

# FORMALIZING INEQUALITY? FIRMS' POLITICAL CONNECTIONS AND THE LIMITS OF INSTITUTIONS IN DEVELOPING MARKETS\*

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## Abstract

Policymakers encourage firms to formalize their business practices, expecting formal contracts will clarify dispute resolution, reduce forum shopping, and diminish informal political influence. But firms in developing economies challenge this assumption: I argue that expanding access to formal institutions can paradoxically deepen existing inequalities through the mechanism of political connections. I field a survey with an embedded experiment among 2,389 firms in Senegal's formal and informal economies to examine how formal contracts shape enforcement strategies. I find that contracts increase the use of courts and legal channels—particularly among formal and wealthy firms. Politically connected firms, by contrast, do not increase their use of formal enforcement. Instead, they become more likely to resolve disputes *informally*, leveraging their political ties outside the legal system. These findings suggest that expanding access to formal institutions can unintentionally deepen inequalities by displacing political influence into informal channels where it may be even harder to constrain.

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# 1 Introduction

State institutions that protect property rights and allow for stable dispute resolution are widely considered critical for economic development. Because formal legal institutions are associated with increased firm activity and growth (North 1991; La Porta et al. 1998; Acemoglu, Johnson and Robinson 2001; Chemin 2009), policymakers have sought to expand access to formal contracting and encourage firms to formalize their practices (Williams and Round 2007; De Mel, McKenzie and Woodruff 2013; Bruhn and McKenzie 2014). Among other benefits, formal contracts are expected to clarify dispute terms, enable more complex transactions, and reduce forum shopping.<sup>1</sup>

Yet in much of the world, firms rely on informal contracts and social enforcement mechanisms even when formal institutions are available (Haley 1997; McMillan and Woodruff 1999*b*; Bhandari 2023). Firms may turn to local protection rackets, private security, or political patrons (De Soto 2000; Wank 2002; Sonin 2003; Frye 2004; Wilson 2010), or draw on dense social networks, reputation-based mechanisms, and relational contracts to structure their exchanges (Macneil 1973; Milgrom, North and Weingast 1990; Greif 1994; Baker, Gibbons and Murphy 2002; Brown, Falk and Fehr 2004; Macchiavello and Morjaria 2019).<sup>2</sup> These informal systems coexist with state-backed institutions and often structure everyday commerce.

Given this institutional pluralism, it remains unclear whether expanding access to formal contracts will improve equity or simply reinforce existing power dynamics. On one hand, formal contracts might help level the playing field by curbing discretionary influence in dispute resolution. On the other hand, because political power transcends institutional boundaries, formalization may merely shift where—and how—that power is exercised.

In this paper, I theorize and test the possibility that expanding access to formal institutions can unintentionally deepen inequality. While formal contracts can encourage all types of firms to use state legal enforcement mechanisms, I argue that this effect is driven by formal and wealthy firms that can afford to do so.<sup>3</sup> Along these lines, I hypothesize that politically connected firms may respond to formal contracts differently in environments where rule of law is selectively enforced.

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<sup>1</sup>Forum shopping refers to the practice of seeking the most favorable venue for dispute resolution.

<sup>2</sup>A firm’s default strategy is often to avoid state-backed recourse entirely (Macaulay 1963; Pistor 1996).

<sup>3</sup>In line with existing work on informal economies, I distinguish formal and informal firms based on whether the firm has registered or not registered, respectively, with state authorities (e.g. De Mel, McKenzie and Woodruff 2013).

Instead of using state enforcement under formal contracts, they turn more frequently to informal channels, leveraging their political ties outside the legal system. The result is not a reduction in political influence, but displacement into less visible and potentially less accountable forms.

I test the impact of formal contracts on enforcement strategies using an original survey with 2,389 firms from both the formal and informal economies in Dakar, Senegal. Senegal offers a useful test case: its judicial institutions are relatively stable and formal contracts are legally enforceable, but these institutions are difficult to access and rule of law is selectively applied in favor of politically connected actors (Bhandari 2022; Kondylis and Stein 2023). Informal contracting remains widespread, with dense social networks structuring trade. I designed the survey based on in-depth interviews with firm owners in Dakar conducted over a year of fieldwork. The first wave was carried out in 2017, followed by a second wave in 2022 among a randomized subset. The survey included an embedded experiment in which respondents evaluated a hypothetical contract dispute under randomly assigned contract conditions—either a formal written contract or a verbal agreement.<sup>4</sup> Respondents then rated their likelihood of pursuing various formal and informal enforcement strategies. This design allows for a test of how contract formality shapes firms’ recourse preferences in a hybrid institutional environment.

The results show that when deals are based on formal contracts, firms are more likely to pursue state-backed enforcement—turning to police, lawyers, or courts—and less likely to rely on social enforcement mechanisms. But this aggregate effect masks important heterogeneity. The formalizing effect of contracts is especially pronounced for formal and wealthy firms—those with *de jure* legal access and the means to navigate the system. Informal firms, while somewhat more likely to use formal channels under formal contracts, still face structural barriers to access. Politically connected firms, meanwhile, do not increase their use of formal enforcement when presented with formal contracts. Instead, they become significantly more likely to resolve disputes *informally*. A follow-up survey confirms that these firms turn to informal enforcement mechanisms—including political intermediaries—under formal contracting conditions. This pattern suggests a displacement of influence rather than its elimination. When formal contracts constrain favorable outcomes in the

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<sup>4</sup>Of course, contract formality is typically not exogenous to exchange (Williamson 1975), but domestic and international interventions to boost formality have made formal contracts difficult to universally avoid, even for firms in the informal economy, as interviews with informal firm owners confirmed. Through this partial equilibrium approach, this experiment helps provide timely evidence to understand how firms in transitional economies react to the introduction of formal institutions in trade.

legal system, connected firms shift their recourse to informal venues where their leverage is more effective. In this way, expanding access to formal contracts can unintentionally encourage forum shopping and reinforce inequalities.

By providing evidence of the counterproductive impact of expanding access to formal institutions in developing economies, this paper makes several contributions. First, these findings highlight the limited reach of formal institutions in contexts where informal practices remain deeply embedded. While formal contracts, on average, increase firms' use of state-based dispute resolution, this aggregate pattern masks unequal effects. The benefits accrue disproportionately to formal and wealthy firms, while politically connected firms retain the ability to forum shop across institutional domains. Formalization, in this sense, does not limit informal influence but simply shifts it elsewhere. These results underscore the limitations of formal institutions in achieving their intended goals where state and nonstate systems coexist (e.g. [Granovetter 1985](#)). More broadly, the paper raises important questions about current policy approaches: large-scale efforts to formalize the private sector may inadvertently reinforce the very inequalities they aim to correct. As international actors continue to pressure governments to adopt institutional reforms, careful attention to their distributive consequences is essential for promoting equitable and sustainable growth.

This paper also contributes to research on the demand for property rights protection ([Pistor 1996](#); [Hendley 1997, 1999](#); [Hoff and Stiglitz 2002](#); [Gans-Morse 2017](#)). The mere presence or legal quality of state institutions does not ensure their use, particularly in societies where firms can access alternative means of enforcement. While much research has focused on the consequences of property rights, the determinants of property rights have been relatively understudied ([Frye 2004](#)). This paper demonstrates that variation in contract formality plays a significant role in shaping property security strategies. The results show that removing demand-side barriers to legal recourse does not address deeper issues of inequality in enforcement.

## 2 Theory

### 2.1 Formal and informal dispute resolution

Efficient dispute resolution via state institutions is considered instrumental for economic development ([North 1991](#); [Olson 1993](#); [Acemoglu, Johnson and Robinson 2001](#); [Djankov et al. 2003](#)). This

can be a complex prospect in countries with weak rule of law, however, as firms often use both formal and informal institutions to resolve their disputes.

On the formal side, firms can engage legal institutions such as the police, lawyers, and courts when seeking recourse. While many firms use these formal enforcement strategies, even in developing countries, the existence of legal recourse options does not necessitate that firms will use them (Pistor, Wellons and Sachs 1999; Milhaupt and West 2000; Gans-Morse 2017).<sup>5</sup> Legal recourse options can be expensive and entail significant transaction costs (Williamson 1985; Kondylis and Stein 2023). This is especially true in places where legal institutions are excessively procedural, often inherited from former colonial powers (La Porta et al. 1998; Djankov et al. 2003).

Informally, firms have access to a diverse array of non-state dispute resolution options. As their initial strategy, firms typically try to resolve conflicts amicably, preferring to negotiate before bringing the matter to costly enforcement arenas (Macaulay 1963). Another strategy is to use shared social networks, particularly in contexts where these networks are dense and important for doing business (Akerlof 1970; Fafchamps 1996; Grimard 1997; Fafchamps and Minten 1999, 2001*b*, 2002; Miguel and Gugerty 2005; Habyarimana 2007; Golub and Hensen-Lewis 2012). This strategy relies on social enforcement that stems from mechanisms like in-group pressure, reputation costs, and shared sources of authority that agree to punish defectors (Klein and Leffler 1981; Greif 1989; Coate and Ravallion 1993; Fearon and Laitin 1996).<sup>6</sup> Ethnic and religious groups are examples of social networks that can underpin social enforcement, especially in much of Africa (Ebin 1993, 1995; Grimard 1997; Golub and Hensen-Lewis 2012). And in places where institutional access is a function of political proximity, firms can seek informal enforcement through their political connections (Wank 2002; Frye 2004; Gans-Morse 2017; Bhandari 2022). Indeed, political connections can be useful in both formal and informal dispute resolution.

How do firms decide which enforcement strategies—formal or informal—to use? The growing literature on legal pluralism and forum shopping offers some insights.<sup>7</sup> A frequent reason firms

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<sup>5</sup>Similarly, weak rule of law does not automatically imply that firms will avoid formal institutions altogether (Whiting 2010).

