprocity, thereby facilitating the long-term wellbeing of their business relationships. In certain instances, one party will have to exercise flexibility, as circumstances may arise that make it impossible for the other party to fulfil their obligations as anticipated.

6.3.1 Information sharing

Within the market, participants are regularly interacting with one another and exchanging information on ongoing activities and transactions. The multiple ties that any person has with others ensure that important information reaches every corner of the market in a short period of time. Businesses and individuals rely on information from others to assess the character of potential co-contractors.

Information travels across the market orally and is highly sought after by businesses. Clifford Geertz explained information in the Moroccan bazaar as being "poor, scarce, maldistributed, [and] inefficiently communicated."[86] *Mandawi* bear many similarities, as information on transactions, behaviours, and prices is not collected by any central body, but rather moves unevenly through gossip, facilitated by the close physical and social proximity of businesses. Publicly available information pertains to the character and the type of transactions of different market actors, whereas information on volumes of wealth and profit margins usually remains undisclosed. The close proximity of the stores that regularly interact with one another means that information flows quickly across the market. When screening a potential debtor, a creditor will speak to past clients as well as stores located nearby the debtor's office, keeping an ear out for any troubling rumours.

Breakfast and lunch in the bazaar serve as important times to collect information. Several businesspeople will meet in one store to break bread and exchange updates on business activities and other information that has caught their attention. Furthermore, the ritual of providing important clients or potential partners with *chai* allows information to be gleaned through casual conversations on business and non-business matters. If a supplier eventually provides a business with credit, then the weekly visits to the office of the debtor to collect payments serve as an opportunity to visually inspect the state of the business. Information quickly travels throughout the market, though also transforming with each transfer, impugning the quality of any single bit of information. Businesses thus verify information through a variety of sources to separate facts from fabrication.

6.3.2 Norms of reciprocity

As parties develop a personal relationship with each other, an expectation arises that each will be forthcoming. Thus, clientelism "is a reciprocal matter," as both parties reap

[86] Geertz, *supra* note 82, p. 29.

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benefits by investing in the relationship.[87] Parties often exchange in-kind gifts to solidify their connection. One businessman remarked: "My uncle [the store owner] has one main client who he provides *ograyi* to. They have good relations, and my uncle even invites the owner to his house for dinner."[88] Gifts and invitations are not merely philanthropic, but rather help to solidify the reciprocal partnership.[89]

One instance in which reciprocity comes to the fore is when suppliers and purchasers have disagreements. At times, a shipment may arrive later than expected. At other times, the quality or nature of the item may be slightly different from what the purchaser anticipated. Alternately, the purchaser may be a few days behind schedule in making a payment. The parties may also disagree about a previously agreed-upon exchange rate. In the course of dealing with one another, such obstacles will inevitably arise. Parties operate on a give-and-take understanding, with one party sometimes foregoing the error and, other times, the other party acting similarly. To ensure a balance of interests, parties will keep a tab (often written) of each other's actions to ensure that each side is reciprocating equitably. If either party were to stop being forthcoming, it would risk straining the relationship, possibly leading to an eventual breakdown.

6.3.3 Flexibility and empathy

Parties adopt a practice of remaining flexible with one another to account for contingencies that arise in the course of their dealings. Suppliers understand that debtors may periodically face difficulties in making payments, and thus will work with the debtor to find a solution. Strict adherence in all instances to the terms of repayment is not expected simply because it is not feasible. As in other settings, contractual breach is a market reality that needs to be worked around.[90] Parties are not interested in pursuing legal recourse for breach of contract. Thus, by observing a level of flexibility towards one another, parties can absorb contingencies that may otherwise put a strain on the relationship.

Flexibility is thus treated as a default understanding in their dealings. The level of flexibility depends on the particular circumstances and, importantly, the willingness of the debtor to work with the creditor towards a solution. Like trust, as the relationship grows, so too will the level of flexibility. Flexibility may extend to the repayment terms but will seldom involve the debt being fully written off. As the burden of the debt on the creditor increases, he will increase pressure for repayment and possibly convey threats, whether personal or legal.[91] Once this point has been reached, the social capital between the parties will also erode until the repayment is made.

