Development Economics in 2015

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Abstract: Compared to 30 years ago, the field of development economics today is more coherent, more grounded in empirical reality, and more relevant to practical policymaking. It is also shaped by richer conceptions of well-being, people, and socioeconomic systems. This paper offers a review of current development economics, highlighting the analytical framework that now ties the field together and the significance within the framework of eight themes, related to transfer costs, mobility costs, liquidity constraints, insurance constraints, present bias, learning and persuasion, cooperation and private institutions, and governance problems in public sector institutions. The paper then briefly discusses the usefulness of the framework for policymaking by governments and NGOs, and the possible implications, more specifically, for Christian development work. JEL Codes: O10, L31

The field of development economics has come a long way over the last 30 years. In top economics departments, it has risen from marginalized to glamorous. More important, the field has become more coherent, more grounded in empirical reality, and richer in its conceptions of well-being, people and socioeconomic systems.

In my view, one of the most important developments in the field is the emergence of a coherent analytical framework, which brings the field’s many strands into conversation with one another and renders research more relevant to policymaking. The framework is built on basic microeconomic instincts about how to break socioeconomic systems down into analytically tractable pieces, but pays more attention to the connections between pieces (thereby linking micro-, meso-, and macro-level concerns) and more consistently recognizes the importance of transaction costs, risk and financing considerations, information problems, cooperation and coordination problems, institutional rules and norms, and insights from

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behavioral economics. Many of the ideas incorporated into the framework have long histories. What seems new is how the parts have come together to give the field a distinctive identity that is mainstream within economics and yet made different by the complications of poverty.

This essay describes the analytical framework that I see tying the field together. I first sketch the basic structure, in much the way I would introduce it to students. I then highlight eight themes that are important when filling in the details. The themes relate to transfer costs; mobility costs; liquidity constraints; insurance constraints; present bias; learning and persuasion; cooperation and private institutions; and governance problems in public sector institutions. After briefly discussing the usefulness of the framework in practical policymaking by governments and NGOs, I close with a few thoughts about the possible relevance, more specifically, for Christian development work.

1. The Analytical Framework

Most development economists today would agree that “development” involves sustained improvement in well-being for a country’s many people, with special emphasis on improvements for poor people (i.e. people living at low levels of well-being), and that “well-being” is an overall assessment of how good or bad a person’s life circumstances are along multiple dimensions. Decades of thoughtful empirical research suggest that a person’s well-being depends, at a minimum, on the quantities and qualities of goods and services she consumes, the pleasures and pains of the activities to which she devotes time, her vulnerability to shocks, her sense of power or powerlessness, and her expectations regarding how her family’s living conditions will tend to improve, hold steady, or decline in coming years.

The levels and rates of change in well-being for a country’s many people are determined within a socioeconomic system. For economists, the fundamental moving parts of the system are the people themselves. Together with other members of their households they make inter-related choices regarding consumption, time allocation, production, saving, lending, investment, gift giving, and more, seeking to achieve as much as possible of what matters to them, given the constraints they face.

Households interact with one another in many important forums, including not only markets for goods, services, labor, credit, savings instruments, and insurance, but also many non-market forums, such as communities, irrigation system user groups, ethnic networks, and
society at large. While their interactions in markets involve buying and selling, lending and borrowing, their interactions in non-market settings may involve cooperation, communication, respect of property rights, fulfillment of promises, and dispensation of rewards and punishments. Within households, too, members engage in non-market interactions such as cooperating, bargaining, sharing, and showing deference. Development economists now recognize that non-market interactions are at least as important as market interactions in determining the level and distribution of well-being in a society.

People’s interactions in market and non-market settings are governed by “institutions,” a theoretical construct that greatly re-shapes and enriches economists’ understanding of socioeconomic systems. An institution is the set of formal rules and informal norms that constrain people’s choices regarding how they interact in a particular setting, together with the enforcement mechanisms that cause people to comply with those rules and norms. Some institutions are entirely informal, defined only by shared understanding within neighborhoods or networks. Some are more formal, involving codified rules and punishments, though typically also shaped by informal norms. Formal institutions on a small scale may be connected to local governments or local membership organizations. Formal institutions on a macro scale include laws, regulations, the rules defining government programs, and the rules and norms shaping legal and law enforcement systems. Historically, many institutions have been “extractive,” allowing powerful people to exploit the powerless (Acemoglu and Robinson, 2012). Healthy institutions, by contrast, are sustained by and help sustain mutually beneficial cooperation and trust. Economists now recognize that healthy institutions are essential to well-functioning markets and constructive non-market interactions.

