Innovations for Poverty Action

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IPA founder Dean Karlan's message to Congress

On Friday IPA founder and Yale economist Dean Karlan testified in front of a subcommittee of the US House of Representatives Committee on Financial Services, alongside Martin Ravallion of Georgetown University, Patrick Chovanec of the Silvercrest Asset Management Group, and Scott Morris, Senior Fellow at the Center for Global Development. The hearing was about the future of multilateral investment banks (organizations such as the World Bank), but touched on many issues in how governments and large donors view development.

In his testimony (PDF of the expanded writtern version here), Karlan emphasized how far we've come, and the role of good evaluations in making sure that taxpayer money is seeing the greatest possible return on investment. He pointed out that randomized controlled trials have yielded great benefits in understanding how particular policies can help alleviate poverty, but they should be considered part of a portfolio of methods, and it would be a mistake to rely exclusively on any one method.

In response to questions on the role of large multilateral investment banks compared to the private sector in lending, Ravallion and Karlan both agreed that while they may have originated as lenders, the investment banks have evolved to do much more. Now their work also creates the value-added of knowledge of what does and doesn't work, a public good that private sector lenders can't afford to create themselves. While they may have originated as lending organizations, their role has evolved as financial markets have expanded, and the knowledge they are adding can help fix market failures. As an example, Karlan pointed to projects run in collaboration with World Bank researchers like the one using biometric identification of borrowers in Malawi to reduce loan defaults, which is being expanded there.

They also both agreed that there are bigger reasons to fund development investments than charity. First, Ravillion pointed out that poverty in sub-Saharan Africa (as elsewhere) isn't just a sub-Saharan Africa problem. As recent experiences with Ebola show, local problems become global ones quickly. Second, Karlan added, that many of the insights being discovered now into financial programs for the unbanked for example, are also being applied back in the U.S. In response to a question from a Committee member asking if health sector areas such as Ebola responses aren't better handled by health organizations, Ravallion pointed out that much of the fight against Ebola was driven by good data gathering (more examples here).

As to the future, Ravillion and Karlan also agreed that while knowledge is being created, the barrier now is getting it used. When asked what specific policies should be implemented, Karlan replied that one should look at fighting poverty as a process – establish that a program works, figure out why, then test if it will work elsewhere. Poverty is too complex to be eliminated with one policy change, but large organizations like the Millenium Challenge Corporation, World Bank, and USAID are also creating knowledge that will help the learning process that will bring people out of poverty.

See the full hearing on YouTube here.

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