6.4 Renegotiating the terms of the contract

In certain instances, a debtor will be unable to repay the outstanding loan due to one of several reasons. The debtor himself may be having difficulty in getting payments from his buyers, thus affecting his own ability to pay his creditors. For goods coming from foreign countries, delays in the shipment also cause delays in making repayments. In certain instances, the debtor may have simply made a bad business decision by acquiring goods

[87] *Ibid.*, p. 30.

[88] This is a strategy pursued by businessmen who have a small number of prominent clients. Invitations help to strengthen existing relations and could open new leads. However, some businessmen, particularly rich and prominent ones, avoid accepting invitations, since they pose risks to their personal safety.

[89] Mauss (1966).

[90] Fafchamps, *supra* note 26; Fafchamps (2002); Paquin (2012).

[91] It is uncommon for a business to hire gangs or private third parties to carry out threats. The one exception is if the creditor is a particularly strong businessman or connected to a powerful official and thus could get away with such intimidation.

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on credit that are difficult to resell. In other instances, the market condition may have changed without any fault on the part of the debtor.

For a debtor who seeks to remain active in the market, it is important that he remains in contact with his creditor. Trust between the creditor and debtor will not immediately evaporate due to the non-payment, as creditors recognize that a variety of circumstances may have led to the breach. Nonetheless, a debtor must remain engaged with his creditor and show his willingness to try and resolve the problem. This does not imply that the creditor will dismiss the breach, as the debtor can expect to face social pressure to hasten the repayment. However, maintaining contact helps to preserve trust, particularly if the circumstances are truly extenuating, and can even strengthen the trust between them in the long run. Conversely, if a debtor fails to respond to telephone calls and meeting requests or moves the location of his store unannounced, such actions will adversely affect the relationship between the parties and the debtor's ability to secure future credit. To avoid irreparable reputational damage, unprofitable businesses may even keep their stores in operation, since closing down would risk destroying the possibility of future business within the market.

At a certain point, the parties may take steps to renegotiate the terms of repayment, which may take one of two forms. First, the loan payment may remain the same but the repayment period may be extended. This arrangement is most likely if the creditor feels that, despite the delay in payment, the potential for future opportunity outweighs the need for charging additional fees. If the parties are family members or have built significant social capital between them, additional charges may strain their relationship beyond the immediate transaction. Second, the repayment period may be extended with additional fees. This arrangement is most common when the parties have an arms-length relationship with each another or when the prospect of future transactions is uncertain. The additional fees serve to offset the losses incurred by the creditor due to the late payment.[92]

Besides renegotiating the terms of the contract, the creditor will also take the breach into consideration in providing future lines of credit. While the parties may continue to work with one another, the level of credit will likely change. The debtor will have to repay the outstanding amount before getting more credit. If the parties have prior dealings, the creditor may be able to decide on the appropriate level of credit based on those earlier transactions. The creditor will likely be stricter in requiring timely repayments in future transactions and may visually inspect the business location and activities of the debtor to determine whether to resume providing credit and at what level.

7. Bank ineffectiveness

The continued success of the informal economy is tied to the turbulent recent history of the Afghan banking sector, which was built at near lightning speed, with billions of dollars of military aid and development money streaming into the country from international sources. The sector took a significant hit in September 2010 with the near collapse of Kabul Bank, one of the country's largest financial institutions at the time. The bank was found to be engaging in fraudulent activities, eventually leading to a bank run with nearly half of its USD $1.3 billion in deposits being withdrawn within a few days.[93]

[92] Sometimes a creditor will seek to charge additional fees for late payment but will want to avoid an outright application of interest. The creditor may then ask for the late payment to be repaid in another currency, at an inflated exchange rate. For example, if the original agreement is to repay USD $1,000 in three months in Afghani currency with a rate of USD $1 = AFG 80, the creditor may extend the period to six months and ask for repayment in Afghani at a rate of USD $1 = AFG 90. In this way, interest is effectively couched within the exchange rate.

