Dean Karlan: Hi everybody. I'm going to talk about a particular program today called The Graduation Model. That is a model of reaching the world's poorest like we just heard about from this video from [Bandon 00:00:20], and working to increase income and help build sustainable income. The key is on the word sustainable for seeing whether these results can last for the long run.

[00:00:30] Before I go there, I want to talk a little bit more about the process and how we got to where we are. Think about a simple question in a sense. Which do you want to drive? The simple boxy, boring car that lacks innovation or the fast super car that has all sorts of innovative stuff?

Hopefully your answer is not the fast one. I will hope your answer is the effective one. Things just because they are new and innovative doesn't mean it actually

[00:01:00] works. Sometimes you can crash and burn. Hopefully, you can learn from that crashing and burning, but if not, you just fail.

Sometimes the old boring thing is actually the most effective. That's a very simple point to remember is that the goal here is not innovation. The goal here is effectiveness. That's the basic question that we're all challenged with. This is actually the heart of what USAID DIV is about is saying, "Let's not just fund things

[00:01:30] because they sound good. Let's let effectiveness drive our innovation rather than just innovation for the sake of innovation." That's at the heart of this program and at the heart of the thinking of many people here right now.

I'm going to talk about this in the path of how we got here starting off with microcredit, which I think is a great example of a business process innovation. Not all innovations are about techie things and new shiny things and cellphones and whatnot. Sometimes, innovation is about a business process. Just figuring out how to do something better. Microcredit is a great example of that.

[00:02:00] 40 years ago, I used to say 30, but then I got older. We saw some really tremendous changes in the way banks were lending to the poor. On that point, it was non-profits. This was started by the Grameen Bank and Muhammad Yunus, and had some really dramatic, impressive, institutional shifts in the way people were leading financial institutions or non-profits that then converted into financial

[00:02:30] institutions and help them learn how to lend to the poor and get your money back so you can lend it again etc, etc, etc.

What we saw were millions of households getting access to these services. We saw some advocates getting really excited and, in some cases, I think some would argue, overselling that hype in the UN Year of Microcredit in 2005. We also saw the Nobel Peace Prize go to this movement and quotes like, "Microcredit has been changing people's lives and revitalizing communities."

[00:03:00] What we saw starting around 10 years ago, there were some problems. Some critics started rising up and getting a lot of attention and we saw some problems. Here's an article in India, "Most of the poor are in deep trouble due to these loans.

Poor people are committing suicides because of pressure for repayment."

The problem here is we had some innovation that was exciting and we see some changes, but both of these are statements that are about following some people over time and seeing the changes in their life and then attributing that change to a policy.

[00:03:30] In the first case, it's saying, "These are people that got access to loans and look at how their life's got better." In the second case it's saying, "These are people that got access to loans and this is how their life got worse." The problem is, neither one of those tells us what would have happened had they not gotten access to these loans, which is the counterfactual, which is what we are doing when we're trying to run randomized trials.

The evaluations that were done of microcredit using randomized trials had a few different approaches to doing this. I know this is not a wonky talk, so we're not going to get into the nitty gritty details of exactly how one does a randomized trial.

[00:04:00] Let me just say one very simple statement, which is there's lots of ways of doing them and some are better than others. Some work well in some settings and some don't. It shouldn't be the case that we look at something and saying, "Just because it's a randomized trial means it's good and better evidence." It still needs to maintain certain standards of data collection and adherence to important protocols.

Now, what did we learn from the randomized trials that were done on microcredit? We've seen around 6 to 10 of these now. The results, surprise, surprise whenever
[00:04:30] you have a group that's really excited about something and another group that is really critical of something, it's actually not that surprising I think in my view of the world, that the answer is somewhere in between.

What we saw here was that it did help some people establish businesses, but it was not a silver bullet to bring millions out of poverty. In no study that I've seen was there an average increase in income from delivery of entrepreneurial credit, and yet that's the goal. That was the fundamental goal that was set out at the beginning was increasing income.

That doesn't mean there weren't benefits. There's some good things that came out
[00:05:00] of it, but it was also true that we didn't see in mass the deleterious effects that a lot of people feared. What do we do? Well, we pointed out three broad ways to go with this. I'm gonna briefly mention the first two and then talk about the third.

The first is, well, maybe innovate on the lending. When I first got involved in this, it was 1992. I was two years out of college, 22 years old, had done two years of investment banking. Then one of the first things I noticed when I went down to El Salvador and worked with this lender was that I just spent two years learning about
[00:05:30] high finance and matching cash flows.

