Social Enterprise Leadership Forum: The Economics and Psychology of Poverty
Featured Speakers

In order of agenda

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Introduction

By Professor Ray Fisman

For well over a century, economists, policymakers, and idealists have talked about an end to poverty. Yet hunger, destitution, and homelessness continue to afflict even the wealthiest communities, including New York City. We find ourselves today, however, in the midst of many promising developments. There are field-tested ideas from a range of social scientific disciplines which have shown that small “nudges”—such as a simple change in default options in savings products, or techniques for helping overcome self-control problems—can sometimes have outsized effects on behaviors. Coincident with the field-testing of these new ideas is a rapid expansion of the social enterprise sector and increasing innovation within it. From mobile health to microfinance to new approaches to educating and training those born or living in poverty, there are many organizations that are experimenting with innovative ways of fighting poverty.

The goal of this half-day meeting was to bring leaders and innovators from social service sectors together with leading thinkers in social psychology and economics for an exchange of ideas on what approaches will work best in fighting poverty. In keeping with the mission of the Social Enterprise Program at Columbia Business School, we believe that promoting the cross-fertilization of ideas in this way is critical to bringing innovation to the practice of social enterprise.

The event served partly as an idea exchange and partly as a matchmaking service, pulling leaders from the New York City social enterprise sector from their daily lives of running organizations and introducing them to new contacts as well as new concepts to apply at their organizations. We hope that such events will also help to create greater cooperation and collaboration among organizations all working towards the same objective of ending poverty.

We owe a great debt to the Laurie M. Tisch Illumination Fund for their help in making the forum a success, and also to our co-convenors at the Robin Hood Foundation for working together on the program and organization.
In Praise of Failure: The Need for Organizational Experimentation

A person who never experiences failure might not be taking enough risks. This is particularly true within the realm of social enterprise, as Linda Gibbs, New York City’s deputy mayor for Health and Human Services, discussed in her keynote presentation. “By definition, the work we do involves failure,” Gibbs said. “And because we work within the context of evaluation, you have to be willing not just to fail but to talk about your failures as part of the learning process.”

Gibbs was appointed deputy mayor for Health and Human Services in 2006, a decade after the welfare reforms of the Clinton administration had reduced welfare rolls and childhood poverty. Although critics argued that some of these measures went too far, the reforms succeeded in eliminating policies that discouraged work. However, despite these successes, in recent years federal efforts to alleviate poverty have stalled. In New York, Mayor Michael Bloomberg sought to change this trajectory through several policy initiatives.

Gibbs’ department took on the ambitious goal of reducing poverty within three distinctive groups: the working poor, children up to five years old and disconnected youth and young adults between the ages of 16 and 24. Of these groups, the disconnected youth posed the greatest challenge. “Within this population, very little has been proven to work,” Gibbs said. “We were warned that if we took this on, there was a strong likelihood of failure.”

One of her department’s first steps was to create the Center for Economic Opportunity. From its start, the center made a significant investment in evaluation. “Providing data can be time-consuming and distracting, and it costs a lot, and many people don’t want to pay for it,” Gibbs said. “But doing this evaluation, figuring out what works and what doesn’t, has made us smarter collectively and created cross-agency collaboration. And at this point, six years later, the center has become our brain center.”

As part of the evaluation process, the center brought together the researchers who analyzed its programs with those who were actually implementing policy. This brought a new depth of understanding. “These discussions about our pilot programs have spilled out into the agency’s operations, and we have experienced the benefits more broadly,” Gibbs said.

One of the agency’s key successes is its initiative on financial empowerment, which provides training in household financial skills for the working poor by teaching them, for example, how to open and maintain bank accounts and how to file tax returns. As recently as six years ago, the idea of a government agency getting involved in personal financial empowerment was controversial; once again, Gibbs was warned of the possibility of failure. “People said we would be messing with the market and that’s not what we should be doing,” she said. “Overcoming this resistance was part of the conversation.”