[93] Kabul Bank was established in 2004 by its founder and chairman, Sherkhan Farnood. Initially involved closely in its operation, by 2008, Farnood had relinquished much of his authority to the chief executive officer, Khalilullah

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A number of regulatory lapses by Da Afghanistan Bank (DAB), the country's central bank, allowed the fraudulent activities of Kabul Bank to fester unchecked.[94] Investigations revealed that the United States Agency for International Development (USAID), along with its implementing partners BearingPoint and Deloitte, did not follow up on early warning signs of poor oversight when providing technical assistance to DAB from 2003 until 2011.[95] Following an extensive evaluation on anti-money laundering (AML) and combatting the financing of terrorism (CFT) commissioned by the International Monetary Fund,[96] the Financial Action Task Force (FATF), an intergovernmental body that promotes the international financial system, placed Afghanistan on its grey list in 2012.[97] In June 2017, after improving its regulatory framework, which included passing AML/CFT laws, Afghanistan was removed from the grey list.[98]

At present, banks remain largely conservative when issuing loans. As an indication of the conserving lending policies, the 2018 annual report by the DAB on the banking sector disclosed that the gross volume of deposits across was AFN 273.78 billion, whereas gross loans issued by banks stood at AFN 41.43 billion (i.e. only 15.1% of deposit holdings were loaned out).[99] In many developing settings, banks host an extreme surplus of liquidity because of the challenges in providing credit.[100] The stringent lending policies of banks are in part a response to stricter central-bank regulations following the Kabul Bank incident and in part a response to the difficulty more generally of ensuring that loans are adequately secured against default. These policies end up making bank loans largely inaccessible or, alternately, impractical for small and medium-sized enterprises, which make up the vast majority of shops in *Mandawi* and across Afghanistan.

Four principal factors dissuade traders from taking bank loans to pay for their transactions. First, the collateral requirements pose an exceedingly high barrier for businesses

Ferozi. Under Ferozi's leadership, bank funds were distributed to Afghan elites and influential persons, including hundreds of thousands of dollars going to President Karzai's brother, and other funds going to Karzai's election-campaign manager as well as the former minister of finance, Omar Zakhilwal. In 2009, Ferozi sought to depose Farnood of his position in the bank. In seeking to execute this operation, Ferozi had the support of Mahmood Karzai, brother of then President Karzai, and Haseen Fahim, brother of the former first vice president, Marshal Qasim Fahim, both of whom were shareholders in the bank. When Farnood realized what was happening, he reported the activities of the bank to the *Washington Post*. See Higgins (2010), which put the fraudulent activities of the bank into the public eye. Subsequent investigations into the activities of Kabul Bank show a complex set of fraudulent operations in which nearly USD $900 million were laundered through the purchase of oil and gas in foreign countries at artificially inflated prices. See McLeod (2016). Much of the funds ended up in Dubai through loans and disbursements to Afghan political elites for the purchase of luxury villas as well as the financing for various Dubai-based property and investment companies. The total collapse of the bank from the sudden withdrawal of funds by depositors was avoided when the central bank provided a loan of $825 million as a lender of last resort.

[94] The lapses on the part of the Financial Supervision Department of the DAB include: inadequate background checks on the bank's shareholders; failure to confirm that the bank's operations were consistent with its licence; no on-site visits for the first 2.5 years of Kabul Bank's operations; no technical specialist to assist with the on-site visits to verify information. See SIGAR Audit Report (2014a), p. 4.

[95] BearingPoint was initially awarded the $92 million contract, which was sold to Deloitte in 2009 SIGAR Audit Report (2014a), pp. 6–7. During training sessions by foreign consultants, when DAB regulators were told that they had the power to monitor and even replace potentially corrupt banking officials, their incredulous response was that powerful banking officials had the power to depose them. See OIG (2011), p. 5.