<sup>6</sup>While these studies suggest that repeated interactions can sustain stable trading equilibria (e.g. Baker, Gibbons and Murphy 2002; Brown, Falk and Fehr 2004; MacLeod 2007), reliance on social-based enforcement constrains economies to smaller sizes like flea markets (Fafchamps and Minten 2001*a*).

<sup>7</sup>See, for example, von Benda-Beckmann (1981); Meinen-Dick and Pradhan (2002); Tamanaha (2008); Sandefur and Siddiqi (2013); Lazarev (2018); Acemoglu et al. (2020); Blair (2019); Blair, Karim and Morse (2019).

choose informal justice relates to state capacity: when rule of law is weak, reliance on non-state or customary institutions increases. Yet state capacity alone is an insufficient explanation, as there are places with strong state capacity where firms nonetheless seek informal resolution, and places with weak capacity where firms seek formal resolution (Gans-Morse 2017).<sup>8</sup> The primary reason that firms forum shop among state and non-state resolution venues is to increase their likelihood of a favorable outcome (Sandefur and Siddiqi 2013).

In this article, I focus on a factor that can determine firms' decisions to seek formal or informal dispute resolution but that has received comparatively little focus: the availability of formal contracts. Especially given policymakers' push in recent years toward expanding the availability of formal contracts and mandating their use, it is important to establish whether and how formal contracts affect firms' willingness to seek formal or informal dispute resolution.

## 2.2 Formal contracts and forum shopping

Contracts specify exchange terms to mitigate risks that may otherwise prevent deals from occurring, and, importantly, clarify recourse options in the case of contract rupture (North 1981; Williamson 1985; Hart 1995). But in much of the developing world, contract type and formality can vary widely. At one end of the spectrum are formal, written contracts that use state contract templates that have undergone legal review. At the other end are verbal contracts, agreements made between two exchanging parties that are not specified in state-enforceable terms.<sup>9</sup> The type of contract chosen for a deal is often endogenous to the deal itself (Williamson 1975). For example, in an interview I conducted in Senegal with the supply chain manager of a large industrial firm, he reported occasionally preferring informal contracts because it allowed the company to renegotiate terms as market prices fluctuate.<sup>10</sup> In contrast, when conducting business with a new partner that had not yet established a reputation in the marketplace, he preferred formal contracts to offset

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<sup>8</sup>Transaction costs can also explain why firms may choose informal enforcement over formal enforcement (Macaulay 1963; Williamson 1985), as can demand-side barriers to legal access related to operating in the informal economy (Hay and Shleifer 1998).

<sup>9</sup>In between these levels are written agreements that either do not meet the requirements for state enforceability or that are incomplete. See Hart (1988); Hart and Moore (1988); Bernheim and Whinston (1998); Hart and Moore (1999); Tirole (1999) for discussion on the political economy of incomplete contracts.

<sup>10</sup>Author interview in Dakar, Senegal, July 4, 2016. This strategy was feasible given the large size of the firm as well as the near-monopoly it possessed within its sector. Firms that face greater competition or that seek protection from market fluctuations may prefer written contracts.

some of the risks (e.g. Johnson, McMillan and Woodruff 2002). The endogeneity of risk to contract choice has made studying the causal impact of contract choice difficult to date.

In this paper, I ask how formal contracts affect the strategies firms use to protect their property rights when a deal is ruptured. While existing theory suggests that strong contracting institutions increase the security of property rights (Baker, Gibbons and Murphy 1994; Djankov et al. 2003; MacLeod 2007), there are many places where both formal and informal contracting strategies coexist; the formality of contracts is an important yet understudied predictor for demand of rule of law. I argue that the type of contract used in a deal can affect the strategies available to firms. Given that formal contracts draw their power from state institutions, it follows that formal contracts will lead to greater use of state-backed enforcement methods such as courts in the aggregate.<sup>11</sup> Conversely, if a deal is based on an informal contract, it is more difficult to seek recourse via state institutions, and thus firms will use social enforcement strategies like ethnic or religious networks. Formal and informal methods of dispute resolution are not mutually exclusive, however (Akerlof 1970; Kranton 1996; Johnson, McMillan and Woodruff 2002; Sobel 2006; MacLeod 2007; Acemoglu et al. 2020). For example, simply because a firm hires a lawyer to work on a case does not preclude that firm from also making appeals to a religious intermediary to resolve the conflict. Similarly, political connections can be used to influence both state-based enforcement processes as well as enforcement via social networks.

There might also be important differences by economic sector and wealth. Informal and formal firms, for example, face different constraints when enforcing contracts. While formal firms can use both state and social enforcement methods, informal firms do not enjoy the same level of access to formal institutions.<sup>12</sup> Because of informal firms' dubious legal status, states may restrict use of formal enforcement institutions to firms that have registered with the state (Pistor 1996; Hay and Shleifer 1998). Thus, regardless of the type of contract used, I expect formal firms to be more likely to use formal enforcement strategies during contract disputes. By the same logic, formal contracts may differentially benefit the wealthiest firms in developing economies, as these

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<sup>11</sup>An important scope condition for this theory is that formal institutions have sufficient capacity to enforce contracts, a condition which most democracies and hybrid regimes—as well as some autocracies—meet.

<sup>12</sup>Indeed, this may be a reason that some informal firms formalize in the first place. This selection problem is not a major concern in this paper as only 11% of the formal firms in the sample included this among their reasons for formalization. Furthermore, as the correlation matrix in Appendix Section A.6 shows, formal firms do not have substantially greater trust in courts than informal firms.

firms are most likely to be able to afford the costs associated with formal enforcement. Extending access to formal contracts may disproportionately lead formal and wealthy firms to opt for state enforcement, without reducing their ability to rely on social enforcement strategies should they choose. Formal institutions might therefore enhance privileged firms' ability to forum shop, further driving inequality in the marketplace.

### **2.3 Politically connected firms, formal contracts, and forum shopping**

Expanding access to formal institutions can interfere with preexisting informal institutions, with the potential to backfire against policymakers' expectations. One such informal influence is the use of political connections, as politically connected firms might differentially react to expanded access to formal contracts. Whether via firm owners' or managers' direct ties to state institutions (e.g. Markus 2015; Frye 2017; Betz and Pond 2023) or more subtle familial ties (e.g. Bhandari 2022), politically connected firms have repeatedly been shown to use their connections to their advantage. Connected firms and owners enjoy greater valuations and profitability (Fisman 2001; Faccio 2006), gain preferential access to bureaucrats (Szakonyi 2018), and benefit from the selective enforcement of regulations (Kubinec, Lee and Tomashevskiy 2021). During contract disputes, political connections enable firms to leverage their institutional advantages before courts, police, and other formal enforcement mechanisms (Lu, Pan and Zhang 2015). Political power imbalances are especially influential in disputes when the other party does not have contractual proof of the terms of a deal. Unwritten, underspecified agreements (e.g. Tirole 1999) give politically connected firms large advantages via formal dispute resolution—they can manipulate the state's biases to their advantage.

It is thus reasonable to infer, as international and domestic policymakers have, that increasing access to formal contracts might attenuate some of this power imbalance. By mandating the use of formal contracts, the disproportionate influence of connected firms should be diminished, as specified contractual terms limit the discretion of potentially biased state institutions. Formal contracts may thus even the playing field and make formal enforcement fairer and more efficient, the argument goes (Williamson 1985). This is especially likely to be the case in contexts where firms view formal contracts seriously, and where there are perceived limits in the state's ability to blatantly disregard contractual terms to rule in favor of connected parties.

On the other hand, such arguments tend to overlook the pervasiveness of informal methods of dispute resolution in countries with relatively weak rule of law, even among firms in the formal economy. In addition to their utility for formal dispute resolution, political connections can also be valuable in informal resolution contexts. With formal contracts evening the playing field between the exchanging parties before formal institutions, firms may seek to use *informal* enforcement to exert their influence instead.<sup>13</sup> That is, if formal contracts are thought to diminish the ability of politically connected firms to abuse their power in the formal enforcement realm, they may opt to exert their disproportionate political influence via informal resolution methods instead. The utility of political connections does not disappear simply because of the introduction of formal contracts; it might just displace the influence of political interference from formal enforcement to informal enforcement. Formal contracts may thus paradoxically increase informal economic behavior.

To summarize, forum shopping remains a strategy regardless of the introduction of formal contracts. If formal contracts are thought to be weak or ineffectual, politically connected firms may deepen their use of state methods of enforcement when using formal contracts: formal contracts are an additional mechanism to exert their political influence. If, however, formal contracts work in the way they are intended, evening the playing field between differently connected parties, then politically connected firms may deepen their use of informal enforcement methods. I leave it to the empirical results to reveal which reality firms are facing.

### 3 Context

I test these claims using data from a large-scale firm survey and embedded experiment in Dakar, the political and economic capital of Senegal. I selected Senegal because of its mix of formal and informal enforcement institutions as well as recent changes that have made the experimental treatment—access to formal contracts—particularly salient.

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<sup>13</sup>Indeed, even when the playing field is uneven, firms might use informal institutions to bypass state involvement altogether to most efficiently achieve their aims (Kubinec, Lee and Tomashevskiy 2024).

### 3.1 Formal and informal contracting in Senegal

Senegal is a relatively stable democracy, but its institutions for rule of law lag behind.<sup>14</sup> It places poorly in the World Bank’s ranking for ease of enforcing contracts (World Bank 2020), and its legal system is characterized by significant costs and high degrees of procedural formalism (Kondylis and Stein 2023). In this context of high transaction costs, businesses use a mix of formal and informal contracts as part of their regular business operations. Formal contracts typically take the form of written agreements that meet local standards to be executable in courts of law. While lawyers may review these contracts prior to signing, this is not necessary to make a contract legally binding. An informal contract in Senegal typically takes the form of a verbal agreement. Though verbal contracts are technically legally binding in Senegal, in practice legal authorities and firms see such agreements as carrying little weight before courts.<sup>15</sup> Verbal contracts are seen as particularly useful for politically connected firms, as the lack of written record of a deal facilitates the influence of state connections.

