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Family ties and access to finance in an Islamic environment

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Abstract

Micro survey data is used to explore access to finance by firms residing in 42 Islamic countries. The role of family ties is explored as a cultural determinant of firms' access to finance. Family ties persist over time and exhibit varying degrees of strength among countries. They are especially important in an Islamic environment characterized by risk-sharing values and wealth redistribution as incentives to financial contracting. Family ties are found to be significant predictors of firms' financing constraints under alternative models. However, the significance and predictive power of family ties varies in accordance with a range of firm-specific characteristics and country-level institutional and cultural conditions prevalent in the Islamic countries. These results add new insights on the role of social institutions and non-economic cultural factors in predicting financing constraints of firms in the Islamic world.

JEL classification: C83, D03, E22, G30, O16.

Keywords: Financing constraints; family ties; investment models, Islamic countries

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