[96] IMF (2011).

[97] In early 2014, Afghanistan's standing fell to the "dark-grey" list as FATF did not note significant improvements. The country was able to avoid being blacklisted by passing AML/CFT laws in June 2014.

[98] The DAB must be applauded for making significant strides in recent years in their oversight of financial institutions. Nonetheless, their supervision competencies still require greater development. During the course of my interviews, one banker remarked: "We get many auditors coming in. The funniest are the DAB auditors, since *they ask us* what it is they should be looking for" (emphasis was made by the banker).

[99] DAB (2018).

[100] Freedman & Click (2006).

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seeking credit. Central-bank regulations suggest that a loan should be secured for 100% of its value.[101] The actual practice of banks is to seek even great collateral, in the range of 150–200% of the loan value. This practice is conflated with the convention across banks of significantly undervaluing collateral—by up to 50%.[102] Traders make their profits from the turnover of goods, and thus may require credit that is several times the value of the property they own. Furthermore, traders also may live in unregistered areas of Kabul and banks are generally more reluctant in accepting unregistered land as collateral.[103] The combination of these factors makes it difficult for many traders to meet the collateral requirements set by banks.

Second, acquiring a bank loan is a time-consuming process. According to one banking official, an individual or business may need 7–25 days to get a loan, since the bank's primary objective is hedging risks.[104] According to one banker:

> A loan request first goes through the financial audit team, which will take a week. This is where the risk is assessed. Depending on the size of the loan, the property may need to be assessed by the business development team. The final step is the registration of the property deed as a guarantee in the bank's name.

This timeline is incongruent with the schedules of businesses. Given the fluctuations in the market, a sudden need for goods may arise if the business is to capitalize on the opportunity to make a profit. Constantly waiting for bank loans to be approved would seriously affect the competitiveness of a business.[105] Furthermore, *ograyi* generally involves a repayment of the debt in a short period of time and, once repaid, the issuance of more credit; thus, in the course of a year, a business is able to undertake a significant number of *ograyi* transactions, which would be especially difficult to perform through a bank.

Third, bank loans do not provide the flexibility available through *ograyi* transactions. Businesses may sometimes need flexibility if they are unable to repay their loans in a timely manner. Suppliers can afford some level of flexibility to *ograyi* clients, whereas a bank is stricter in seeking repayments, since overdue loans may affect its credit rating.[106]

[101] Art. 7 of the Asset Classification and Provisioning Regulation of the DAB defines the various classifications of loans depending on whether they are likely to be repaid and secured by collateral. The highest rating for a loan is "standard" and loans in this class are fully secured (i.e. 100% of the loan value). As the level of collateral decreases, so too does the classification of the loan. As the number of substandard loans increases, the credit rating of the bank correspondingly decreases. DAB audits the banks and rates them according to the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) rating system.

[102] One of the reasons for the low valuation of property is that people are reluctant to purchase foreclosed property, since they may face problems from the original owner, particularly if the latter is a powerful individual or politician.

[103] Certain initiatives such as the Afghan Credit Guarantee Foundation (ACGF) based in Germany try to provide a corrective by securitizing select qualifying loans made by partner financial institutions in Afghanistan that meet ACGF's loan criteria. While this added level of securitization helps to mitigate bank risk, it does not immediately translate into greater loan accessibility for businesses, as they must still meet that considerable collateral requirement of the bank. Because of the stringent requirement that a debtor must meet to qualify for ACGF coverage, the programme works best for loans that already meet a high threshold of security, which largely excludes loans sought by traders and merchants. ACGF also provides technical assistance to businesses, which arguably is a more direct form of support.

[104] A period of 25 days was required by banks that undertook a particularly elaborate review process before issuing loans. At the other end of the spectrum, one bank mentioned that credit assessments could be make within one week if all the relevant information was provided.