The initiative was based on the idea that low-income workers with some financial assets have a better chance of weathering financial hardships and rising above the poverty threshold than low-income workers who lack
any assets. Through the agency’s new Office of Financial Empowerment, professional staff members provided financial counseling.

The department also created the SaveNYC program. The program’s participants agreed to deposit their tax refund into a bank account—a step that for many involved opening an account for the first time—and then to leave the money untouched for a year. At the year’s end, the agency matched the deposited funds dollar for dollar, up to $500. The agency also worked with banks to create accounts that provided no-fee checking and withdrawals. “We knew that if we could help people open bank accounts, and get attached to their bank accounts, they could use it to manage their household financial resources better,” Gibbs said.

The program proved to be successful. The post-program evaluation indicated that participants were less likely to miss a rent payment or have the utilities turned off, demonstrating more skill at managing financial crises. “We saw greater financial stability in the household, and greater asset development,” Gibbs said. Yet financial stability is only one part of the program’s goal, she acknowledged. “We still need to see whether this leads to greater income.”

The SaveNYC program has led to two promising developments. First, its success has been recognized by the federal Social Innovation Fund, which is replicating the program on a national scale. The value created by this type of “scaling up” of localized projects demonstrates that despite the potential for failure, experimentation is vital for success in the social sector. Second, the Office of Financial Services has greatly expanded, offering an array of services. Additionally, through its continual evaluation process, the agency realized that embedding its message of financial empowerment within other social service programs, such as job training, was more effective than creating standalone financial counseling offices. “We learned that financial empowerment should be a topic of conversation between every social service worker and low-income person, so we can help the working poor to manage their resources better,” Gibbs said.

Just as importantly, Gibbs discussed the lack of success that the disaffected youth program had. Her department was aware of the challenges it faced as many of those within the targeted population had criminal histories and that age group is considered particularly hard to reach. The agency focused on education and employment, funding about eight separate pilot programs. Of these, some produced positive results, but several had little effect and one produced negative outcomes.

“You start the day saying, ‘Do no harm,’” Gibbs said. “This program wound up inadvertently skimming the most skilled. The kids we were trying to reach couldn’t cut it and dropped out after the first week.” Yet the agency learned from its failure, she said. The program was discontinued and replaced with a new pre-GED program. The agency also sought out new partners, such as local libraries.

Gibbs also described a failure that occurred during her years as Commissioner of New York City’s Department of Homeless Services. Gibbs was the chief administrator in charge of accomplishing the mayor’s goal of reducing homelessness by two-thirds in five years. Although the department had some successes, such as improving shelter conditions and the intake process, it did not reduce homelessness. “The population is about the same now as it was when the plan was announced,” Gibbs said. From this experience, she learned about the challenges of working under intense public and media scrutiny. “Many people will say the lesson is that we set the goal too high,” she said. “But I believe you should set your sights high and do your best to get there.”

In response to questions from the audience, Gibbs discussed the challenges facing social services today, including the lack of funds available even for successful programs. One conference participant lamented the decline in funding for early childhood education, something widely recognized as improving the long-term outcomes of poor children.

“That is a question that has confounded us,” Gibbs said. “How can we make up for the drops in federal and state funding?” She praised the efforts of those who have campaigned on this issue. “I will say that I’ve never seen a community as organized as effectively as the one around childcare.” As with any worthwhile effort, those seeking social change must persevere despite the odds, Gibbs added. “I can’t be on the steps of City Hall with you,” she said. “But I certainly hope you’re there.”
Behaviorally Informed Anti-Poverty Program

As the field of behavioral economics has shown in recent years, there are many ways we trick ourselves into making the right choice—or at least a better choice—when faced with financial decisions. We bargain with ourselves: if we resist making one purchase, we treat ourselves to another. We fool ourselves by leaving credit cards at home and we set up automatic transfers to force ourselves to save.