The whole point of matching cash flows is when you want to fund corporate growth, you're looking at what the revenue path is from an investment and you're getting them loans or equity investments or something. They're going to line up the cash flows, and yet, in the microcredit space, that just wasn't done.

[00:06:00] People were taking out loans, which were supposedly for things that were going to pay off in three to six months or a year, but they had to start repaying immediately. It was like, "Wait a second. What's up with that? Why aren't we matching cash flows? That's the way finances in theory is supposed to work." Yet that wasn't done. That's an example of a more flexible lending model that might actually work better. That's one idea. Innovate a little bit on the lending. Maybe the impacts can be bigger.

[00:06:30] A second is, maybe microcredit should be more micro finance. I know many people are familiar with this basic conundrum and that a lot of times you say the word micro finance and you ask someone to define that and they say, "Oh, that's loans to people that are poor to start businesses." Yet obviously, the word finance means more than credit. Maybe there should be more of a focus on savings or insurance. There's been a lot of work on that and it does find some very positive impacts from some of those shifts.

The third though I'm gonna focus on says, "Well, wait a second, maybe the problem with poverty isn't just about financial services, maybe it's not going to be solved by just addressing the finance problem. Maybe there needs to be a grant-based program that it's hitting on more than just one thing at a time." That's where I'm going to focus.

[00:07:00] This program works with the ultra poor. We just saw a video that talked a bit about who the ultra poor are in this context, but we're referring to individuals who are earning a dollar to a day and meet the typical definition of ultra poor. Importantly to this conversation, they are people that are typically not accessing financial markets at all.

Even if there were a micro lender in the area, there are people that are too poor for the micro lender if there's a group or any sort of peer selection process or requirements for some sort of income generating activity. They don't have a stable enough income source to be eligible for the credit.

[00:07:30] The underlying theory behind this program in some sense is simple. It says, "Look, the problem with being poor is any one thing." I get this question a lot if I'm in a conversation with a relative who I haven't seen in a long time. They were at dinner and they say, "Well, what's the problem? What's the one answer to poverty?" The answer is always very simple to that. Well, there's no one answer.

[00:08:00] If the problem were that simple, we would have solved it long ago. If it were about financial constraints and lack of access to capital, we would have seen microcredit or savings solved this long ago, and we have seen huge growths just from solving the credit and improving savings markets.

If it's about information, about not knowing how to do entrepreneurship and training, then we would have seen training programs have transformative effects and solve this problem long ago. Same thing with markets. If it was about access to markets, we would have seen roads and vehicles that introduce pricing,
[00:08:30] dissemination of prices and helping to introduce people to exporters and things of this nature. We would have seen these things transform the world long ago.

Each one of these, there might be some effectiveness here and there, but the problem is not going to be any one thing. The same thing goes for behavioral issues, health and education. The basic idea behind this model is to say, "Maybe, we need a more holistic approach that addresses multiple issues all at once working at the house level." It's a little bit like a big push approach but at the
[00:09:00] household level, not a big push from a macro perspective.

It does six things as part of this program. We put at the top the livelihood. Instead of a loan, it's a transfer. It's here for goats, beekeeping, guinea pigs, different things at different places that households identify as things that they would like to work on to build a sustainable source of income. The transfer is made and that's usually about, somewhere about a third of the cost of the program.

There's a training in that asset. A lot of times, it's an asset they might be already
[00:09:30] somewhat familiar with, but not some of the better ways of dealing with it. Sometimes, it's actually something fairly new and so there actually is a lot of training and how to rear that asset.

There's a safety net aspect of it that is providing cash or food consumption in the short run, so that there's not a temptation or desire to immediately slaughter the goat, for instance, to eat it. Promotion of savings, a little bit of health. The coaching is actually a potentially important part of that. It's actually one of the questions I'll come to at the end where I think we need to do a lot more testing and understand how that coaching works. Particularly, that's an area that has a lot of promise for
[00:10:00] innovation but needs testing.

The coaching here, basically think about it as two years of household visits from an NGO or government field agent network that provides information and coaching and problem solving and helps to build hope and aspiration for households.

This is a more fun program that have been done for years in some sense. The first randomized trial that was done was started in Bangladesh with BRAC. We
[00:10:30] replicated this in seven countries. Honduras, Peru, Ghana, Ethiopia, Yemen, Pakistan and India. Here are the results. I understand we have a bit of a quant jockey group. For those of you who are quant jocks, you might be counting and saying, "Wait a second, you said seven. I only see six countries."

