

Price Discrimination and Bribe Payments: Evidence from Informal Cross-Border Trade in West Africa

CCJP annual
conference –
Friday 14th June

*Symposium 6
Rethinking crime and
corruption in the 21st
Century*

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Introduction

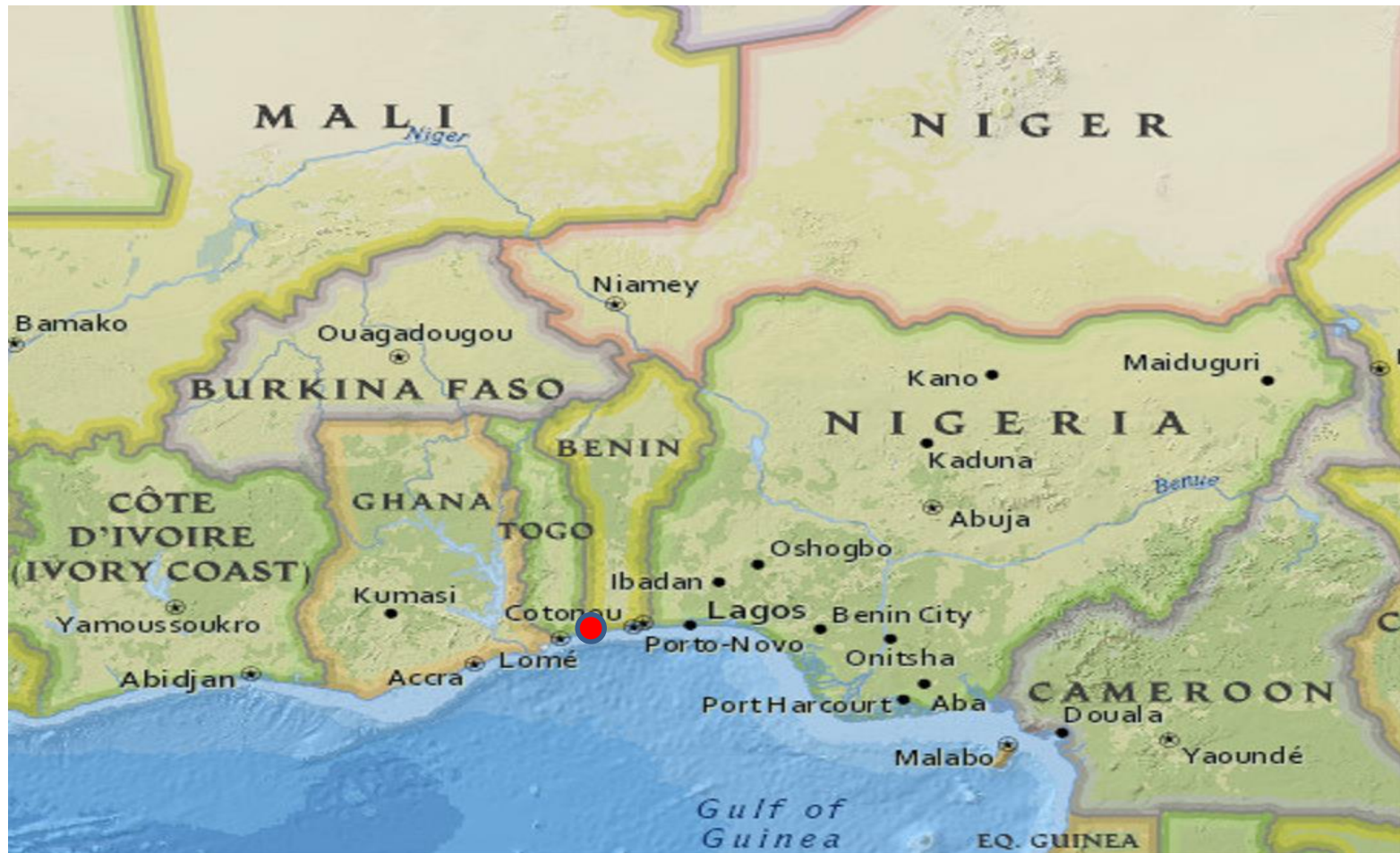
- **Definition:**

- **Informal trade is defined as the flow of goods that are not reported or incorrectly reported in official record by the country's customs authorities.**