In their research presentation, Dean Karlan, professor of economics at Yale University, and Justine Zinkin '02, CEO of Neighborhood Trust Financial Partners, described how they are applying the ideas of behavioral economics to design financial products for low-income workers. As much as we try to make choices that serve our long-term financial interests, we often make bad, and predictable, decisions. Often, we need a nudge to do the right thing.

According to Karlan, many of us struggle particularly when it comes to setting and reaching savings goals. Rather than save, we take on debt. “If you don’t have a plan, and most people don’t have a rigorous plan, it’s very hard to stay out of debt,” Karlan said. “And if you have access to credit, you don’t need to plan ahead.” This tendency leads to low household savings rates and low net worth, as well as high debt loads and reliance upon debt in times of emergency. While these biases are not limited to low- and middle-income earners, those on the lower end of the income scale are more likely to find themselves burdened by an ever-increasing debt level and to be less able to cope with the consequences.

To end this cycle, Karlan has been experimenting with the idea of commitment contracts, a way of making vices more expensive and virtues cheaper. “In economics, we usually think cheaper is good,” he said. “Commitment contracts acknowledge that there are things we don’t really want, though in the moment we find these things hard to resist, and if we had our choice we would make these things more expensive.” As a side project, Karlan created stickk.com, in which users can create a commitment contracts to force themselves into making better decisions, ranging from saving more to quitting smoking to merely being a nicer person.

Separately, through his SEED (Save, Earn, Enjoy, Deposit) initiative, Karlan has researched the effectiveness of commitment savings products in the Philippines. Participants in the SEED program committed to saving a certain amount of money in a bank account without withdrawing any money until their goals were reached. About 28 percent of those offered a SEED account choose to enroll. Participants increased their savings by an average of 300 percent, Karlan found. The average savings was 150 pesos, the equivalent of a doctor’s visit or a year of public school fees. Karlan also found that women who opened savings accounts gained more power in their households (figure 1).

Karlan wanted to experiment with this approach to boosting savings in the United States. While financial products with a similar function exist, such as certificates of deposit, these tend to require a large minimum
Investment, making them out of reach of the working poor. Karlan worked with Justine Zinkin to create a commitment savings product that functioned like a CD, but did not require a high initial deposit and which further allowed incremental contributions. They called the product a Super Saver CD. Those who opened a Super Saver account set a savings goal and committed to adding funds until they reached their goals.

Of those members of the Neighborhood Trust Federal Credit Union who were offered the account, about 21 percent chose to enroll. About 28 percent of participants saved an amount equal to or greater than their goal (figure 2). The same sample size was insufficient to be confident in the efficacy of the Super Saver program, but the findings were encouraging enough to convince Neighborhood Trust to continue the program.

Karlan discussed one final idea he is exploring: net portfolio accounts. “We always tell someone who is in debt that they should save,” he said. “It’s always frustrated me. We know that borrowing high and saving low is not a good idea. So why is it a very common practice to hold debt and savings at the same time?”

There are reasons, he noted, why someone might choose to hold high-interest debt while also saving money that earned low or no interest, including liquidity needs, transactional costs, and behavioral tendencies. “One explanation is mental accounting,” he said. “People place a huge value on what they call savings and then borrow at an 18 percent interest rate on their credit cards.”

In a net portfolio account, consumers would have a clear accounting of the value of the debt and savings they hold. “Again, the idea is simple,” Karlan explained. “When the account is negative, you pay interest, and when it is positive, you earn interest. But this gives you a portfolio statement, and the separation that people want in order to feel like they are making progress toward their savings goals.” As Karlan concluded, reducing debt and increasing savings isn’t just a question of numbers on a balance sheet. These small changes have significant returns that can raise the standard of living for those at the low end of the income spectrum.

Justine Zinkin of Neighborhood Trust Financial Partners expanded on these ideas in her presentation. Neighborhood Trust and its partner organization, Neighborhood Trust Federal Credit Union, seek to create financial empowerment for the poor. “Our two greatest challenges are shifting people from being unbanked to banked as a critical component on the path to financial security and alleviating the crisis of consumer debt,” Zinkin said.