Yemen is not up here because of the civil war. We will be releasing the results from Yemen. We did actually, after the war, subdued. We did manage to go back and do field work and we will be releasing those results at some point, but for the time

being, we published these initial results of the six countries that we have the data
[00:11:00] for. We published these in Science Magazine two years ago.

What you see here is income and revenue. Income and revenue is not the complete income and revenue of households, because a lot of income and revenue is actually very difficult to measure. It's sub-pieces of it. One of the main things that we do in this is trying to measure the actual assets and the income that you generate from these assets.

[00:11:30] In some cases, that's simple. Take the guinea pigs in Peru. Income from the guinea pigs that were provided basically comes in two forms. You can either sell the guinea pigs and then we can ask questions about the cash from that or you can eat the guinea pigs, in which case, we call that [petabilism 00:11:40], by the way, because we learned that they also treat these pets and so it's the active eating one's own pet. That's actually income and you can count that and ask them, "How many times did you eat your pet this month?" You can measure it and add it all up.

That's great, but what we can't do in some countries, when the actual income is
[00:12:00] about the increased value of a cow. That's actually very hard to measure. It's very hard to say to someone what's the value of your cow and get an accurate number. That's why this is not an income measure per se, but an index of parts of income.

What we see here is 0.3, 0.4 standard deviation improvement. Now, the first bar in each of these is the inline one, which was done at two years. The second bar is at three years. The timing is important here. Two years is two years after the assets are transferred, the information is provided, the consumption support is given, so
[00:12:30] it's two years after a large chunk of the program.

That's giving us a good sense of sustainability. However, if you think the life coaching is really the important part that helped make this work, well then it's shortly after that stop because that was a two year process. The three year then becomes really important, because the three year is now a full year after all interaction with the group, the household has stopped and we're seeing how did things sustain themselves.

We're actually now getting to see seven year results. I don't have these up here.
[00:13:00] The India results have been analyzed or actually even bigger than the three year results. Ethiopia, we literally are just finishing the field work on the seven year and we'll share those soon.

Per capita consumption is up about 0.12 standard deviations. You'll notice there's really not much of a change between the two year and the three year and that's actually one of the most important results of this whole thing that there's not big change.

You noticed Honduras went down? The chickens got sick and died and a virus spread through them. Chickens are high-risk, high return. One of the important
[00:13:30] things we learned from this. It was a sad result from a humanitarian perspective. It

was actually a really important result from a learning perspective about what this program needs to look like. The choice of assets that are promoted is really important.

Food security is an important way of making sure that the impact we're seeing is not being driven by the wealthier within our ultra poor set of people. Food security is really hitting the poor among the poorest of the poor. Those are food insecure, and we do see important improvements in food security as well.

[00:14:00] Ultimately though, let's remember that the theme of the day, the theme of the year or the theme of USAID hopefully is not, "Does it work?" It is. How much does it work for each dollar spent? You should never ask the question simply, "Does it work?" You got a positive number, you're like, "Great." How much did you spend? It doesn't matter if it works if you spent too much money to do it relative to the other option.

Here's the cost effectiveness looking at the increase in consumption that has happened or projected to happen based on the sustainability of the results. As you [00:14:30] can see, in five out of six countries, Honduras obviously did not work, but in five out of six countries, it's above the 100% threshold. For every dollar spent, if the alternative was just to stick the money in a bond, so to speak, and pay out a stream of cash flows, it beats that, and that's an important result from a public finance perspective. If the goal is to increase long term consumption as much as possible that it's more effective to do this than to do a cash transfer forever.

[00:15:00] Now, I started off with this idea of this theory of all these things intersect with each other and the theory as to why this works is that there's multiple problems at once, but I didn't actually test that. What I tested is saying, "Well, if we do all these things at once, is that sufficient to overcome a poverty trap?" I didn't actually test whether it was necessary. Here are some results that are preliminary. These have not been published yet that looks at that question.

In the Ghana site, we had a separate treatment arm that did what we call a goat [00:15:30] drop. I mean not figuratively, not literally. We just handed out goats and we walked away. We did nothing else. None of those other components. Just, "Here are the goats."

What do we see? On the first, we see the goat value goes up. The blue bar is the full program that I've already shown you and the orange-ish kind of color bar is just giving out goats and walking away. You see the goats go up. This is three years later, goats are up. The middle bar, this one is the striking one. You do the full program, total value of livestock is up. The third bar, total business revenue was up. Business revenue is not part of the program. That means they're diversifying. [00:16:00] They're expanding other things.

Livestock value, not a single change in aggregate. That includes goats. What does this mean? It means when you did the full program, they did this stuff, they gave stuff away and that added to what they were adding. It added an extra income source. They didn't get rid of anything. They were capable of doing more things and we think, in theory, that happened because of the human aspect of what was being done. The coaching and the information.