[105] One of the reasons for the unsteady demand of goods is irregular income, as much of the population operates in the informal economy or in irregular work. Even government employees suffer several months of delay in receiving their salary. Other factors, such a winter with unusually heavy snowfall, may also contribute to the uneven demand for items.

[106] See discussion of asset classification at note 101.

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Similarly, each time a bank loan is sought, a customer must complete the relevant paperwork, whereas, with an *ograyi* transaction, once the parties trust one another, a simple phone call by the debtor may be sufficient for funds to be released.[107]

Fourth, some businesses avoid bank loans because they view interest fees as *haram* (i.e. unlawful according to Islamic law).[108] As mentioned previously, businesses dealing with interest transactions risk suffering damage to their reputation, as they would be viewed as engaging in morally unacceptable activities. Religious doctrine thus plays some role in the way businesses perceive banks. Nonetheless, religion was cited far less often than the other reasons for avoiding bank loans, implying that businessmen were driven more by pragmatism than piety.

It is finally worth noting that the claim made by some businesses that high interest rates dissuade them from taking bank loans seems inconsistent with actual market practices. Currently, the annual interest rate for bank loans is 15–21%, corresponding to a monthly rate of 1.25–1.75%. In an *ograyi* transaction, the supplier of credit may be either a business or a money currency exchanger. In the first case, the price of goods sold using *ograyi* usually includes a markup compared to goods bought in lump sum. Businesses indicated a markup in the order of 8–12% with the *ograyi* lasting between one week and one month.[109] In the second case in which *ograyi* involves a money exchanger, by comparing the market exchange rate with the exchange rate in an *ograyi* transaction in which the repayment is made in another currency,[110] one can deduce an interest rate in the order of 2–3.5% for a one-week to one-month loan. In both cases, the bank's interest rate is less than the *ograyi* rate. Nonetheless, suppliers and exchangers emphasize that prices are decided using a "total-package" approach, which considers pre-existing trust between the parties, the likelihood of future dealings, the volume of goods purchased, and the amount paid up front. *Ograyi* is also often tied to other transactions such as the *hawala* transfer of the funds from the purchaser to the supplier. At a minimum, it cannot be clearly demonstrated that *ograyi* is financially more advantageous that a bank loan.

8. Perils of legal recourse

The court remains available to aggrieved parties seeking recourse through official state channels. The government and international community have invested significant funds in trying to improve the judiciary. Between 2005 and 2014, the US State Department provided some $241 million through the Justice Sector Support Program (JSSP), which targeted training officials, justices, prosecutors, and defence lawyers, as well as improving the case-management system and administrative capacity.[111] Nonetheless, such efforts have failed to bring about observable improvements to the legal system.[112] An audit of the JSSP revealed its utter failure, with no evidence that programmes brought about tangible benefits, since justice institutions did not subscribe to their efforts.[113]

The judiciary has been criticized for being one of the country's most corrupt institutions.[114] Courts in Afghanistan are widely viewed as being "firmly under the executive's control; highly susceptible to outside influences; and widely … corrupt, predatory,

[107] For example, a client may telephone a money exchanger and ask for funds to be transferred to the supplier of certain goods. Provided the client and exchanger have a positive relationship, the request will be carried out.

[108] One former businessman recounted how he and his business partner tried to get a loan from the bank but the partner pulled out, as he was against interest being charged on the principle.

[109] This rate is based on conversations with 20 businesses on their transactions.

[110] See the discussion in the main text accompanying note 76.

[111] Swenson, *supra* note 61, p. 130.

[112] Suhrke, *supra* note 60; Suhrke & Borchgrevink (2009).

[113] SIGAR Audit Report (2014b).

[114] TOLOnews (2013).

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and rent seeking."[115] The copious amounts of red tape required for simple administrative tasks—vehicle registration requires as many as 27 signatures—have caused people to turn to bribes and informal arrangements to help to expedite their affairs. Nonetheless, the courts remain available to any party seeking their assistance.