The two organizations allow National Trust to offer financial counseling as well as financial products specifically designed to help the poor. “One of the principles that we follow is that we’re much more effective in getting people to take up and use products if we boil their choices down to a few simple, select options, rather than remain agnostic and offer dozens of options,” Zinkin said. “We have found that people really
welcome commitment strategies. On the flip side, they’re very suspicious of the system, and we offer a trusted relationship."

One of their products is the Gateway Banking Package, which provides a free checking account with direct deposit, a free savings account, and the Super Saver CD. Almost all of the trust’s clients want to save money, Zinkin said, yet almost all carry credit card debt at high rates. “Our clients have debt-to-income ratios of 60 percent,” she said. “They can’t afford this debt. And yet a significant percentage have savings which they could use to start paying down their debt.”

This bias exists within the financial counseling community as well, Zinkin noted. Her organization is working on several ways of making people feel better about debt reduction. Recently, it launched a pilot of a Trust Card, which allows members to move all of their debt to one card and make affordable payments every month at a lower interest rate. As members pay off their debt, their credit limits fall rather than rise. “It’s less of a credit card and more of a debt-reduction card,” Zinkin explained. “We know that people love plastic. This product takes the way that people’s behavior keeps them in debt and turns that around in order to reduce that debt.”

In a separate effort, her organization is also experimenting with ways of helping clients to develop discipline around savings. “When you’re poor, you have much less cushion for error,” she said. “But this population is removed from the banking system and doesn’t benefit from the automated systems that encourage budget adherence.” Neighborhood Trust is exploring methods of improving direct deposit programs through employers and payroll systems so that its clients can manage their budgets more effectively.

In the question-and-answer section, one conference participant asked about the broader implications of these efforts—given the growing income inequality in society and the lack of a movement to address systemic inequality, are academics and community organizations such as National Trust really just teaching the poor how to budget their poverty?

“We’re not talking about financial services as a means to end poverty,” Karlan answered. Instead, he explained, they are teaching the poor how to manage their existing financial circumstances in ways that will reduce debt and increase savings. The working poor have little money to waste on interest payments and transaction fees. “There is an enormous value to be had in taking control of your finances and improving your life.”
Decision Making Under Conditions of Poverty

There is no single solution to the problem of poverty and given the many challenges of alleviating it, some degree of failure is inevitable. Yet behavioral economics offers a new perspective on these challenges by questioning the assumptions about the choices people make. In a research presentation, Sendhil Mullainathan, professor of economics at Harvard University, and Eldar Shafir, William Stewart Tod Professor of Psychology and Public Affairs at Princeton University, discussed how their application of behavioral economics has led to the development of tools aimed at improving the quality of life for the poor.

“"A lot of solutions to poverty have failed, and it always seems that despondency is just at the boundary of our thoughts," said Mullainathan, who with Shafir co-founded ideas42, a nonprofit organization that draws on behavioral economics to create novel policies and products. "But I'm heartened by the fact that in the last few years our thinking on how to use behavioral economics has evolved. And what we've realized is that these problems are not unsolvable. We've just been pulling the wrong levers."

Several key studies changed their perspective on the application of behavioral economics, including an experiment that involved enrollment in 401(k) retirement savings plans, Mullainathan said in his presentation.

Simply changing the default on an enrollment form used by new hires from "not enroll" to "enroll" in a 401(k) plan led to a significant increase in participation. After four years, a company with an "enroll" default would have 85 percent employee participation in its plan, compared with 55 percent at a company with a "not enroll" default, the research showed.

However, despite these surprisingly positive results, Mullainathan cautioned against believing we can replicate such effects across many settings. "The complexity of human behavior is reflected in the fact that we are not particularly consistent," he said.