[00:16:30] When we just transferred goats, they took the goats, they reared the goats, but they got rid of some other stuff and they just stayed at the same level in terms of economic activity. Is the goat drop a good thing? Yeah, we didn't measure the part that was good. The good part probably came in the first six months. They ate the goat. They were better off. Things like that. That's good, but we're not seeing any long run effects from riding that transfer, and that's an important result.

[00:17:00] Part of this program from the very beginning, as many people know, to influence policy, you really don't want to just going to do your research in a silo, publish a paper in some academic journal and walk away. That it's part of an integrated process of an exchange of information and ideas with policymakers along the way. This was a big part of this program with many collaborators including USAID who funded the Ethiopia site from this study.

[00:17:30] Several other USAID parties were involved in an annual exchange of information and knowledge about this program. That's led to now 58 projects in 37 countries that are basically taking this idea and these initial results and seeing how do we do this. Some of these are NGOs doing them with innovation. Some of these are governments now taking it to scale and making it part of their social protection program.

Let's remember, there's no silver bullet. The lesson we learned from microcredit is the same for this. This is not a silver bullet. It's not going to solve the world's problems. Nothing works for everywhere for everyone. One of the important things we have to learn more about is how to make this work for the people who it's not working as well for.

[00:18:00] Something inevitably is always better. A continued innovation is critical. Ultimately, we need to maximize a very simple for [Yunla 00:17:58]. We were debating whether I should make a joke about firing the person who made the PowerPoints, but we'll just leave that at that.

[00:18:30] A times B equals success. A is choose good ideas. That's what under randomized trial is trying to do. Test out very specific ideas. Does this idea generate a certain change given a certain level of implementation? B is implementing the chosen idea. If you choose a bad idea but implement it really well, you're not going to succeed. If you choose a really good idea but implement it really poorly, you're not going to succeed. We need both. A times B equals success.

A lot of the research that we're seeing done, evidence gathering, is on both. There is an aspect that we need a lot more that we can learn on the B component. On how to implement it scale. Let me give you an example of innovations and how they could drive improvements in the context of this graduation program.

Cash versus in-kind assets. Or cash versus the entire program. What are the
[00:19:00] differences that we're going to observe? Who should be delivered this program? The husband, the wife, both, together? We did see important improvements in female power from this program. There was nothing about this program was directly trying to intervene in the decision-making process of the household, yet we saw it changes in the household decision-making process. Maybe that's something that should be a focus of the program.

Field agent incentives. Actually, more broadly about field agents. How are the field agents hired? Who are they? What's their background? Should there be conditions for the transfers? Psychological interventions first. One of the things we found is
[00:19:30] that there was a huge variety of impacts in this program. Some people were made really better off and some people just a little bit.

Well, the people were not made better off. Maybe that's a mental health issue. Maybe this program works great if you have the mental capacity and fortitude to do this. We're running a test in Ghana of cognitive behavioral therapy first and then we roll out the program after that and see maybe that's an underpinning that is necessary in order to help people even more. We're seeing some really dramatic short run results on mental health and the results for the larger study will be out later.

[00:20:00] Let's remember. One thing back to the theme about tech and innovation is that we need a lot more work to learn how to implement ideas at scale. There's a lot of times the path to scale. We think about it. We think about shiny new things. That does provide a lot of opportunities for consistent implementation at scale, but I do get nervous that we don't want to ...

It goes back to the shiny car point. Just because something is a technology and it's digital and it's on a cellphone, it doesn't mean it's going to work better. The
[00:20:30] removal of a human touch is potentially a dangerous thing. Sometimes maybe it's a good thing, but sometimes it might be dangerous. Maybe that human touch is able to use judgment better to understand really what's happening in this household to provide a better service.

Maybe the human touch is actually generating sentiments of reciprocity that is helping a household move along more with the program because there's that proportional aspect. These are questions. These are questions which need answering as we embark on taking various programs to scale and not just this.

[00:21:00] Ultimately, the theme of the day and the theme of DIV is very much about there are lots of great ideas out there. Well, you need to process for sorting through them all. Remember that ultimately, the right question to ask is not does it work, but how well does it work for each dollar spent and how can we make it work even better.

That's what's exciting about all of the projects and seeing everybody here and all these different groups that have been funded through DIV over the past few years.

It's exciting to see this gathering with everybody here sharing these various results,

[00:21:30] so I look forward to the rest of the day and thank you very much. (silence)