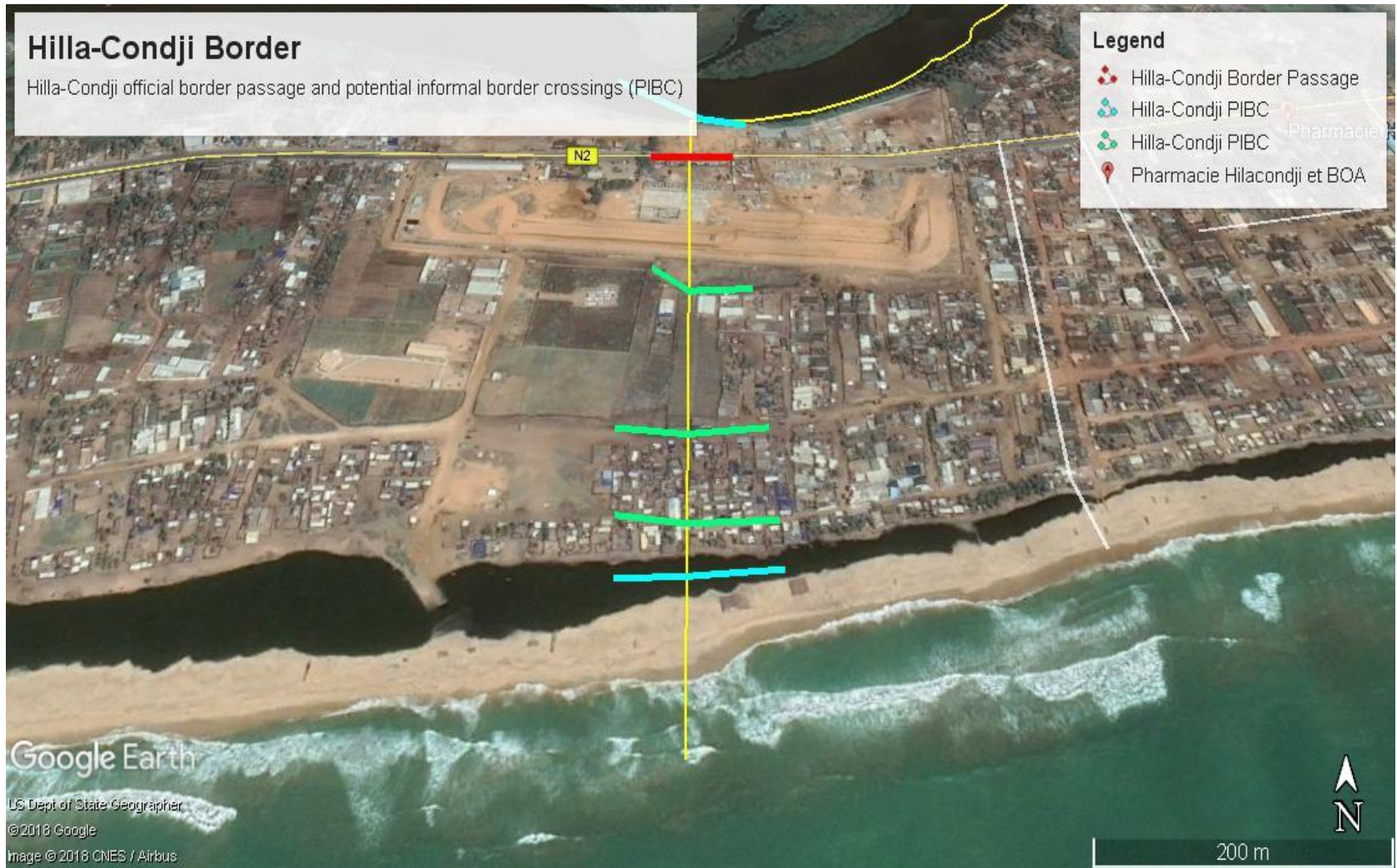
Introduction

- **Persistent and Pervasive in Africa according to numerous studies in human geography, ethnography and a few in Economics (Titeca and Celestin, 2012; Walther, 2015; Grossman and Honig, 2017, Bensassi et al., 2017, 2018, van den Boogaard et al., 2018)**
- Linked to corruption, state revenue, security and socio-economic livelihood of border populations
- However one of the main limitations to assess the scale of the phenomena and the relation with its causal factors has been the lack of data
 - This is changing