"Think of how many times you rent a car and check off dozens of boxes—you're overriding defaults. We can't just take a dart and hope to throw it correctly. And this gets to a more basic problem that we encounter in all of our work that behavioral economics is a lab science. But the world is complicated and figuring out what works is hard."

To test their theories in real-world settings, Mullainathan and Shafir needed a way to model problems on a large scale. They developed a behavioral mapping tool that helps reveal "bottlenecks" in human behavior, such as what prevents an individual from enrolling in a 401(k) plan. Mullainathan and Shafir use this model of human decision-making to develop ways of avoiding these bottlenecks, ranging from a nudge in the right direction to a radical intervention.

The bottlenecks uncovered by their research often challenged existing assumptions. For example, examine enrollment in 401(k) plans: according to the conventional view, people who choose not enroll in a plan either cannot afford to save or do not understand the benefits of saving. Mullainathan and Shafir determined that something else entirely was responsible for the bottleneck. "People intend to save, but forget to sign up or procrastinate," he said. "Understanding the bottleneck led to a new set of solutions."

Another example arose from their research on welfare-to-work programs. In one program, clients were evaluated by the program's staff and then told they would be "easy to place" or "hard to place" in a job. Mullainathan and Shafir found that this process created a significant bottleneck for "hard to place" clients. "It seems like a small thing, just an internal characterization," Mullainathan said. "But to the client, it's an identity threat, and that's very important psychologically."

In this situation, the welfare-to-work program might be able to significantly improve its results simply by changing its messaging—for example, telling clients they will receive extra help because they show potential, not because they lack skills. "We know that people have multiple identities and if you make a particular identity salient, they'll behave in the context of that identity," Mullainathan said. "For people that go to a welfare house, one of the things they're worried about is that they're not job.

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Figure 3: Murder victims by hour of injury (Chicago, 2008).
ready, and now someone is confirming that. And that’s the way they’ll behave.”

Mullainathan and Shafir have also used their approach to address the problem of recidivism (figure 3). “If you view crime as something a criminal wants to do, that’s a pretty hard problem to solve,” Mullainathan said. “But if you look at it as a temptation problem, then you start looking at what are the moments of temptation.” An analysis of murders in Chicago in 2008 showed that most occurred between 6 p.m. and 3 a.m. on weekends and in specific locations. “Why not have a curfew that involves avoiding these hotspots during those times?” Mullainathan asked. “And it wouldn’t have to be punitive—it could be positive. It could be enforced not by an ankle bracelet, but by a phone.”

Shafir, in his presentation, discussed how he and Mullainathan are using the behavioral mapping tool to develop new models around the psychology of scarcity. In behavioral economics, there are two dominant views of behavior under conditions of poverty. One holds that the poor are perfectly rational and like everyone else do their best to maximize their economic well-being given their circumstances. The other takes a more pathological approach, arguing that there are specific behaviors, such as exhibiting a lack of patience or planning, that are endemic to a “culture of poverty.”

Mullainathan and Shafir take an alternate view: the poor are just like everyone else, and are therefore prone to errors and suboptimal decisions. In addition, conditions of scarcity produce a particular psychology, which can in turn produce characteristic behaviors. Mullainathan and Shafir employ a suitcase metaphor to explain the “packing problem” faced by the poor: the rich have a large suitcase with room to spare, whereas the poor have a small suitcase in which they must put only essentials. “The slack in the larger suitcase makes it easier to pack,” Shafir said. “In effect, slack is ‘cheaper’—there is less of a cognitive cost, less vigilance involved, in packing.”

Individuals who face a scarcity of time, rather than money, experience similar cognitive challenges. Shafir describes this phenomenon as an “empathy bridge” between the time-short rich and the money-short poor. Tradeoffs, whether in the form of activities or purchases, exact a psychic toll, Mullainathan and Shafir found. The researchers conducted a study in which Princeton undergraduate students played a version of the game Family Feud. “Rich” contestants had more time than “poor” contestants to complete each round. Subjects could borrow time from future rounds, but the interest cost (in terms of time forfeited) was high. Not only did the rich perform better than the poor, but the rich were much more careful about borrowing time. The time-pressured poor borrowed more and as a result wound up with less money than they might have otherwise. “All of the contestants were educated Ivy League students,” Shafir said. “So the conventional arguments about the poor borrowing so much because they lack knowledge or education do not seem correct.”