A firm in Senegal is typically considered formal if it is registered with the state and possesses a registration number,<sup>16</sup> and informal if not. The Senegalese government in recent years has implemented policy reforms to lower the barriers of access to the formal economy as well as implemented tax reforms that might incentivize formalization, to mixed results (Gottlieb 2024). In practice, the distinction between formal and informal firms can be fuzzy; formal firms often negotiate their taxes informally, use informal contracts, and rely on social signals for deal security (Bhandari 2023). Still, visibility to the Senegalese state importantly distinguishes formal and informal firms.

International and domestic agencies alike in recent years have pushed to increase formalization in Senegal’s private sector. Key drivers include the World Bank, the Organization for the Harmonization of Business Law in Africa (OHADA), the African Development Bank, and USAID, all of which have pushed Senegalese policymakers to adopt greater formalization of contracting

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<sup>14</sup>Senegal’s constitutional crisis in early 2024 highlights this institutional middle ground well. President Macky Sall unilaterally postponed presidential elections in a move widely perceived as an attempt to retain power amidst growing popular opposition. That he was able to do so suggests that Senegal’s democracy is less stable than previously considered. However, in a show of institutional strength, the courts rejected Sall’s claim, a decision with which he eventually complied. This case reflects the present article’s scope conditions—contexts in which rule of law exists and can be enforced, but where it is enforced selectively and often informally.

<sup>15</sup>Author interview at state procurement agency, Dakar, Senegal, July 20, 2016.

<sup>16</sup>This number is called the *NINEA*, a term with which all firms are familiar.

practices.<sup>17</sup> For their part, firm owners are not universally opposed to such formalization. For example, both formal and informal firms in my sample stated that they wished they were able to use formal contracts more often than they currently do. This chimes with past work in Senegal that shows that even when firms in Senegal seek more formalized practices, informalities like political connections complicate their functioning (Bhandari 2023). Still, while the interplay of formal and informal institutions certainly characterizes the private sector in Senegal, firms appear, at least in theory, to be interested in a move toward formalizing their contractual behavior. Combined with the top-down push toward formality, it is important to examine how the expansion of formal institutions moderates firms' property security strategies.

### 3.2 Contract dispute resolution in Senegal

Contract disputes are common among Senegalese firms, leading them to frequently seek resolution. Approximately 33% of my firm sample reported having experienced a past dispute, with both formal and informal firms reporting similar rates of dispute. The typical dispute stemmed from the failure of the other party to pay for goods or services rendered, or from the receipt of substandard products. Firms' strategies for resolving past conflicts varied widely, with informal firms relying largely on amicable solutions and social networks, and formal firms relying more on formal dispute resolution processes (police, lawyers, and courts). Still, exemplifying the mix of formal and informal influences in Senegal's private sector, informal firms reported using formal enforcement institutions, and formal firms reported using social enforcement. Neither formal nor informal enforcement is exclusive to a sector.

Formal dispute resolution in Senegal can take several forms. The state-based institution with the fewest transaction costs, and thus the one engaged most frequently in contract disputes, is the police. Of the firms in my sample that reported contract disputes, 18% stated that they sought help from the police, including 13% of informal firms and 21% of formal firms. Using the police as a dispute resolution strategy typically involves filing a police report; whether police investigate further is at the discretion of police staff. Formal enforcement can also take the form of hiring

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<sup>17</sup>See, for example, the ILO's *Stratégie nationale intégrée de formalisation de l'économie informelle et plan d'action opérationnel de transformation du secteur informel*, the Government of Senegal's *Plan Sénégal émergent*, and the World Bank funded *Projet d'Amélioration du Climat des Investissements (PACI)*, among many others.

a lawyer and/or taking the case to court. In Senegal, these options are prohibitively expensive for most (Kondylis and Stein 2023). However, in an attempt to mitigate long waiting times and administrative backlogs, Senegal introduced a new commercial court to more efficiently process and resolve cases.<sup>18</sup> Despite some promising reports about decreased waiting times and increased judicial efficiency,<sup>19</sup> the difficulties associated with the judiciary remain a hotly contested issue in the country, such that the recently inaugurated president of Senegal has placed judicial reform among his top priorities.<sup>20</sup> These efforts, combined with the recent policy pushes mentioned above, make timely the need to examine the impact of contract formality on Senegal’s private sector.

Informal dispute resolution takes many forms in Senegal. As noted above, firms most often attempt to resolve their conflicts amicably, hoping to reach agreement prior to involving external parties. When this strategy fails, social networks can play a role in structuring trade and resolving disputes given the density of social networks and the importance of social standing in Senegal. Membership in shared business associations,<sup>21</sup> social organizations, and social circles are used as proxies for trustworthiness, and knowing someone in a business partner’s social network can relieve some of the risk involved in a deal. When deals go awry, firm managers can make appeals to someone in the shared social network who helps to resolve the dispute. By a similar logic, religious networks are important for social enforcement in Senegal. The religious brotherhoods to which much of the country belong are particularly critical in structuring trade, and, as the dominant non-state authority in their members’ lives, religious authorities like *marabouts* often serve as third-party enforcers (Cruise O’Brien 1971; Ebin 1993; Mbacké 2005; Minard 2009; Golub and Hensen-Lewis 2012). Finally, as in other parts of the world (Wank 2002; Gans-Morse 2017), seeking enforcement via political connections is an informal strategy firms may use to enforce their property security. Politically connected firms benefit from the preference and bias of the state, and, as such, political connections are useful for placing pressure upon the defecting party to hasten resolution,<sup>22</sup> in both formal and informal enforcement settings. Firm managers in my sample generally believed

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<sup>18</sup>[https://www.pressafrik.com/Installation-du-premier-tribunal-du-commerce-de-Dakar-Une-opportunité-selon-le-ministre-de-la-Justice\\_a178714.html](https://www.pressafrik.com/Installation-du-premier-tribunal-du-commerce-de-Dakar-Une-opportunité-selon-le-ministre-de-la-Justice_a178714.html)

<sup>19</sup><https://www.euronews.com/2019/03/28/senegal-boosting-its-business>

<sup>20</sup><https://www.rfi.fr/fr/afrique/20240528-assises-nationales-de-la-justice-au-senegal-le-president-rachelclame-un-dalbat-lucide-pour-trouver-des-solutions>

<sup>21</sup>I show in Appendix A.5 that Senegalese firms, particularly informal ones, have relatively low membership in business associations, a notable difference from firms in neighboring countries (e.g. Grossman 2020).

<sup>22</sup>Even the threat of using political connections may hasten resolution.

that politically connected firms receive outsized advantages in the Senegalese private sector. The majority stated that political connections were useful, with the most commonly listed benefit being privileged access to state contracts and the ability to disobey rules with impunity.

While reputation can structure trade in some contexts (e.g. Greif 1989), reputational information is not always available in Senegal. The explosion of small- and medium-sized businesses in recent years has outpaced the availability of reputational information. This type of information is also inherently unavailable for newly entering firms, and is difficult to obtain for faceless businesses such as those based abroad or online (Dellarocas 2003; Elfenbein and Lerner 2003; MacLeod 2007). Repeated interactions that lead to folk theorem equilibria are also not always a possibility for securing stable trading relationships in Senegal, particularly as firms become more specialized and the frequency of one-shot trades increases.

## 4 Research design

To test the impact of contract formality on dispute resolution strategies, I fielded a large-scale survey of formal and informal firms in 2017-2018 in Greater Dakar. For supportive data, particularly regarding firm managers' political connections, I conducted a follow-up survey with a randomized subset of respondents in 2022.<sup>23</sup>

### 4.1 Sample

The survey was administered to 2,389 firms in both the formal and informal economies. I divided each district within Dakar into subdistricts, and enumerators followed a preselected random sampling step that varied by the density of the subdistrict in order to minimize spillovers. Figure 1 shows the location of sample firms in the Dakar peninsula.

Because the survey included questions about how their firms would respond to contract breaches, it was important to conduct the survey with firm owners and managers rather than rank-and-file employees. Thus, to ensure that survey responses actually reflected firms' operational decisions, the survey was only conducted with respondents who make management and contracting decisions on behalf of their firms. Most often, this meant that the survey was conducted with firm owners

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<sup>23</sup>This follow-up data was collected jointly with [REDACTED FOR ANONYMITY.]

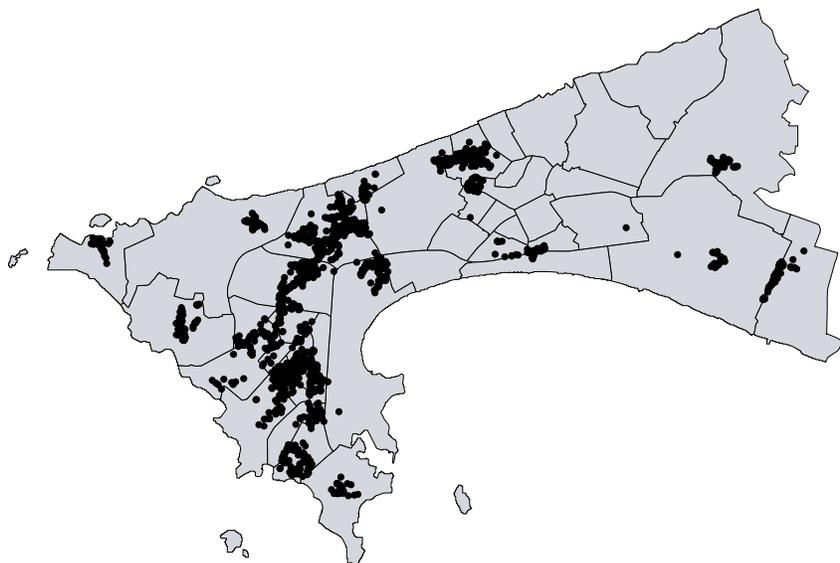


Figure 1: Location of sample firms in Dakar peninsula.

themselves. For larger firms, occasionally the director of administration and finance or the managing director answered the survey when the firm owner was unavailable. One respondent per firm completed the survey.