The following passage presents the experiences of a businessman named Farhad who sought legal recourse for an *ograyi* agreement in which the co-contractor had failed to make payments. The passage is reported at length to provide a first-hand account of Farhad's experience—and frustration—with the legal process[116]:

> I used to own a shop in Mandawi that sold snacks [i.e. cookies, chips, etc.]. Nazar, another storeowner in his fifties, kept calling me asking for snacks. I did not know who he was, nor did others in the marketplace. He was persistent, and so I visited his house one day to understand his financial condition, and he seemed to be doing well financially. So I gave him USD $5500 worth of snacks. I agreed to an ograyi, where he would pay every 5000 AFN (approximately USD $75) every Tuesday. The first three times, he paid the 5000 AFN, but then he stopped. I called him many times, but he kept saying that the payment will be coming soon. But he never paid.
>
> I decided to take legal action. I had to bribe a police officer for him to serve a summons on Nazar, and then again I had to pay the officer to transfer the file [from his office] to the court. On the first day, the court staff kept me waiting 3–4 hours and then told me to return the next day. They even told me to bring Nazar, though I had no power to force him to come. We finally came before the judge, and on several occasions, she [i.e. the judge] insisted that I give Nazar extra time. I agreed to this three times, but Nazar would not respond to my calls and even moved his shop without notice. I eventually found him, and again he told me that he would pay me, "Inshallah." In the courtroom, he once event knelt to touch my feet to ask for more time. After 3 months of returning to the court every second day, I asked the judge for a final ruling.[117] Eventually, she issued her judgment [against Nazar] and told me to take it to the police for enforcement.
>
> Outside of the judge's room, I told Nazar that it would be over if he paid me. He became angry and claimed that I had threatened him. I knew this was a tactic to avoid paying me. I went to the Attorney General's office to register my court judgement and to inform them that Nazar had made a false claim that I had threatened him. This way, I was protecting myself in case he later wanted to claim I threatened him.
>
> It has been six months, and I have not yet seen a single dollar. Asking for help from the police will require paying them. Also, Nazar is the type of person who would cause more problems, which is not worth my time and safety.

While assessments of trust are normally integral when issuing credit, the ultimate weighing of risks versus opportunities is done at the individual level. Farhad explained why he decided to trust Nazar despite not having accrued sufficient social capital with him through prior transactions:

> To make money in the market, one has to take risks. That's the nature of the business. When I did the background check of Nazar, even though no one knew him, I did not

[115] Swenson, *supra* note 61, p. 119.

[116] I recounted this story to a dozen businesspeople, and all of them confirmed its reasonableness and were largely unsurprised by the outcome. Names have been changed to preserve anonymity.

[117] The Dari term *sargar doni* entails running around to complete a task without achieving any beneficial outcome.

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> get negative information about him. His economic condition seemed good. And he seemed very interested in selling. So I decided to take a risk.

Farhad decided to provide goods on credit without having a prior business relationship with the business partner or without being able to verify Nazar's business profile through references in the market. Farhad attempted to offset this lack of information by visiting Nazar's house and gauging his economic condition based on visual inspection. Trust often entails an element of risk, as it leaves one party vulnerable to the actions or inactions of another.[118] The perils of Farhad's experience speak to the difficulties in balancing assessments of trust, risk, and opportunity.

Nazar's engagement with the legal system reveals the general treatment of *ograyi* by the court. First, it is important to note the court's willingness to receive the case. From the perspective of the commercial court, an *ograyi* dispute is principally an issue of breach of contract. The court's task is thus to discern the facts surrounding the alleged breach. The *ograyi* transaction often has no written contract, either because the parties are accustomed to informality or because parties do not want to signal their scepticism about the relationship. Documents, if they even exist, often take the form of inconsistent ledgers and receipts, which are supplemented by the information of the parties and their witnesses. Through this bricolage of information, the judge will assess the nature and severity of the breach. Second, the court repeatedly insists that the parties seek to find a solution outside of the court. The judge asked Farhad on three separate occasions to try resolving the dispute outside of the court by giving Nazar more time (which Farhad entertained though to no avail). The official status of the court can serve as an added impetus to resolve the dispute informally as the parties feel the looming "shadow of the law." In a different context, police and judges sometimes receive complaints from women of mistreatment by their husbands.[119] Rather than dealing with these cases through legal channels, these officials would encourage these women to approach their elder male relatives to mediate a solution.[120] Judges may sometimes remand the case to elders and religious leaders best suited to arbitrate a solution, thus preferring "court-supervised councils" over the heavy hand of the law.[121] In this way, judges (and police) may assume the role of mediator in trying to resolve a conflict through a variety of methods beyond their specific mandate.[122]