Further studies in which participants completed cognitive tasks under pressure showed how the psychology of scarcity led to tunneling (a narrow view of one’s situation), excessive borrowing (lack of sensitivity to future costs), and distraction (error-prone performance). “Under conditions of scarcity we get myopic behavior,” Shafir said. “But that does not mean the poor are myopic people.”
In fact, their experiment involving the Family Feud-style game showed that on a round-by-round basis, the poor contestants actually performed better than the rich. “The poor aim more carefully, but run out of time more quickly,” Shafir said. “Likewise, the poor do much better with their dollars than the rich.” Bodegas in poor neighborhoods, he noted, do not sell bulk items that cost more, on a volume basis, than smaller versions, as stores sometimes do in more prosperous areas. “The poor check prices and stretch their dollars.”

All of this extra checking and stretching of resources comes at a cost. “The poor must make higher-quality decisions just to get by,” Shafir said. “Packing problems are more difficult and temptations are greater. And they can’t afford mistakes.” And while the poor must make these higher-quality decisions, they are in a worse position to do so, a condition that Shafir calls the irony of poverty. “One of the major costs of poverty is this psychic tax, a scarcity of attention that makes you less productive now and a lot less likely to plan for the future.” In other words, a person who is worried about how to pay the rent will not be planning for retirement.

“Until we can make the poor richer, which is obviously a better solution, the question remains: What can we do to facilitate a life that’s rife with psychic taxes that are very hard to control?” Shafir said. It is that question he and Mullainathan are trying to answer with their pilot of financial services designed to help low-income workers gain more financial stability. “Whatever we can do to lower the levels of concern that the poor face will make their lives a bit easier.”

Mullainathan concurred. “When you look at scarcity, you tend to think that the only way out is to create more income,” he said. “But you can actually create a lot of disposable income just by getting people off a debt cycle and onto a pay-ahead cycle, if you do it right.” Almost all low-income workers in the United States consume about 10 percent less than they earn a year. Where does all that money go? To late fees and interest payments, he explained. “The challenge isn’t creating income out of nowhere,” Mullainathan concluded. “We just need to help people get one step ahead.”

**ideas42 is piloting a package of financial services designed to simplify and stabilize finances for low income employees**

1. Set up session with financial representative
2. Ongoing interaction with employee
   - Direct deposit into 3 dedicated accounts:
     1) Bill payment
     2) Discretionary spending
     3) Emergency savings
   - Automate payments
     - Bill payment
     - Emergency savings
   - Provide customer service
   - Give timely feedback & automate messaging
     - Reminders about important financial deadlines
     - Progress tracking for financial goals and commitments
   - Provide emergency buffer
     - Low-cost credit access
     - Emergency savings

Figure 4: ideas42’s improved financial services model
Research Meets Reality in Microfinance

ACCION, an international nonprofit focused on creating economic opportunities for the poor, was launched in Venezuela in 1961 as a community self-help organization. A decade after its launch it financed its first microloan. Since then, it has helped create more than 60 microfinance institutions that together serve four million clients.

In the closing keynote presentation, Diana Taylor ‘80, chair of ACCION’s board, spoke about the microfinance industry’s accomplishments and setbacks in recent years and how the industry is evaluating and refining its model. “Our work at ACCION sits squarely at the intersection of research and reality,” Taylor said. “After 50 years of trial and error and experimentation, we have some knowledge about what works, what does not, and what we might do next to fulfill the promise of full financial inclusion.”