To both encourage participation and minimize social desirability bias, enumerators approached each business with a letter from a Senegalese research institution with which I have a longstanding affiliation. This ensured respondents that their data would be used solely for research purposes and that their responses would be anonymized. When asked at the end of the survey, almost all respondents (over 99%) confirmed that they believed the research team had no affiliation with the Senegalese government.

## 4.2 Survey content

Information about formal and informal firms in Senegal has been historically difficult to attain. There is limited reliability in the data the government has published on firms to date, as firms are hesitant to share information, especially with the government. The survey thus served an important descriptive purpose, particularly as it was administered to a sample of firm owners and managers that is otherwise difficult to reach. I included questions regarding formalization status, valuation, profits, number of employees, and firm behavior. To ascertain information about firm

managers themselves, respondents were asked about their ethnicity, religion, education, membership in social and business organizations, confidence in state institutions, political affiliation, and past government involvement. Questions on firm behavior focused largely on contract enforcement and tax compliance, including the resolution of previous contract disputes as well as whether and to whom firms paid legal and illegal taxes.

I collected information about respondents' political connections with a randomized subset of the sample in 2022. I asked detailed questions about firm owners' political activity as well as their family's political connections, as these subtler connections have been shown to be a strong determinant of business practices in developing economies (Fafchamps and Minten 2001*a*; Bhandari 2023). Very few respondents are politically connected in the ways that prior research has tended to measure connectivity (e.g. Khwaja and Mian 2005): few firms have current or former politicians as owners or board members (3.9%). Given their importance, I place my focus on family connections.<sup>24</sup> Overall, this data helps to paint a clearer picture of the private sector in Senegal, across the formal and informal economies.

The survey included an experimental element to test the effect of contract formality on firms' enforcement strategies. In the experiment, respondents stated their likelihood of using several formal and informal dispute resolution strategies when another business failed to make a payment that was stipulated in a randomized formal or informal contract. Payment breach was chosen for the survey experimental vignette because, as my data reflects, it is the most common reason for inter-firm disputes in Senegal. The wording of the survey experiment closely mirrored the survey conducted in Russia by Gans-Morse (2017), in order to facilitate comparisons to a separate context for generalizability. Respondents were asked the following:

“Imagine that another business owes yours a significant sum of money as a result of services or products you provided, and that this business hasn't paid by the previously agreed upon deadline stipulated in...

**Treatment:** [...a legal, written contract signed by the two parties.]

**Control:** [...a verbal agreement without a written contract.]

Which of the following strategies are you likely to use?”

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<sup>24</sup>Furthermore, due to the panel nature of the data, using family connections as the measure of connectivity helps to ensure that political connections between survey waves remained stable.

Enumerators then asked respondents their likelihoods of using the following dispute resolution strategies on a scale of 1 to 5:

“How likely are you to...”

- *Amicably*: “Resolve it amicably by discussing directly with the other company?”
- *Social network*: “Contact someone in the other company’s social network and ask them to intervene on your behalf?”
- *Religious network*: “Take the problem to a religious authority (for example, a *marabout*)?”
- *Political connection*: “Speak with someone—a connection—in government and ask them to intervene on your behalf?”
- *Police*: “Take the problem to the local police?”
- *Lawyer*: “Hire a lawyer to manage the case?”
- *Courts*: “Use the court system?”

Responses to these questions constitute the main outcomes of interest. Respondents were not restricted in choosing one strategy over another—they could, and often did, say they were likely to use multiple strategies. Simple randomization was done within the tablet software to assign each respondent to the treatment or control group. Respondents were unaware they were participating in a survey experiment, and did not know that there were two versions of the question.<sup>25</sup>

### 4.3 Estimation

I estimate the following model to assess the impact of the formal contract treatment on firms’ dispute resolution strategies:

$$y_i = \alpha + \beta_1 \text{FormalContract}_i + \gamma \mathbf{X}_i + \epsilon_i$$

where  $y_i$  is a firm manager’s likelihood on a scale of 1 to 5 of using a given enforcement strategy,  $\text{FormalContract}_i$  is the treatment indicator, and  $\mathbf{X}_i$  are the pre-treatment control variables. I present the results without controls in the main text and reproduce in Appendix Section A.3 the results with the pre-registered control variables of age, gender, education level, religion, ethnicity, and neighborhood. Results are robust to including these controls as well as controls for firm wealth

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<sup>25</sup>As confirmed with a question at the end of the survey, there were almost no spillovers: in less than 0.5% of cases, respondents had heard of the survey prior to taking it. The sampling step ensured sufficient distance between firms, and subdistricts were generally completed within the same day.

and size. In models estimating heterogeneous treatment effects by firm formality and by political connections, I interact the covariate of interest with the treatment indicator.

#### 4.4 Diagnostics and threats to inference

To estimate balance across the experimental groups, I regress pre-treatment covariates on treatment assignment (see Appendix A.7). While there was some missingness in outcomes from refusals to answer or “I don’t know” responses, this was only the case for seven responses out of 16,723 total questions (2,389 respondents answering seven questions each). I impute mean values for these missing observations, and all results are robust to excluding them. Finally, though spillover could be considered a risk if sample firm owners discussed the survey among themselves, data collection occurred on the same day within each subdistrict to minimize this spillover risk. The sampling step also ensured that immediately neighboring businesses would not be part of the sample. Data confirmed that almost no respondents had heard of the survey prior to taking it, and also confirmed that respondents believed the survey to be unaffiliated with the government.

## 5 Results

In this section, I begin by presenting needed description of firms’ enforcement behavior in a context of selectively enforced rule of law. I then present the experimental results, starting with the average treatment effects before proceeding to examine the differential effects by firm formality and political connections.

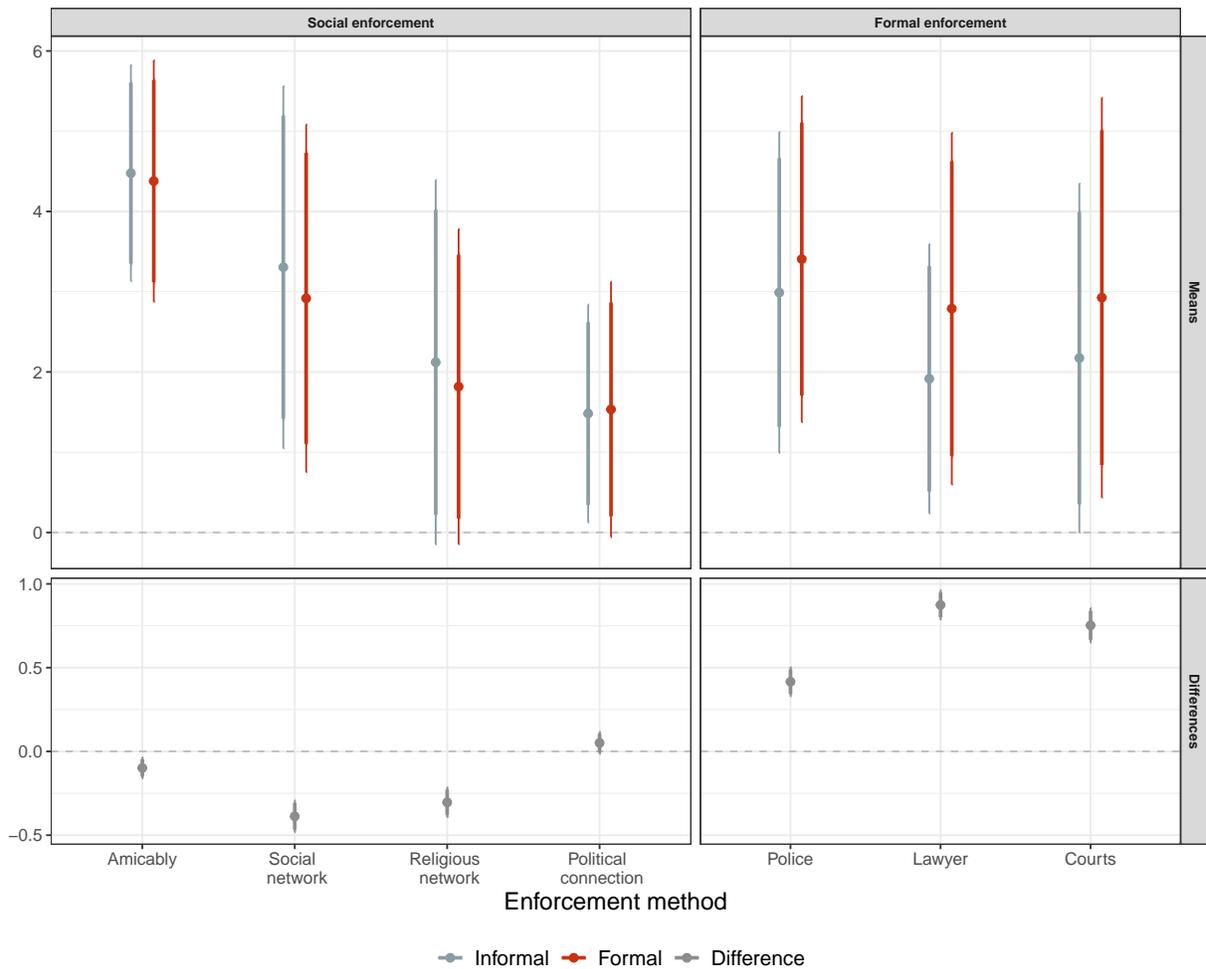
I first examine descriptive trends in the outcome data to get a sense of the relative frequency of the various enforcement tactics firms use in Senegal. Table 1 presents summary statistics for firms’ likelihood of pursuing the listed enforcement strategy. It demonstrates that by far the most common strategy is amicable resolution. Most firms will, by default, attempt to reach out to the defecting party before resorting to more costly options. Of the informal enforcement strategies for securing property rights, the use of social networks is the next most common, followed by religious networks, and finally political connections. Although political connections are the least used informal enforcement mechanism, this is likely due to the limited amount of firms who possess credible political connections relative to those with religious and other important social connections: 32.7%

Enforcement strategy	Mean	St. Dev.	Median	Min	Max
Amicably	4.412	0.743	5	1	5
Social network	3.048	1.136	3	1	5
Religious network	1.920	1.067	2	1	5
Political connection	1.516	0.774	1	1	5
Police	3.266	1.050	3	1	5
Lawyer	2.494	1.117	2	1	5
Courts	2.672	1.270	3	1	5

*Notes:* N=2,389.