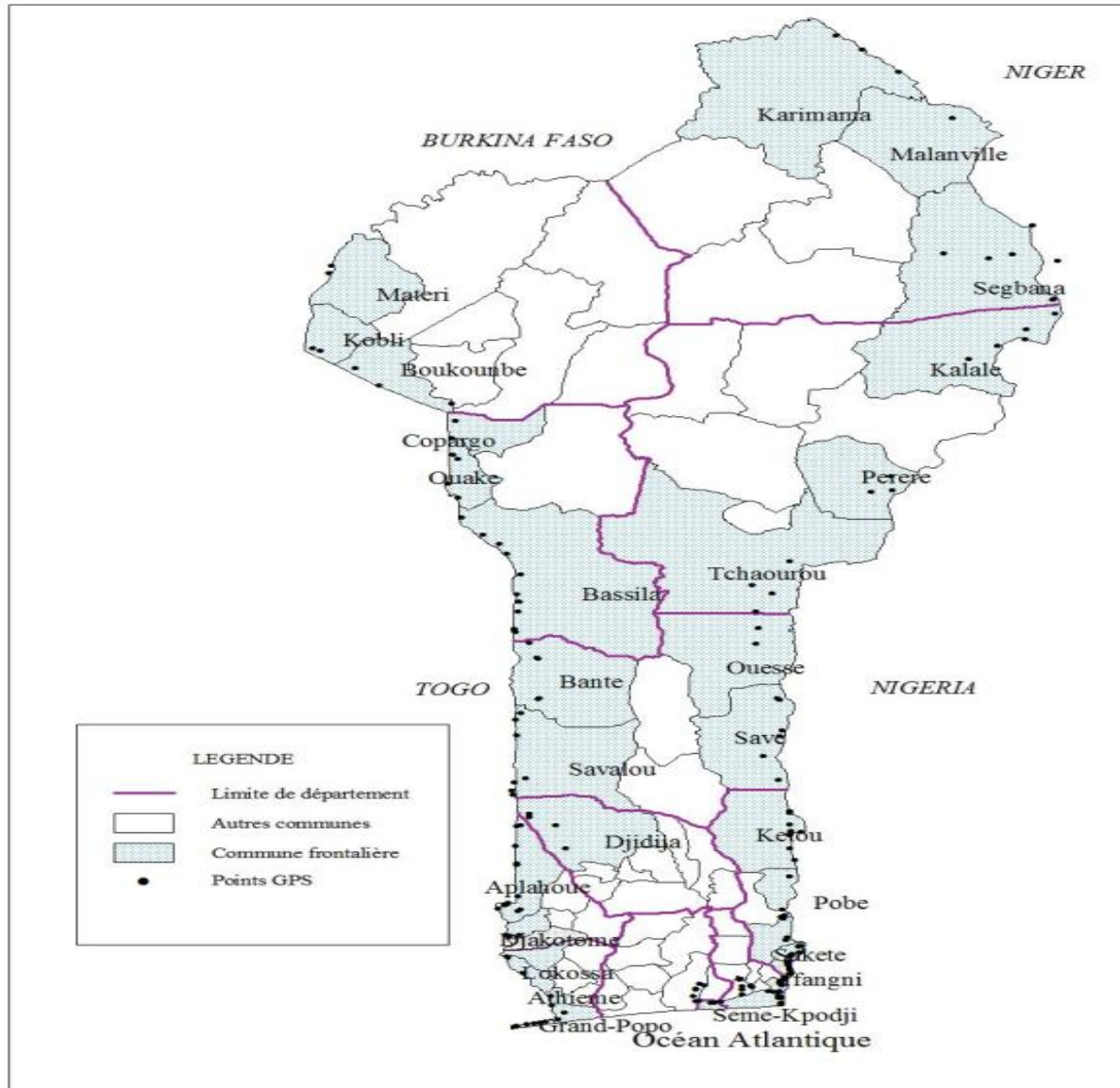
Context



Context



Context



Data

- Enquete sur le commerce exterieur non enregistre" survey
 - conducted by INSAE, Benin at all land borders.
 - 171 border posts surveyed during 10 days in September 2011
 - posts previously identified as main passing points
 - 10415 recorded flows in 2011
 - data on products, prices, quantities, origin and destination; frequency of transactions; formal taxes and **bribes paid by traders.**

Our research questions

- What were we interested in ?
 - A descriptive question:
 - Are we facing pure extortion or collusive corruption in the case of ICBT ?
 - An analytical one:
 - How the enforcement agents discriminate between traders to set up the prices of the bribes ?

