Informational Barriers to Accessing Demand: Experimental Evidence from Liberian Firms[*]

Jonas Hjort
Columbia U. & BREAD
& CEPR & NBER

Vinayak Iyer
Columbia U.

Golvine de Rochambeau
Sciences Po

April 24, 2020

PRELIMINARY AND INCOMPLETE: DO NOT CITE

Abstract

We hypothesize that many productive firms in poor countries stagnate due to informational barriers to winning wholesale contracts. To investigate, we gave a randomly chosen subset of Liberian firms vouchers for a seven day-long training program. The program teaches how to craft competitive bids on contracts from corporations, governments, and other large buyers that are awarded through a formal tender process. Firms that participate bid on and win more tenders; bid on and win more non-tender contracts; and win contracts of higher quality. These benefits are concentrated among firms with access to the Internet. We use a simple model to highlight two mechanisms through which Internet use can convert contract-winning knowledge into access to demand: by mechanically giving firms access to additional contracts—typically tenders—that are publicized online, and by facilitating search and communication with all buyers. Both help explain our results, but the former mechanism appears more important for Liberian firms' ultimate performance. We show this by exploiting variation in the composition of demand. When online demand is low, trained firms with Internet access win more non-tender contracts. When online demand is high, trained firms with Internet access instead win more tenders; win higher-quality contracts; and appear to earn higher revenue. Overall this paper establishes how and why the complex procedures used to award wholesale contracts exclude firms in poor countries from value chains.