Table 1: Summary table of main outcomes

of the sample reported familial political connections. In terms of formal enforcement, engaging the services of the police is the most popular option, followed by courts and then lawyers. This is reflective of the increasingly high transaction costs involved with hiring lawyers or bringing matters to court relative to filing a report with the police.



*Notes:* The top panel plots the likelihood, on a scale from 0 to 5, of a firm owner using the enforcement strategy listed on the horizontal axis, along with the standard deviations  $\times 1.64$  (thick lines) and standard deviations  $\times 1.94$  (thin lines). The bottom panel plots the difference in estimates between formal and informal firms, with the 95% and 90% confidence intervals represented by thick and thin lines, respectively. For the results in table form, see Appendix Table A1.

Figure 2: Likelihood of enforcement strategy by firm formality

To examine how these strategies differ by firm formality, I calculate the outcomes for each subgroup and estimate the differences between them. Figure 2 presents the results and reflects the significant differences in strategies adopted by formal versus informal firms. Formal firms are significantly less likely than informal firms to resolve disputes amicably and via social and religious networks, and significantly more likely to use the police, lawyers, and courts. The only enforcement strategy where formal and informal firms do not diverge is in the use of political connections: there is no detectable difference in the use of political connections by sector. This underscores the nature

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Deal based on formal contract	-0.244*** (0.030)	-0.366*** (0.046)	-0.169*** (0.044)	-0.027 (0.032)	0.393*** (0.042)	0.534*** (0.044)	0.574*** (0.051)
Control outcome mean	4.532	3.228	2.003	1.529	3.072	2.231	2.389
Control outcome std. dev.	0.687	1.128	1.134	0.783	1.039	1.019	1.173
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [control: verbal agreement with no written contract][treatment: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table 2: Average treatment effects: Main results of survey experiment

of political power and connections in Senegal, where wealth and income are not significant predictors of political connectivity.<sup>26</sup>

I next turn to the experimental results to assess the impact of formal contracts on firms’ dispute resolution strategies. I start by presenting the average treatment effects for the full sample in Table 2. In line with the theorized expectations, firms are much more likely to seek formal enforcement when a deal is based on a formal contract as opposed to an informal one. The results also show that formal contracts substantially reduce dependence on social means of enforcement, suggesting that formal and informal dispute resolution tactics may indeed be substitutes in these types of disputes. However, the magnitudes of the coefficients for informal enforcement are lower than for formal enforcement—and the control group outcome means are high—suggesting that social enforcement strategies may still be viable and valuable when a formal contract is the basis of a broken deal. The only enforcement strategy that remains unchanged by a formal contract is the use of political connections to seek recourse. Using political connections to enforce deals remains an option whether deals are based on formal or informal contracts. This finding reinforces that informal means of dispute resolution do not disappear when formal institutions are introduced in developing economies.

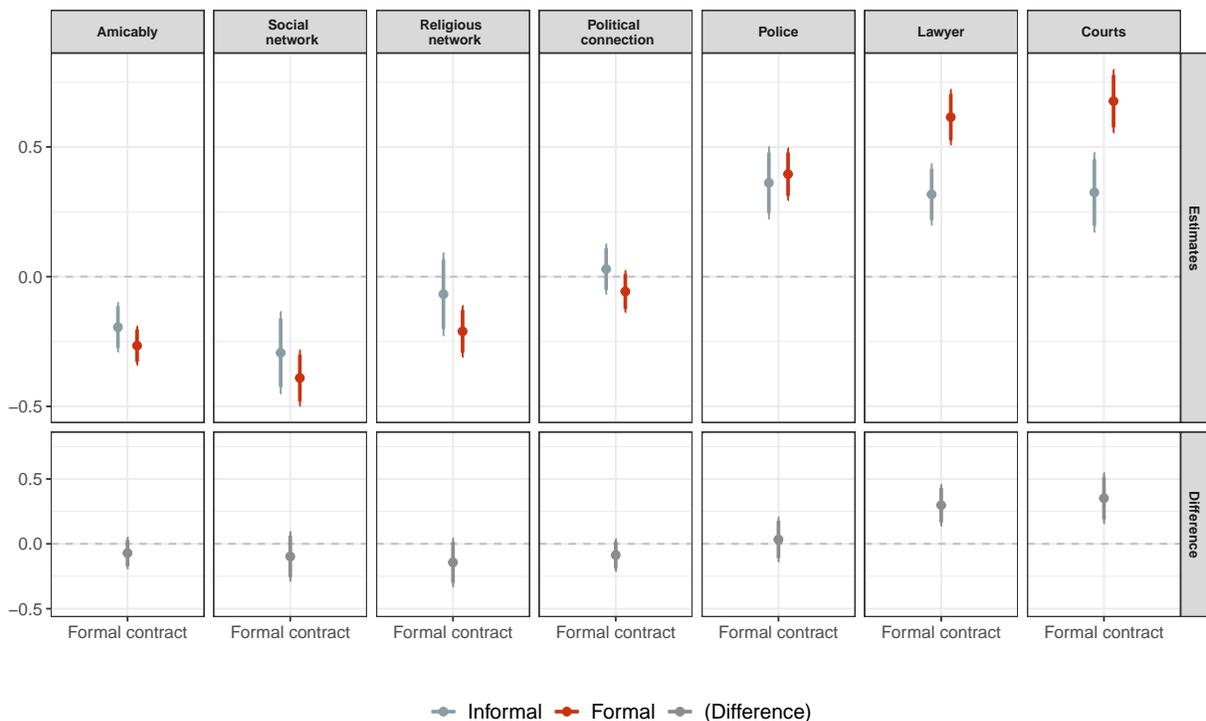
<sup>26</sup>See Appendix Figure A2 for correlational support of this claim.

Given the differences between formal and informal firms, as well as the inherent differences in their available legal strategies at baseline, I next estimate treatment effects based on firm formality status. Figure 3 presents the treatment effects for formal and informal firms, as well as the differences between the two subgroups for each resolution strategy. The contract treatment only differentially affected firm types for the costly state enforcement outcomes: the use of lawyers and courts. That is, formal firms increased their use of the most cost-intensive formal enforcement methods when a formal contract was the basis of a deal. The estimates in Appendix Table A5 further show that the wealthiest firms increased their use of costly state enforcement institutions. Overall, these results suggest that the biggest gains from increasing access to formal contracts go to firms that already have preferential access to legal institutions in the first place, thus potentially compounding existing inequalities. Still, as the decomposed results in the top panel of Figure 3 indicate, formal contracts significantly increase the willingness of informal firms to seek legal recourse, and somewhat reduce their dependence on informal property rights security strategies as well. While formal contracts may widen the enforcement gap between formal and informal firms, there may still be cause for policymakers’ optimism: formal contracts improve the baseline for informal firms in the intended direction.

Such optimism might obscure the more insidious consequences of expanding access to formal contracts, however. While increasing access to such formal institutions can encourage formality and decrease informality in dispute resolution, in Table 3 I show that political connections moderate the results in important ways. Politically connected firms are no more different than unconnected firms to modify their formal enforcement strategies when they use formal contracts. However, connected firms *intensify* their usage of social enforcement strategies.<sup>27</sup> Under formal contracts, they are more likely to seek amicable dispute resolution, reflective of reduced favor before formal institutions when formal contracts are the basis of a deal. Meanwhile, the treatment effects among the unconnected (the coefficients for “formal contract” in Models 5-8) show that unconnected firm owners are pushed toward seeking formal enforcement strategies under formal contracts. In addition to amicable enforcement, connected firms are also more likely to use their political connections to seek dispute resolution under formal contracts. The results with pre-registered controls show

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<sup>27</sup>Note that this differs from the effects of wealthy firms, which decrease their use of informal enforcement under formal contracts (Appendix Table A5). Connections operate through different pathways than wealth.



*Notes:* The top panel plots the treatment effect of using a formal contract for informal and formal firm owners. The bottom panel plots the difference in estimates between formal and informal firms. Thick and thin lines represent 95% and 90% confidence intervals, respectively. For the results in table form, see Appendix Table A2.

Figure 3: Likelihood of enforcement strategy by firm formality

suggestive evidence that connected firms also deepen their reliance on religious enforcement authorities as well (Appendix Table A6). While formal contracts appear to even the playing field between connected and unconnected parties, connected firms attempt to skirt this reality by using their political connections. Indeed, as Figure 3 shows, politically connected firms are less likely to use their connections under informal contracts (the coefficient for “political connections” in Model 4). Overall, these results demonstrate the paradoxical impact of introducing formal contracts: they can displace activity toward informal enforcement methods. When politically connected firms can no longer influence formal institutions, they resort to informal ones.

To address competing explanations for dispute resolution in Senegal, in Appendix A.2 I show how membership in political parties, firm owners’ trust in courts, and past exposure to corruption impact results. The most likely confounding variables are firms’ wealth and size, as there may be concern that political connections are capturing these other important firm characteristics. I thus

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal contract	−0.361*** (0.083)	−0.315** (0.124)	−0.165 (0.112)	−0.061 (0.078)	0.255** (0.115)	0.441*** (0.115)	0.491*** (0.134)
Political connections	−0.138 (0.105)	0.140 (0.156)	−0.194 (0.141)	−0.231** (0.098)	−0.016 (0.144)	0.052 (0.145)	0.233 (0.169)
Formal contract × political connections	0.307** (0.146)	0.147 (0.217)	0.176 (0.196)	0.289** (0.136)	−0.046 (0.201)	0.011 (0.202)	−0.048 (0.235)
Control outcome mean	4.589	3.189	2.011	1.53	3.065	2.216	2.389
Control outcome std. dev.	0.637	1.148	1.142	0.808	1.121	0.993	1.242
Observations	535	535	535	535	535	535	535

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.” Political connections is an indicator variable for whether respondent has a familial political connection. \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table 3: Treatment effects by familial political connections

reestimate the main findings controlling for these variables. The results, presented in Appendix Section A.3, show that estimates are robust to these controls, as well as to the pre-registered controls detailed in Section 4.3.