Table 4: Statistics: payment frequency and value

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------------|----------------------------------|-------------------|-------------------------|-----------------------------|--------------------|------------------------|
| | Total value traded ('000 USD) | Number of obs. | Bribe incidence (%) | Formal tax incidence (%) | Bribe ratio (%) | Formal tax ratio(%) |
| | | | Panel A: trade category | | | |
| <i>Entrepôt trade</i> | 6237 | 1599 | 85.1 | 25.9 | 1.24 | 1.23 |
| <i>Gasoline</i> | 9755 | 3706 | 89.4 | 37.2 | 2.16 | 0.63 |
| <i>Exports</i> | 3260 | 2480 | 71.0 | 35.7 | 2.25 | 1.04 |
| <i>Imports (excl. gasoline)</i> | 2579 | 4399 | 70.1 | 35.3 | 2.76 | 1.22 |
| <i>Regional trade</i> | 2395 | 289 | 79.6 | 38.1 | 2.28 | 0.72 |
| | | | Panel B: product type | | | |
| <i>Unprocessed pdts.</i> | 5894 | 3721 | 71.6 | 39.2 | 2.33 | 0.94 |
| <i>Other Products</i> | 8577 | 5046 | 74.8 | 29.8 | 2.31 | 1.31 |
| | | | Panel C: border | | | |
| <i>Nigeria</i> | 21845 | 7806 | 86 | 31.8 | 2.13 | 0.96 |
| <i>WAEMU Countries</i> | 2381 | 4667 | 65.1 | 39.9 | 2.51 | 1.06 |
| | | | Panel D: transport mode | | | |
| <i>Trucks</i> | 7964 | 1175 | 92.3 | 59.2 | 3.08 | 1.89 |
| <i>Bicycle/pedestrians</i> | 2154 | 2255 | 69.9 | 26.2 | 2.17 | 0.68 |
| <i>Pirogues</i> | 8922 | 3135 | 74.8 | 35.5 | 1.94 | 1.17 |
| <i>Motorcycles</i> | 645 | 3541 | 79 | 28.7 | 2.06 | 0.68 |
| <i>Cars</i> | 3661 | 2283 | 82.1 | 39.6 | 2.78 | 1.1 |

Source: ECENE survey 2010 and 2011. *Regional trade* includes re-export and transit flows with a regional (West African) country of provenance.

Methodology

- Methodology
 - Econometric models to assess the relation between bribes and potential determinants: Poisson Quasi Maximum Likelihood, 2SLS, IV Poisson, Negative Binomial
- We test for:
 - The nature of the products (weight, unit value, unprocessed goods),
 - How the goods are transported to the borders (truck, motorbike, pirogue, on foot),
 - The duration of the trip to the borders and the distance to the formal border crossings,
 - The bans and tariffs
 - And some characteristics of the traders and their firms (gender, experience, nationality, size of the firms, etc)

Results

- we find evidence that officials use price discrimination when setting the level of bribes,
 - bribe payment is positively correlated with cargo value (weight and unit value)
 - *coefficients are smaller than one, meaning that amounts paid increase less than proportionately with cargo value*
 - Traders using lighter or slower modes of transport (such as motorbikes or pirogues) pay significantly lower bribes than traders using trucks.
 - *bribery may create incentives for traders to use less efficient transport modes in order to avoid paying bribes*

Results

- Trade barriers increase the level of bribes.
 - Using changes in trade barriers over time, we show that traders of products facing an import ban pay higher expected bribe payments.
 - Conversely, trade of local unprocessed products, for which trade impediments have been removed in the region, pay lower bribes.
 - *These results are consistent with collusive bribery.*

Policy implications

- Trade liberalization (elimination of tariffs) & Trade facilitation (Reduction of Non Tariff Barriers, Inspection time)



- *Should reduce cost of formal trade*



- *Should reduce opportunities for collusive corruption and increase extortion*



- *Clarify mission of law enforcement and in particular customs ?*



- *Facilitate oversight ?*

Policy implications

- *However is it enough to reduce Bribery ?*
 - *In which case traders perceive extortion as unacceptable ?*
 - *Have the trader ways to push back against extortion ?*

Thank You



- Sami Bensassi & Joachim Jarreau, Price Discrimination and Bribe Payments: Evidence from Informal Cross-Border Trade in West Africa,, forthcoming World Development
- Sami Bensassi, Joachim Jarreau, Cristina Mitaritonna, Regional Integration and Informal Trade in Africa: Evidence from Benin's Borders, *Journal of African Economies*, Volume 28, Issue 1, January 2019, Pages 89–118, <https://doi.org/10.1093/jae/ejy016>