In sum, Farhad's case shows the difficulties in contractual enforcement through the courts. The court proceeding took a total of four months and ultimately provided Farhad only with a written judgment. However, he would still need it to be enforced by the police, which he decided not to pursue, as he would have to continue paying bribes though the final outcome remained uncertain. Thus, his case remains unresolved. On the Doing Business Index of the World Bank, Afghanistan ranked 181 out of 190 countries (190 being lowest) for contractual enforcement in 2019, with claims taking an average of 1,642 days from the date of the lawsuit until payment and enforcement expenses amounting to approximately 29% of the claim value.[123]

Farhad's case reveals the difficulty—though not impossibility—of having an *ograyi* transaction enforced by the court. The legal process is time-consuming and requires paying bribes at various stages if aggrieved parties hope for their case to move forward. Even a favourable decision may be foiled due to the difficulties in enforcement and the ability of recalcitrant debtors to prolong conflicts. Thus, the general sentiment amongst creditors is

118 Nooteboom (2002).
119 Billaud (2015), p. 98.
120 *Ibid.*
121 *Ibid.*, p. 100.
122 Choudhury (2017), *supra* note 1.
123 Doingbusiness.org (2019).

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to carry out *ograyi* transactions with little confidence in the court's ability to provide redress in the event of a contractual breach.

9. Conclusion

One of the challenges facing fragile and post-conflict settings is promoting economic development, since businesses face a shortage in the investment capital necessary for carrying out transactions. The circulation of credit eases market rigidities by facilitating the movement of goods and allowing businesses to scale up their activities. In Afghanistan, *ograyi* permeates every corner of the market, forming an elaborate network that connects foreign suppliers, urban wholesalers, small-scale urban and rural businesses, and money currency exchangers. Large businesses provide credit to smaller businesses, while money exchangers provide credit to businesses that import large shipments of goods into the country.

Decisions on whether or not to provide informal trade credit are made relationally between businesses. To ensure contractual fulfilment, creditors carefully assess potential debtors when deciding whether to provide credit and at what level. Creditors and debtors invest resources in building trust between each other, which involves assessing reputation, pre-screening clients, accumulating social capital, and co-opting third-party guarantors. Clientelism and widespread market practices and norms help to establish steady routines of behaviour. If a breach occurs, parties make efforts to renegotiate the terms of the contract. Through an imprecise science, creditors rely on a combination of these factors when deciding whether to issue credit to other parties. The surrounding environment also contributes to the prevalence of informal credit, as bank credit remains largely unavailable or unappealing to businesses and the legal system provides limited recourse in the case of contractual breach. The informal regulation of trade credit serves as a substitute for legal coercion.

The current study shows how economic opportunities are created in unstable environments, in which parties rely on non-legal practices to facilitate informal credit transactions. It also points to some of the limits of such market arrangements. Because of the high level of personal trust required between parties, significant resources must be spent on relationship building, slowing the ability of parties to scale up their activities. Furthermore, moving from a society largely characterized by small and medium-sized businesses to one that hosts large firms arguably requires a functioning state that can support corporate structures and shareholder protections. A more strongly functioning state may also provide access to larger volumes of credit through banks. Thus, while informal credit provides a viable means of assisting businesses when banks and state institutions are weak, this arrangement does not negate the potential importance of the latter for long-term economic growth.

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