Within this framework, households’ well-being and choices are determined by the types and quantities of assets they own or have access to and their needs, together with the market and non-market opportunities they face, and the institutions that govern their intra- and inter-household interactions. Assets include any long-lasting resources or attributes that raise a household’s effectiveness in pursuing well-being. They include land, livestock, machines and other business assets, infrastructure, education, job training, and technological ideas and practices, as well as systems that deliver clean water or health care. The focus on assets is significant, because people care about the future. Two households may achieve the same income and living standards today, but one may enjoy greater well-being because its greater asset stock implies higher expected
living standards in the future (Carter and Barrett, 2006).

The system is dynamic. The average level and distribution of well-being change over time as people invest in creating or re-deploying assets, as external conditions evolve, and as the system is hit by shocks. Endogenous changes in assets, and exogenous changes and shocks, lead to system-wide change in market conditions and institutions. Development is successful when changes in assets, markets, and institutions are raising well-being sustainably for many people.

Most economists would agree that economic growth is necessary for fully successful development. Without growth, average income remains constant, and resource flows that raise well-being for some groups along some dimensions must reduce well-being for other groups or along other dimensions, and quickly reach their limits. Growth happens when people invest in the creation of assets that raise labor productivity, and when they increase the efficiency with which the economy’s productive assets are deployed by, for example, migrating or giving up rent seeking.

The asset changes that underlie growth have the potential to raise the well-being of many households, including many poor households, through diverse channels. Poor and vulnerable households might participate directly in the creation of assets, and even if the new assets underlying growth are owned by non-poor households, poor households might benefit indirectly when changes in the behavior of the assets’ owners induce change in markets and institutions. More specifically, poor households might benefit if they are net sellers in markets for goods or labor where prices rise, if they are net buyers in markets where prices fall, if they benefit from public goods and government services financed by growing tax revenue, or if they receive transfers made by the assets’ owners in compliance with private or public safety net institutions.

The framework offers no logical guarantee, however, that rapid economic growth will adequately raise well-being for all poor and vulnerable households. The initial conditions and policies that support a particular growth episode might, for example, concentrate new assets in the hands of the non-poor, do little to raise the demands for goods or labor supplied by poor households, and direct government services primarily to the non-poor. And even when growth is relatively pro-poor, specific groups among the poor may be excluded for many reasons. Thus the framework leaves plenty of room for disagreement about how inevitably the policy packages that underlie rapid growth will also yield rapid poverty reduction.

All this suggests the importance for development policymaking of
careful research on how households, markets, and institutions work, and especially on the frictions and imperfections that might slow growth or prevent the benefits of growth from generating widespread and sustained improvements in well-being in the absence of intervention. Where such frictions and imperfections prevent people from making socially desirable choices, governments and NGOs may be able to improve development outcomes by intervening. Where such frictions and imperfections are lacking, policies and programs inherited from the past may require careful reform or elimination. Unfortunately, the public sector institutions governing policy design and implementation can also fail in diverse ways. Interventions and reforms improve development outcomes only when policymakers’ choices are governed by healthy political institutions; and when the policies and reforms are well-designed and well-implemented responses to correctly-diagnosed market and institutional failures. Thus, in addition to studying household choices, markets, and private institutions, development economists also study the governance of policy implementation within public sector institutions and how political institutions shape policy choices.

In what follows I describe eight analytical concerns that are important for understanding how socioeconomic systems in developing countries might work or fail to work. They all point to ways in which careful study of decisions, markets, and institutions can have important implications for policy choices at micro and macro levels.