## 6 Conclusion

International organizations and domestic governments are increasingly pushing to formalize the private sectors of developing countries, but these efforts can have unintended consequences. These initiatives do not occur in isolation; they must contend with competing informal market influences. I show in this paper that one such formalization effort—expanding the use of formal contracts—can affect firms’ dispute resolution strategies in unexpected ways. While formal contracts increase reliance on state institutions for enforcement and reduce informal enforcement strategies, this shift is primarily driven by formal and wealthy firms that arguably need these benefits least. Moreover, rather than preventing forum shopping, greater access to formal contracts may actually encourage

it for the most powerful firms: politically connected firms intensify their use of informal enforcement under formal contracts.

These results demonstrate that increasing formality in historically informal business environments can backfire in unexpected ways if the interplay between formal and informal influences is not seriously considered. This contrasts with other research suggesting more universal benefits of increasing access to formal law (Sandefur and Siddiqi 2013), as well as the numerous studies that attempt to induce formalization without considering the political consequences. Rather than reducing inequality, the results suggest that efforts to promote formal institutions may paradoxically be formalizing inequality.

These findings contribute to our understanding of the conditions under which formalization efforts might promote the state- and economy-building processes. Because the consistent use of state institutions reinforces their legitimacy and effectiveness (Pistor 1996; Migdal 2001), it is critical to understand when firms are likely to utilize state institutions instead of enforcing their property rights informally. The results of this study offer some optimism: increasing the availability of formal contracts *does* encourage greater use of formal dispute resolution, particularly among unconnected firms. Even though connected firms may use their influence to skew outcomes in their favor, this is still a significant insight. The challenge facing policymakers is the development of strategies to compel connected firms to use formal dispute resolution, limiting the influence of informal resolution methods. Simply expanding access to formal contracts without considering the broader enforcement environment risks even more informality.

Descriptively, this paper helps to illuminate firms' enforcement strategies under imperfect rule of law, while underscoring the complexities of navigating the (in)formalities of the private sector. These results may also help to understand formal and informal property rights security in other contexts. Many studies on formal and informal property security strategies focus on post-Soviet states (e.g. Pistor 1996; Frye 2004; Gans-Morse 2017) or states with violence-based informal enforcement (e.g. De Soto 2000; Wilson 2010). By contrast, the results from this paper can help to understand informal enforcement in the many societies where violence or coercion are not common strategies in the private sector, and where social and religious networks are dense and important determinants of risk in exchange. These results also contrast with studies that juxtapose nonstate enforcement against very weak state enforcement institutions that citizens know to be ineffective

(e.g. *McMillan and Woodruff 1999a*). Many states are similar to Senegal, where there are moderate levels of public support and trust in state institutions, but where informalities are pervasive in the private sector. The results from this paper contribute to our understanding of formal and informal institutions in such hybrid environments.

While this paper examined firms' strategies of dispute resolution—assessing the conditions under which they seek social or formal enforcement—it does not address the systemic issues of biased social and legal enforcement. Future research would thus be well served to investigate not just the use of enforcement institutions, but the outcomes these institutions deliver to disputing parties. And while this paper contributes to the evidence base explaining firms' use of formal and informal dispute resolution strategies, more work is needed to explain variation in the availability of such strategies across contexts. For example, why are violence and coercion available strategies to firms in some societies and not others, and why may social enforcement be stronger in certain contexts? Finally, additional research is needed to probe the mechanisms by which connections and contracts interact. Do politically connected firms prefer informal contracts because the vagueness allows them to more easily benefit from the bias of state and nonstate institutions, or would they prefer formal contracts that allow them to make direct appeals to the state institutions that privilege them? Such questions pose important implications for policies aimed at strengthening the use of formal institutions in the private sectors of countries with selective rule of law.

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# A Appendix

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## A.1 Tables corresponding to figures in main body

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal firms	-0.099*** (0.032)	-0.388*** (0.049)	-0.304*** (0.046)	0.051 (0.033)	0.416*** (0.045)	0.874*** (0.045)	0.753*** (0.053)
Informal firm mean	4.477	3.305	2.121	1.482	2.99	1.914	2.173
Informal firm std. dev.	0.688	1.152	1.159	0.693	1.021	0.856	1.11
Controls	No	No	No	No	No	No	No
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A1: Difference in enforcement likelihood between formal and informal firms

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal contract used	-0.195*** (0.052)	-0.293*** (0.078)	-0.068 (0.074)	0.029 (0.055)	0.362*** (0.071)	0.317*** (0.071)	0.325*** (0.083)
Formal firm	-0.058 (0.044)	-0.332*** (0.067)	-0.231*** (0.064)	0.093** (0.047)	0.390*** (0.061)	0.717*** (0.060)	0.568*** (0.071)
Formal contract used × formal firm	-0.071 (0.063)	-0.097 (0.096)	-0.143 (0.091)	-0.086 (0.067)	0.034 (0.088)	0.298*** (0.087)	0.352*** (0.103)
Control outcome mean	4.57	3.444	2.153	1.468	2.818	1.764	2.019
Control outcome std. dev.	0.627	1.148	1.229	0.677	0.989	0.736	1.03
Controls	No	No	No	No	No	No	No
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A2: Heterogeneous effects by firm formality

## A.2 Additional heterogeneous treatment effects

To test other theoretically compelling factors for why firms may diverge in their enforcement of formal contracts, I estimate additional heterogeneous treatment effects by the following: party membership, trust in courts, past exposure to corruption, firm wealth, and firm size.

First, to extrapolate to a broader conceptualization of political networks than presented in the main text, I estimate heterogeneous effects based on firm managers' membership in a political party.<sup>28</sup> As Panel A of Table A3 shows, while party members use most types of enforcement mechanisms more than politically unaffiliated firms, they do not seem to respond to formal contracts differently than non-party members. The exception is using the police: party members are less likely than unaffiliated firms to go to the police when a formal contract is broken.

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<sup>28</sup>Because political connections in clientelistic societies may matter more when one's connections are to the ruling party, I also estimate heterogeneous treatment effects by membership in the party of power and present the results in Appendix Table A4.

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
<b>Panel A: By political party membership</b>							
Formal contract	-0.241*** (0.034)	-0.362*** (0.051)	-0.179*** (0.048)	-0.031 (0.034)	0.440*** (0.047)	0.566*** (0.050)	0.597*** (0.057)
Connected firms	-0.022 (0.052)	0.250*** (0.079)	0.312*** (0.075)	0.473*** (0.053)	0.135* (0.073)	0.272*** (0.077)	0.263*** (0.088)
Formal contract × Connected firms	-0.015 (0.075)	-0.008 (0.114)	0.066 (0.108)	0.040 (0.076)	-0.233** (0.105)	-0.149 (0.110)	-0.105 (0.126)
Control outcome mean	4.57	3.444	2.153	1.468	2.818	1.764	2.019
Control outcome std. dev.	0.627	1.148	1.229	0.677	0.989	0.736	1.03
<b>Panel B: By trust in courts</b>							
Formal contract	-0.125** (0.054)	-0.312*** (0.082)	-0.322*** (0.078)	-0.061 (0.057)	0.423*** (0.076)	0.486*** (0.079)	0.492*** (0.089)
Trust in courts	0.084*** (0.021)	0.090*** (0.031)	-0.084*** (0.030)	-0.011 (0.022)	0.032 (0.029)	0.108*** (0.030)	0.176*** (0.034)
Formal contract × Trust in courts	-0.078*** (0.029)	-0.037 (0.044)	0.100** (0.042)	0.022 (0.031)	-0.020 (0.041)	0.029 (0.043)	0.049 (0.048)
Control outcome mean	4.528	2.996	2.245	1.421	3.087	2.056	2.124
Control outcome std. dev.	0.771	1.198	1.237	0.733	1.067	0.992	1.09
<b>Panel C: By exposure to corruption</b>							
Formal contract	-0.162*** (0.034)	-0.303*** (0.052)	-0.165*** (0.050)	-0.042 (0.036)	0.290*** (0.048)	0.433*** (0.050)	0.482*** (0.057)
Exposure to corruption	0.009 (0.050)	-0.139* (0.077)	-0.151** (0.073)	-0.210*** (0.053)	0.020 (0.070)	-0.090 (0.074)	0.075 (0.085)
Formal contract × Exposure to corruption	-0.348*** (0.071)	-0.260** (0.108)	-0.009 (0.103)	0.075 (0.075)	0.435*** (0.099)	0.431*** (0.105)	0.388*** (0.119)
Control outcome mean	4.53	3.26	2.037	1.576	3.068	2.251	2.372
Control outcome std. dev.	0.697	1.076	1.086	0.773	1.057	1.013	1.216
Controls	No	No	No	No	No	No	No
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [control: verbal agreement with no written contract][treatment: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A3: Heterogeneous treatment effects: party membership, trust in courts, exposure to corruption

Panel B of Table A3 examines effects by respondents’ trust in courts. The results reflect that respondents with higher trust in courts were at baseline (i.e., under informal contracts) more likely to prefer lawyers and courts as formal enforcement solutions, and amicable solutions and mutual social networks as informal solutions. They were less likely to use religious networks, perhaps reflecting their distrust of competing legal authorities. The heterogeneous treatment effects show, however, that their trust in courts did not translate into higher use of lawyers or courts when formal contracts were the basis of exchange. High-trust respondents were less likely to use amicable solutions and more likely to seek out religious networks when a formal contract was the basis of exchange.

