

Researchers

Meredith Startz
Dartmouth College

Shelby Grossman
Stanford University

Timeline

2015 -

Sample Size

350 used clothing wholesalers in Lagos

Research Implemented by IPA

No

‘Business in secret’: Contract enforcement and information sharing among Lagos used clothing traders

Abstract

A large theoretical literature suggests that public information can substitute for formal contract enforcement – businesses concerned about maintaining a good reputation will be more inclined to follow through on commitments. However, little is known about the extent to which reputation helps enforce informal business agreements in practice, or about the channels through which information of this type impacts trade. This project examines the role of reputation in the used clothing trade in Lagos, Nigeria. Traders report that they do not discuss their suppliers with one another, instead coping with the lack of legal contract enforcement by traveling to meet foreign suppliers in person almost every time they restock. The researchers are surveying 350 traders who import used clothes from Benin to assess the nature of information sharing, and its relationship to transactions and sourcing strategies.

Policy Issue

NOTE: This is not a randomized controlled trial

Research on trade and globalization focuses almost exclusively on large exporting firms, and on trade facilitation policies such as improving infrastructure or lowering tariffs. However, very little is known about how information frictions and lack of formal contract enforcement may affect trade.¹ Preliminary evidence suggests that small importing traders – like those we observe in the Lagos used clothing sector – engage in complex, costly sourcing strategies in order to deal with the contract enforcement problems they face. This may pose a substantial barrier to trade, raising the costs of doing business, and ultimately raising prices for consumers in developing countries. New policies and services targeted at addressing

information and contract enforcement problems could facilitate trade in many contexts.

Context of the Evaluation

Used clothing sold in Nigeria is typically shipped to Benin by European aggregators, and then sold to smaller Lagos-based wholesalers by the bale or piece. Initial interviews suggest that Lagos traders travel to Benin to restock often, and make payments in cash on the spot. Traders explain their frequent trips as necessary to confirm product quality before making payment. However, their ability to inspect the contents of a bale is limited, and many report that receiving “bad bales” – of the wrong type, low quality, or with rags mixed in – is still a major challenge. Repeated interaction does not appear to be sufficient to solve contract enforcement problems, as many traders do business with the same suppliers repeatedly but continue to travel. Both the explicit cost of travel and the remaining failures of quality control suggest that contract enforcement may be a substantial challenge in this market.

Details of the Intervention

The researchers will survey 350 Lagos clothing traders about their personal characteristics, import transactions, relationships with suppliers, and the details of sourcing strategies such as travel. The survey is intended to inform the design of an upcoming intervention involving a financial service meant to address contract enforcement problems and facilitate trade.

Results and Policy Lessons

Project ongoing, results forthcoming.

Sources

[1] Anderson, James E., and Eric van Wincoop. "Trade Costs." *Journal of Economic Literature* 42.3 (2004): 691-751

April 01, 2016