

Intervening in the Value Chain

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Two types of development work

- Relief work
 - Droughts, flood, etc.
 - Requires influx food, money, etc. or dire consequences

- Long-term development
 - Improve general growth and development
 - Business Registration, Technical Assistance (value chain, etc.)
 - More complex and challenging problem



How do we do long-term development?

- Improve the way markets function
- To do so, we must first identify what the actual inefficiency in the market, i.e. the market failure
 - For example: access to credit
 - High returns on capital in developing areas
 - Averse Selection: banks cannot easily determine which customers are more likely to be more risky than others
 - Moral Hazard: banks are unable to ensure that customers are making the full effort required for their investment projects to be successful



Intervention Strategy

- Interventions should correct market failure to allow markets to function more efficiently
 - Ex: Microfinance strategies address market failures:
 - Group Lending: Individuals have information on one another and will not allow “bad” types to enter the group
 - Taking advantage of dynamic lending: Create databank on individuals who default, so that only individuals who repay continue to get access to credit



Minimizing “Side-effects”

- If intervene in market without taking into account what is the actual market inefficiency, you have a greater potential of:
 - Having no impact—People do not change their behavior because they were already doing the most efficient activity (mitigating behaviors)
 - Having “bad” side effects—People change their behavior in response to the intervention—this inadvertently cases them to be worse off!



Back to Credit Example

- Say you did not think about market failures and just offered cheap credit to everyone.
- Individuals who are “bad” types will have access to credit
 - Very expensive program to run; not financially self-sustaining
 - Money that could have been spent on productive investments instead spent on “bad” types



Interventions in Value Chain

- To intervene in the value chain, we must first think hard about what the imperfections in the market are
- Market failures may differ for different industries & different countries
- How do you identify the market failure? How do you decide where to intervene?



Identifying Correct Market Failures

- Difficult task
- Evaluation techniques can help identify the market failure to frame the project design
 - Case Studies
 - Process Evaluations
 - Quantitative Baseline Surveys
 - Quasi-Experimental Techniques
 - Randomized Designs



Lessons Learned From Seaweed

- Technical Assistance to seaweed farmers
- Provide best practices advice on farming methods
- Prior beliefs on market failure
 - Lack of Information
 - Hard to distinguish quality; no market incentives for quality



Lack of Information

- Evaluation techniques showed that this was not necessarily true
- Example: program advocated the use of a platform for drying seaweed
- Conducted **quantitative baseline survey**:
 - 62% of farmers used platforms, but 82% stated that platforms are better
 - Economics of scale in drying seaweed → not worth it for farmers to buy platforms on their own



Quality Hard to Distinguish

- Conducted **quantitative survey** of collectors:
 - About 170 collectors with a wide range of prices
 - About 40% explicitly offered higher prices for higher quality
 - Lower price when individual has an outstanding loan from collector, but still have quality incentives
- **Process Evaluation**—Interviews with Buyers
 - Quality differs across buyers
 - Work with collectors to ensure needed quality



Failures in Market

- Hypothesized market failures not present
 - Providing information will not change behavior
 - Lack of quality not due to a lack of market incentives
- Farmers would like to use better farming methods, but they are restrained by access to credit
 - Program designed to address their credit needs has the potential to improve crops/incomes of farmers



Conclusion

- ❑ For a program to be successful in improving business efficiency, identifying market imperfections is a key first step!
- ❑ Evaluation techniques and tools can be used at the **start** of projects to help identify the market imperfect and, thus, what type of intervention is necessary
- ❑ *Using evaluation techniques can help guide program design and development*