Finally, in Panel C I examine results by past exposure to corruption, which here is a dichotomous measure of whether firm managers have been forced to pay illegal taxes to government officials. I find that firm owners who have experienced illegal tax extraction by the state are *more* likely to use state institutions for enforcement than firms who have not experienced such corruption.<sup>29</sup> This may be due to respondents’ exposure to the power of the state: those who have experienced illegal tax extraction might believe in the enforcing and punishing power of the state, and may thus be more likely to appeal to state institutions when they have a legitimate claim to use these institutions (e.g. when a deal is based on a formal contract). It may also simply be the case that larger firms—the types most likely to use formal dispute institutions—are also more subject to illegal taxation due to their size and visibility.

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal contract	−0.240*** (0.032)	−0.359*** (0.048)	−0.170*** (0.046)	−0.020 (0.033)	0.401*** (0.044)	0.535*** (0.047)	0.580*** (0.053)
Member of party in power	−0.057 (0.069)	0.202* (0.105)	0.251** (0.100)	0.570*** (0.071)	0.148 (0.097)	0.305*** (0.101)	0.445*** (0.115)
Formal contract × Member of party in power	−0.051 (0.100)	−0.050 (0.153)	0.041 (0.145)	−0.011 (0.104)	−0.065 (0.141)	0.015 (0.148)	−0.017 (0.168)
Control outcome mean	4.538	3.207	1.977	1.469	3.057	2.199	2.343
Control outcome std. dev.	0.686	1.14	1.124	0.729	1.046	1.021	1.156
Controls	No	No	No	No	No	No	No
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A4: Heterogeneous effects by firm owners’ membership in ruling party

<sup>29</sup>Le, Malesky and Pham (2020) find a similar result: businesses exposed to local corruption in Vietnam had a higher likelihood of tax registration.

The following table presents heterogeneous treatment effects by firm wealth and size. These results underscore the results presented above: similar to the benefits received by formal firms, wealthier firms seem to be reaping the most benefits of access to formal contracts. Wealthier firms are significantly more likely to use costly formal enforcement strategies during contract disputes.

	<b>Outcome: Likelihood of using enforcement strategy</b>						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably	Social network	Religious network	Political connection	Police	Lawyer	Courts
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Panel A: By firm valuation</b>							
Formal contract	0.167 (0.128)	0.156 (0.198)	0.231 (0.187)	-0.010 (0.137)	0.407** (0.180)	-0.059 (0.182)	0.068 (0.211)
Firm valuation	0.132*** (0.019)	0.048* (0.029)	-0.013 (0.027)	-0.007 (0.020)	0.150*** (0.026)	0.234*** (0.027)	0.222*** (0.031)
Formal contract × firm valuation	-0.089*** (0.027)	-0.112*** (0.041)	-0.085** (0.039)	-0.003 (0.028)	-0.005 (0.037)	0.122*** (0.038)	0.104** (0.044)
Constant	3.918*** (0.089)	3.006*** (0.137)	2.065*** (0.130)	1.563*** (0.095)	2.376*** (0.125)	1.146*** (0.126)	1.359*** (0.147)
<b>Panel B: By firm size</b>							
Formal contract	0.001 (0.079)	-0.059 (0.120)	0.075 (0.114)	0.142* (0.083)	0.387*** (0.111)	0.405*** (0.112)	0.430*** (0.129)
Firm size	-0.002 (0.023)	0.035 (0.035)	0.075** (0.033)	0.136*** (0.024)	0.091*** (0.032)	0.301*** (0.032)	0.304*** (0.037)
Formal contract × firm size	-0.105*** (0.031)	-0.133*** (0.048)	-0.106** (0.046)	-0.074** (0.033)	0.002 (0.044)	0.052 (0.045)	0.059 (0.052)
Constant	4.537*** (0.056)	3.148*** (0.086)	1.832*** (0.081)	1.217*** (0.059)	2.864*** (0.079)	1.540*** (0.080)	1.692*** (0.092)
Controls	No	No	No	No	No	No	No
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [control: verbal agreement with no written contract][treatment: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A5: Heterogeneous treatment effects by firm wealth and size

## A.3 Main results with controls

### A.3.1 Pre-registered controls

Table A6 below reproduces the main experimental results—Table 2, Figure 3, and Table 3—using the following pre-registered controls: age, gender, education, religion, ethnicity, and neighborhood.

	Outcome: Likelihood of using enforcement strategy						
	Social enforcement outcomes				Formal enforcement outcomes		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
<b>Panel A: ATEs</b>							
Formal contract	-0.244*** (0.030)	-0.347*** (0.046)	-0.147*** (0.044)	-0.015 (0.032)	0.389*** (0.042)	0.520*** (0.043)	0.583*** (0.050)
Constant	4.964*** (0.773)	3.088*** (1.179)	1.370 (1.125)	0.933 (0.822)	2.497** (1.093)	2.720** (1.114)	2.075 (1.280)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,361	2,361	2,361	2,361	2,361	2,361	2,361
<b>Panel B: CATEs by firm formality</b>							
Formal contract	-0.188*** (0.051)	-0.309*** (0.078)	-0.063 (0.075)	0.024 (0.055)	0.355*** (0.071)	0.314*** (0.071)	0.332*** (0.082)
Formal firm	-0.018 (0.049)	-0.118 (0.074)	-0.154** (0.071)	0.145*** (0.052)	0.445*** (0.068)	0.641*** (0.067)	0.564*** (0.078)
Formal contract × formal firm	-0.085 (0.063)	-0.057 (0.096)	-0.125 (0.092)	-0.061 (0.067)	0.047 (0.088)	0.304*** (0.087)	0.373*** (0.101)
Constant	4.980*** (0.773)	3.130*** (1.178)	1.431 (1.122)	0.896 (0.821)	2.358** (1.076)	2.492** (1.063)	1.861 (1.240)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,361	2,361	2,361	2,361	2,361	2,361	2,361
<b>Panel C: CATEs by political connections</b>							
Formal contract	-0.411*** (0.085)	-0.278** (0.127)	-0.221* (0.115)	-0.099 (0.079)	0.317*** (0.116)	0.536*** (0.114)	0.591*** (0.134)
Political connection	-0.099 (0.110)	0.273* (0.164)	-0.159 (0.149)	-0.247** (0.103)	0.015 (0.151)	0.058 (0.148)	0.263 (0.173)
Formal contract × political connection	0.392*** (0.150)	0.211 (0.224)	0.354* (0.202)	0.359** (0.140)	-0.067 (0.205)	-0.144 (0.201)	-0.235 (0.236)
Constant	5.868*** (0.929)	2.302* (1.384)	2.663** (1.251)	2.330*** (0.867)	2.279* (1.270)	2.479** (1.244)	3.320** (1.459)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	535	535	535	535	535	535	535

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.” Control variables include age, gender, education, religion, ethnicity, and neighborhood. \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A6: Experimental results with pre-registered controls

### A.3.2 Controls for wealth and size of firms

Here, based on reviewer feedback, I reproduce the same tables including only controls for firm wealth and size, to demonstrate that the results throughout are robust to these potentially confounding variables.

	Outcome: Likelihood of using enforcement strategy						
	Social enforcement outcomes				Formal enforcement outcomes		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
<b>Panel A: ATEs</b>							
Formal contract	-0.252*** (0.029)	-0.366*** (0.046)	-0.164*** (0.043)	-0.025 (0.031)	0.382*** (0.042)	0.514*** (0.042)	0.556*** (0.049)
Constant	4.132*** (0.064)	3.261*** (0.101)	2.251*** (0.095)	1.560*** (0.069)	2.389*** (0.092)	0.856*** (0.092)	1.107*** (0.107)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,361	2,361	2,361	2,361	2,361	2,361	2,361
<b>Panel B: CATEs by firm formality</b>							
Formal contract	-0.198*** (0.050)	-0.295*** (0.078)	-0.068 (0.074)	0.030 (0.054)	0.359*** (0.071)	0.313*** (0.069)	0.320*** (0.082)
Formal firm	-0.146*** (0.045)	-0.397*** (0.070)	-0.249*** (0.067)	0.083* (0.049)	0.309*** (0.064)	0.522*** (0.062)	0.364*** (0.074)
Formal contract × formal firm	-0.079 (0.061)	-0.100 (0.096)	-0.141 (0.091)	-0.083 (0.066)	0.029 (0.087)	0.294*** (0.085)	0.348*** (0.101)
Constant	4.077*** (0.067)	3.157*** (0.104)	2.154*** (0.099)	1.540*** (0.072)	2.451*** (0.095)	1.058*** (0.093)	1.306*** (0.110)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,361	2,361	2,361	2,361	2,361	2,361	2,361
<b>Panel C: CATEs by political connections</b>							
Formal contract	-0.360*** (0.080)	-0.314** (0.124)	-0.166 (0.112)	-0.060 (0.077)	0.262** (0.112)	0.454*** (0.109)	0.506*** (0.128)
Political connection	-0.179* (0.101)	0.116 (0.156)	-0.186 (0.141)	-0.216** (0.097)	-0.061 (0.142)	-0.015 (0.138)	0.161 (0.161)
Formal contract × political connection	0.314** (0.141)	0.150 (0.216)	0.175 (0.196)	0.285** (0.135)	-0.048 (0.197)	0.004 (0.191)	-0.058 (0.223)
Constant	3.965*** (0.142)	2.818*** (0.218)	2.143*** (0.198)	1.710*** (0.136)	2.217*** (0.199)	0.899*** (0.193)	0.943*** (0.225)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	535	535	535	535	535	535	535

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.]” Control variables include firm wealth and size. \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A7: Experimental results with controls for firm wealth and size

## A.4 Pre-analysis plan

The below text constitutes the pre-analysis plan for this study, which is itself part of a broader pre-analysis plan for another project. The study was registered prior to data collection.

The firm survey also includes a brief survey experiment, intended to measure the difference in strategies that formal and informal firms use when faced with the prospect of a deal gone astray. Those in the treatment group are told that the deal was based on a formal, written contract, while those in the control group are told that the deal was based on a verbal agreement.

