Business Dynamics and Informal Contracts: Experimental Evidence from the Cowpea Street Food Sector in West Africa

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Poster prepared for presentation at the Agricultural & Applied Economics Association 2010  

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BACKGROUND

- The many unrefined and unenforced agreements found throughout West Africa and the rest of the developing world are extremely important but often overlooked.
- These informal contracts drive the behavior of trading parties (Baker et al. 2002; Brown et al. 2004), particularly in informal markets.
- Informal contracts are used extensively for all types of business dealings and involve both business to business (B2B) transactions of all sizes and business to consumer (B2C) transactions.
- For example a consumer who always buys from the same street food vendor each day may receive, in return for the regular business, additional product or service, while input suppliers, in a B2B situation may sell on credit to long term customers.
- Kossi, a deep-fried fritter made from ground cowpea (known as black-eyed peas in the US), is a common product that is purchased daily by consumers of all ages, income and cultural groups.
- The production of Kossi involves multiple stages and is labor intensive.
- In addition to regular interactions (repeat contracts) that the women have with their customers they also have regular interactions with input suppliers who sell them the beans and grind the cowpea into a paste for batter.
- Kossi vendors, use different types of informal contracts to increase the efficiency of their transactions.
- Experimental economies have become an important tool in studying economic behavior such as the role of information on market transaction efficiencies (Duflo, 2005; Levitt and List, 2008).

OBJECTIVE

The objective of this paper is to test the ex-ante and ex-post efficiencies of the different contractual structures using field experiments in market transactions between kossi vendor and the grinders (their key input suppliers).

Type of Contracts

- Gift Contracts: involve a deferred payment of the base fee plus a bonus. This total amount is paid at the end of the day after the customer has received afternoon service.
- Standard Price Contracts: involve a deferred payment of the base fee plus a bonus. The total amount is paid at the end of the day after the customer has received afternoon service.
- Discretionary Bonus Contracts: involve a deferred payment of the base fee plus a bonus. The total amount is paid at the end of the day after the customer has received afternoon service.

Methodology

- Gift Contracts are used as the base contract or “Y” even as above the bar that the women vendor places the grinder to ensure contract acceptance and other market interactions.
- Discretionary Bonus Contracts are ex-ante efficient because a large mass of contracts are ex-ante efficient but are, however, associated with lower transaction efficiencies (e.g., yields, wages, earnings).
- In this research this is measured as the average deviation of quality. Contracted quality is the expected quality with actual quality is what they experienced.

Hypotheses and Expected Results

- Gift Contracts are more ex-ante efficient (i.e., they are good at providing high quality service) but are associated with lower transaction efficiencies (e.g., yields, wages, earnings).
- Discretionary Bonus Contracts are more ex-post efficient (i.e., they are good at inducing high quality service because the bonus will not be received until after the grinding services are provided and the quality of service is observed by the vendor).
- Gift contract offers a deferred payment of the base fee plus a bonus. The total amount is paid at the end of the day after the customer has received afternoon service.
- Discretionary Bonus Contracts are more ex-post efficient (i.e., they are good at inducing high quality service because the bonus will not be received until after the grinding services are provided and the quality of service is observed by the vendor).

RESULTS

- Table 6: Differences in Percentages of Average Deviation (Q-q) across Contractual Structures
- Table 7: Differences in Percentages of Average Deviation (Q-q) across Contractual Structures

CONCLUSIONS

- Kossi vendors prefer discretionary bonus contracts that are more complete than the gift contracts. The use of this contract can enable us to better understand quality, transaction efficiencies (e.g., yields, wages, earnings).
- Standard Price Contracts are not very efficient but are associated with lower transaction efficiencies (e.g., yields, wages, earnings).
- Discretionary bonus contracts are more post efficient but are associated with lower contract acceptance rates.