The last few years have brought both promising and daunting changes in the developing world, she said. The number of extreme poor fell from 2005 to 2008 in every region of the developing world, according to the latest available data from the World Bank. However, despite this decline, almost two and a half billion people, 43 percent of the world’s population, subsist on less than $2 a day. Meanwhile, there is unprecedented migration to cities within the developing world. “The rural poor are willing to relinquish their known fabric of social support in exchange for the many risks of urban poverty: poor nutrition, insecurity, isolation, disempowerment, and low-quality or nonexistent public services,” Taylor said. “And yet people continue to come, all for the opportunity of work, for jobs and regular income—if not in the formal economy, then in the informal economy.”

Taylor described the lack of security faced by these new arrivals. “The poor have few or no safeguards in place to protect them from catastrophic events,” she said. “Months of prudent savings can disappear in a single day through accident, illness, or theft.” Given these vulnerabilities, even advocates for the poor sometimes forget that low-income individuals strive to improve their lives, and can be active agents of their own progress. “For human dignity and social justice to flourish, individuals need to have a hand in their personal development, as opposed to having development ‘done’ to them or for them,” Taylor said. “I’m speaking about self-help.”

Financial services have a critical role to play in this effort, she said. The best microfinance organizations today focus on expanding access to financial services as a way of limiting vulnerability and encouraging self-help. This access, both to loans and to savings accounts, helps low-income individuals manage their household economies more smoothly, avoid theft and loss, and pay for unexpected expenses such as medical care. “No one working in financial inclusion claims that microfinance and related financial services are the only answer,” Taylor said. “Rather, these services assist people in taking advantage of what society can offer and in allowing individuals to make their own contributions to economic growth.”
The response to these issues should include stronger consumer protection, meaningful transparency, and the development of industry standards to measure social impact, Taylor said. She described how a group of eight CEOs from global microfinance networks, including ACCION, have been working together on three key initiatives: launching an industry-wide consumer-protection effort backed by 900 microfinance organizations; creating a transparency nonprofit responsible for accurately measuring and reporting on the pricing of microfinance loan products; and establishing a Washington-based task force that is developing common tools to assess the industry’s efforts. “It took decades to develop tools like ROE, ROA, and ROI, which we all use today to measure financial impact,” Taylor noted when describing this final initiative. “We need to be patient, yet persistent, as we develop equally powerful tools to measure social impact.”

Taylor described how the work of Dean Karlan and the MIT Poverty Action Lab has challenged the perception of the microfinance industry and its accomplishments. “In its attempt to attract philanthropy to fund its work, the message of microfinance as a poverty-alleviation tool got oversimplified and overhyped, and nuance and complexity got lost in communication,” she said. Research by Karlan and the Poverty Action Lab “was a wake-up call, and the industry is responding.” Indeed, the three initiatives currently underway are a strong start.

“Microfinance is just one tool in the toolkit of international development, although it’s an important one, to be sure,” Taylor said. By combining the best elements of charities and businesses, the industry has helped build institutions with enormous potential to provide socially valuable services to low-income people around the world. Yet even now, more than two-and-a-half billion of the world’s poor lack access to any financial services other than those provided by loan sharks.

“We have a long way to go,” Taylor concluded. “But I think you might agree with me that if we remain flexible and nimble, and listen carefully to the feedback and respond appropriately, we will ensure that microfinance delivers on its full potential and we can build a world that is truly financially inclusive.”

The past two years, following a crisis in the Indian state of Andhra Pradesh in addition to problems in Morocco, Nicaragua, Bosnia, and other countries, have forced microfinance experts to reassess the industry, Taylor noted. “There’s been a lot of soulsearching,” she said. Hard questions have been raised about industry practices and the efficacy of our work. We’ve seen crises of over-indebtedness, allegations of harsh collection practices, suicides, concerns over high interest rates and fees, and skepticism about the very impact of microfinance.”

Adding to these confusions are new players in the industry, some of which have different motives than those of the original pioneer organizations, she said.