More Than Good Intentions by Dean Karlan

Review by: Evan Lambert

You have to love an economics and development book that is thought provoking, easy to read and draws you in. Dean Karlan's *More Than Good Intentions* easily falls into this category as he looks at which solutions really work for the poor and finding new solutions for remaining poverty issues through an economists lens backed by extensive fieldwork.

Karlan works with Jacob Appel or "Jake" who is his assistant and sidekick. He and Jake work with the JPAL folks and the Poverty Innovation Labs from Portfolios of the Poor, spending countless amount of time on the ground and with MFI members to understand their situation in contexts throughout Latin America, Africa and Asia. What is working? What isn't? How can we do better? Why do people make the irrational decisions they do? How can we incentivize or nudge them along to behave differently?

He divides the development industry into two categories thinkers and doers, essentially those in academia and those in the field on the front line doing the work. He says that these two camps are generally divided and that these barriers should be broken down so that we can work together, thereby understanding how we can tweak the existing system to make it better and design innovative new solutions. He and Jake strive to do just that in this book by combining their traditional economics background and theory with and study of human behavior through Random Control Trials (RCT).

I appreciate how he describes the standoff between Jeffrey Sachs and Bill easterly schools of thought as nonproductive. Both sides have ample evidence and examples to demonstrate that support their theories. He states that both should be able to agree that some aid solutions work and some don't. So starting there we have enough real world examples to evaluate in more detail and better understand what's really going on the ground. He recognizes that people do not always make decisions based upon the value of the outcome, sometimes people make bad decisions and for unknown reasons. Sometimes people “get the math wrong” and sometimes we have other interests at heart. Karlan argues that understanding these other interests and decision making processes of the poor is at the heart of understanding the problem and therefore designing appropriately designed solutions. He describes a two prong approach to
poverty alleviation based on understanding the problem at hand (poverty in this case) using and behavioral and traditional economic models and using rigorous testing to trying to understand why people make decisions to ultimately identify solutions that work.

The book is organized into chapters based on people's behaviors and he focuses the meat of the book on microcredit. He helps us see how it can be so appealing in terms of focus on women, building communities, etc. but that it also has a complete lack of evidence to show results high and many MFIs charge incredibly high interest rates etc. It has gotten so much attention and fame, and Karlan asks is it warranted? He describes microcredit as a poster child for the aid industry and says that it has garnered more support than perhaps any other agent initiative in history. Is it really all that good or is it too good to be true? We need to dig deeper.

He says people don’t act rationally, for example when we’re trying to pay down credit card debt we will still eat meals out. When we’re trying to lose weight we will sneak a candy bar. Understanding why people make these irrational decisions and which decision they are actually are making in real world situations is at the root of the matter and the main point of this book.

One aspect that really stuck with me was when he described the way that most development organizations measure impact, which he describes as the “before and after” approach. He says this is fundamentally flawed as it does not take into account external factors. Therefore it is a waste of time and money that could be better spent elsewhere.

Another aspect of the book that I really liked with regarding to microcredit specifically are the tough questions like: “does it actually work?” and “how can we do it better?” He acknowledges that Trust is indeed the primary component that leads to borrower repayment and group success and therefore institutional success, but he finds in his trials that individual lenders who are trustworthy will actually pay back as consistently as in a group. He notes that the more successful entrepreneurs are the ones who inevitably repay the missed quota on the non trustworthy group members.

One example he used that I like to understand human behavior is by Peter Singer a utilitarian philosopher at Princeton who asked why people would jump in to save a drowning child if doing so would cost us $200, while most people we do not cut a check that could save a child’s life for $200. He talks about the necessary link and needing an identifiable victim “with whom the human connects” In this section Whole Foods Market and Whole Planet Foundation get a mention for their ability to raise funds at the cash registers. In fact he describes Whole Planet as “awash in funds” due to effectively making shoppers feel as though they are helping this individual. I also liked reading about his section devoted to Kiva and looking at the difference between what is perceived by the user in terms of a direct connection was actually going on behind-the-scenes.

He brings up some good questions regarding whether or not there is a better way than the Kiva model to raise funds in terms of telling a more transparent picture and letting donors make a difference by demanding that their funds be used in only the most effective ways. Here’s an interesting fact: individual donors contribute over 200 billion every year three times as much as
the sum of all corporations, foundations and bequests. Therefore individuals together can really drive change in development by demanding results and supporting only those organizations that are working effectively to alleviate poverty.

In addition to taking a hard look at microcredit he looks at some innovative approaches to problems in areas of agriculture, education, health, and sex and the solutions out there that are making a difference. Without giving away the ending I will say that Karlan is an optimist who thinks that we’re making progress chipping away at poverty and that we are getting better at identifying and correcting our previous development mistakes. In summary, as we also believe, he finds that microcredit is not perfect but it does provide some real benefits in the fight against poverty. He also points to the importance of savings in combination with credit in order to be effective.

I highly recommend this book for anyone with a desire to understand microcredit more completely or for anyone working in the industry or passionate about development, poverty, and how to make the world a better place. This book greatest appeal to be is the fact that it engages the reader, moves quickly and is thought provoking. The book demands that we do better. I agree.