The specific wording of the question, inspired by Gans-Morse (2017), is as follows: “Imagine that another business owes yours a significant sum of money as a result of services or products you provided, and that this business hasn’t paid by the previously agreed upon deadline stipulated in [Treatment: **a legal written contract signed by the two parties**][Control: **a verbal agreement without a written contract**]. Which of the following strategies are you likely to use, on a scale from 1 to 5, where 1 is never and 5 is extremely likely?”

The outcomes are the respondent’s likelihoods—on a scale of 1 to 5, where the options are 1) never, 2) unlikely, 3) maybe, 4) likely, and 5) extremely likely—of using the following strategies to resolve the problem:

1. Resolve it amicably by discussing directly with the other company
2. Contact someone in the other company’s social network and ask them to intervene on your behalf
3. Speak with someone—a connection—in government and ask them to intervene on your behalf
4. Take the problem to the local police
5. Take the problem to a religious authority
6. Hire a lawyer to resolve the case
7. Use the court system

I will estimate results using both difference-in-means and OLS with and without covariate adjustment, with preference given to the covariate-adjusted results. In specifications with covariate adjustment, the following covariates will be used:

1. Age
2. Gender
3. Education
4. Religion
5. Ethnicity
6. Neighborhood of business

I will estimate heterogeneous treatment effects by the status of the firm [formal versus informal], as well as by wealth and size of the firm. I expect the informal approaches to solving the issue to be more likely when the dispute is based on a verbal contract, and I expect this to be particularly pronounced for respondents representing informal firms. I expect formal firms to be more likely overall to use formal methods for resolving the problem, particularly when based on formal contracts. I expect wealthier and larger firms to be more likely to use the formal means of enforcement relative to less wealthy and smaller firms.

## Deviations from pre-analysis plan

The pre-analysis plan for this project stipulated that the results with control variables would be prioritized. Based on feedback I received on this project, however, I have opted to include the non-covariate-adjusted estimates in the main body for ease of interpretation. I include the covariate-adjusted estimates in the appendix. These results are largely unchanged.

The pre-analysis plan did not include detailed political connections as a covariate to be collected and tested. Because of an earlier round of reviewer feedback, however, I conducted the 2022 survey wave to collect more refined political connection data. I thus choose not to make theoretical predictions about the direction that political connections might operate, instead highlighting that it could go either way and leaving it to empirics to reveal the direction.

## A.5 Business associations

Membership in business associations was relatively low in the sample, especially for firms in the informal sector. This sets Senegalese firms apart from other contexts in sub-Saharan Africa where such membership is a critical factor in everyday business operations.

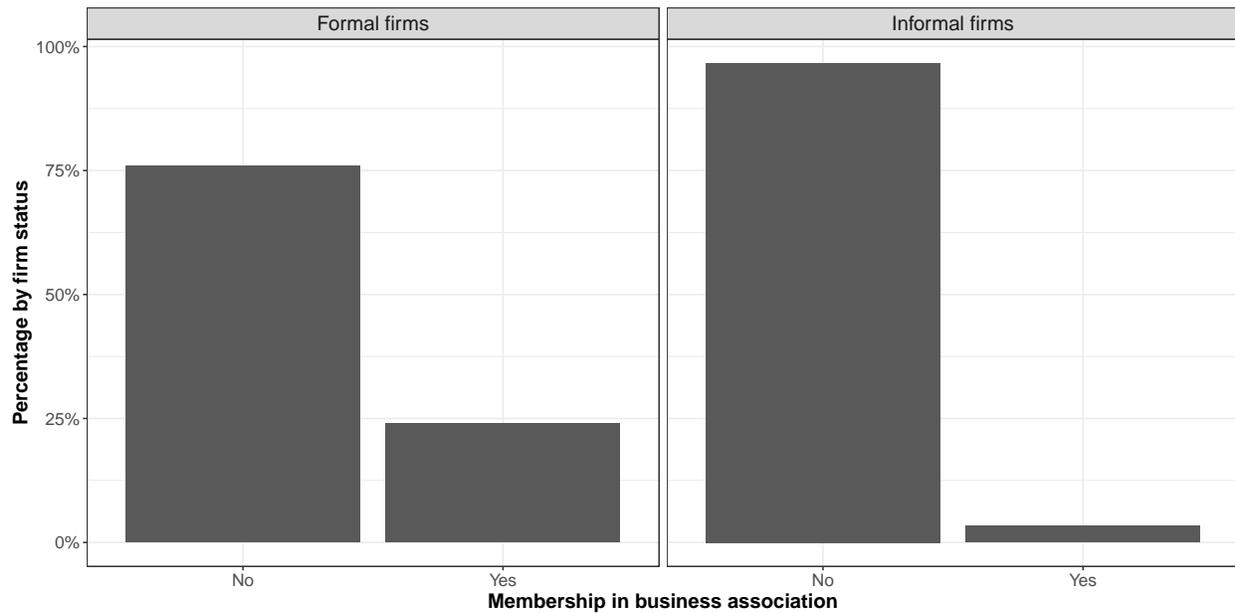


Figure A1: Membership in business association by firm status

## A.6 Correlation table

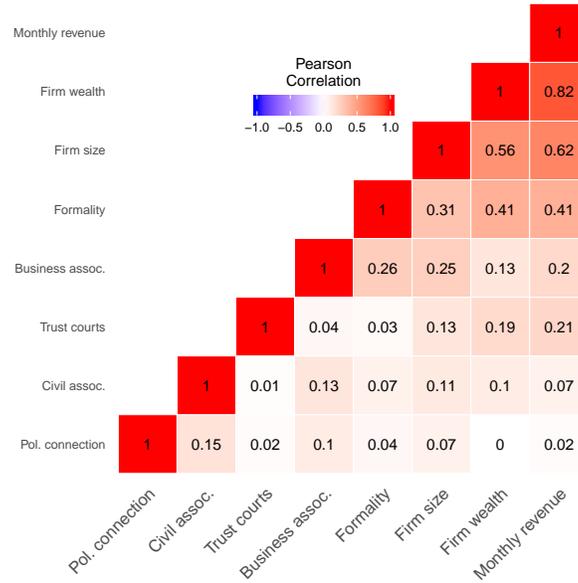


Figure A2: Correlation table

## A.7 Balance

	Formal firm	Number employees	Monthly revenue	Valuation	Business assoc.	Access to credit	Declared revenue	Education	Age	Trust in courts	Worked for state	Member of party	Civil assoc.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Treatment	0.022 (0.019)	0.026 (0.039)	0.048 (0.047)	0.072 (0.046)	0.008 (0.015)	0.068* (0.040)	0.028 (0.020)	0.416	0.769** (0.387)	0.035 (0.042)	-0.006 (0.008)	-0.007 (0.016)	-0.037* (0.020)
Constant	0.651*** (0.014)	2.293*** (0.027)	3.688*** (0.033)	4.631*** (0.032)	0.167*** (0.011)	1.881*** (0.028)	0.465*** (0.014)	6.533	33.967*** (0.271)	1.516*** (0.030)	0.039*** (0.005)	0.205*** (0.012)	0.508*** (0.014)
Observations	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389	2,389

Notes: Covariates regressed on treatment indicator. \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A8: Balance

## A.8 Moderating impact of political connections for formal versus informal firms

	Outcome: Likelihood of using enforcement strategy						
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal contract	-0.379*** (0.115)	-0.519*** (0.161)	-0.116 (0.133)	-0.264** (0.110)	0.222 (0.160)	0.495*** (0.158)	0.570*** (0.182)
Political connection	-0.268** (0.135)	-0.038 (0.189)	-0.266* (0.156)	-0.308** (0.129)	-0.146 (0.188)	-0.136 (0.186)	0.073 (0.213)
Formal contract × political connection	0.369* (0.190)	0.339 (0.266)	0.112 (0.219)	0.526*** (0.182)	0.0004 (0.264)	0.280 (0.261)	0.158 (0.300)
Constant	4.577*** (0.081)	3.165*** (0.114)	1.866*** (0.094)	1.608*** (0.078)	3.309*** (0.113)	2.536*** (0.112)	2.691*** (0.128)
Observations	305	305	305	305	305	305	305

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*Formal contract*: written, legal contract that you both signed.]” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A9: Moderating impact of political connections: formal firms

<b>Outcome: Likelihood of using enforcement strategy</b>							
	<i>Social enforcement outcomes</i>				<i>Formal enforcement outcomes</i>		
	Amicably (1)	Social network (2)	Religious network (3)	Political connection (4)	Police (5)	Lawyer (6)	Courts (7)
Formal contract	-0.336*** (0.119)	-0.064 (0.188)	-0.208 (0.184)	0.177* (0.107)	0.268* (0.156)	0.339** (0.140)	0.361** (0.179)
Political connection	0.138 (0.168)	0.525* (0.266)	0.089 (0.262)	-0.147 (0.151)	0.019 (0.221)	0.136 (0.199)	0.277 (0.254)
Formal contract × political connection	0.151 (0.228)	-0.177 (0.361)	0.144 (0.355)	-0.001 (0.205)	-0.027 (0.300)	-0.339 (0.270)	-0.305 (0.344)
Constant	4.602*** (0.082)	3.216*** (0.129)	2.170*** (0.127)	1.443*** (0.073)	2.795*** (0.107)	1.864*** (0.096)	2.057*** (0.123)
Observations	230	230	230	230	230	230	230

*Notes:* Survey questions asked how likely respondents were to use each of the reported enforcement options, on a scale of 1 (never) to 5 (extremely likely). The question wording was: “Imagine that another company owes your firm a significant amount of money for services or products you provided, and the other company has missed the deadline to pay that was agreed upon in a [*control*: verbal agreement with no written contract][*treatment*: written, legal contract that you both signed.” \* denotes  $p < 0.1$ , \*\* denotes  $p < 0.05$ , \*\*\* denotes  $p < 0.01$  from two-sided tests.

Table A10: Moderating impact of political connections: informal firms