2. Transfer Costs and Goods Markets

Market exchange requires the transfer of goods from their producers to their ultimate users. This transfer can involve many costly activities by producers, users, or intermediaries, including local aggregation of produce, domestic transport, storage, financing, identification of trading partners, negotiation of agreements, process or product certification, the bearing of risk associated with default on contractual promises, and, in some cases, border crossing activities, international transport, and retailing in foreign markets. The “transfer costs” associated with these activities (which are ignored in many economic models) are often very high in developing countries.4

High transfer costs can explain why markets in many poor places appear highly restricted in geographic scope, variety, and sophistication. They can explain why small farmers choose not to participate in markets for goods that they both supply and demand (de Janvry et al., 1991), and
why price fluctuations driven by idiosyncratic local supply shocks are not eliminated by arbitrage across rural communities. They help explain why farmers sell traditional produce in informal markets, even when they could receive higher prices (relative to production costs) for higher-value goods sold to expanding supermarket chains (Reardon and Timmer, 2007), and why farmers are reluctant to purchase fertilizer and other inputs for which quality is difficult to verify. Transfer costs also help explain the existence of “flea market economies” in urban areas (Fafchamps and Minten, 2001), where the prohibitively high cost of contract-based transactions with suppliers may prevent firms from gaining scale, adopting new technologies, or entering new markets. Variation in international transfer costs helps explain why some countries have been more successful than others at entering export markets (Londoño-Kent and Kent, 2003; Limão and Venables, 2001).

High transfer costs slow growth by preventing gains from specialization and agglomeration, and by dulling investment incentives for producers limited to small local markets. They also prevent the benefits of growth in dynamic regions from spreading to other regions, by preventing the transmission of price changes (Dercon, 2006). Reductions in transfer costs, therefore, have great potential to speed growth and reduce poverty.

Acknowledging the importance of transfer costs is crucial for understanding the developmental roles of markets, on the one hand, and governments and other development actors, on the other, because market development through transfer cost reduction can require investments and institutional innovations that the private sector is unlikely to provide adequately. On a large scale, transfer cost reductions can require road and port construction and the development of effective public safety and contract enforcement institutions. On a smaller scale, they can require cooperation among farmers in constructing shared sorting facilities, arranging for bulk purchases and sales, coordinating production schedules, or acquiring process or product standards certification. Liquidity and insurance constraints (discussed below), together with weak property rights institutions and macroeconomic instability, can also prevent investment in critical private assets such as trucks and storage facilities (Barrett, 1997). Indeed, without adequate attention to these market and institutional failures, many liberalizing reforms of policies toward agricultural markets produced disappointing results (Kherallah et al., 2002; Swinnen et al., 2010).

The desire to encourage market development by reducing transfer costs motivates many public sector interventions and reforms, some more
straightforward and with more proven value (when done well) than others. Improving roads that connect rural communities to markets can raise local farm profits, reduce costs of imported goods, encourage agricultural and non-agricultural expansion, and raise incomes for households throughout the local income distribution (Khandker et al., 2009). Efforts to improve the efficiency of legal systems and reduce border crossing costs also seem promising. Efforts to connect small farmers to high-value markets are more complicated, because they might require development actors to respond to multiple market and institutional failures along the value chain connecting farmers to input supplies and to downstream buyers. Their results are more mixed, because it is difficult to know in advance which value chains will prove profitable for all private parties once interventions have brought transfer costs down and induced innovations (Ashraf, et al., 2009), and it is difficult to know what set of interventions along a value chain will be necessary for catalyzing market development and sustained private sector participation. Development actors might need not just to bring diverse actors along the value chain into conversation with one another, but also to subsidize investment in local public goods, encourage the development of producer groups, serve as guarantors of contract fulfillment while farmer groups develop reputations, or provide trustworthy sources of input supply.

3. Mobility Costs and Labor Markets

When workers are mobile, low-skill labor markets contribute to development in several important ways. They help allocate low-skill labor – an abundant resource – efficiently across productive uses. When investment and technical change are more rapid in some locations, sectors, and firms than others, labor markets help shift workers out of stagnant or declining firms into rising ones. In so doing, they increase the growth impact of investment and encourage further labor-using investments. They also help spread the benefits of growth to workers in stagnant and declining locations, as the withdrawal of labor supplied to those markets raises wages. Mobility costs reduce these labor market contributions to pro-poor growth by preventing workers from responding to labor market signals.

Accumulating evidence suggests that geographic mobility costs are high in developing countries. Workers who migrate raise their incomes greatly relative to those of comparable workers from the same families who stay behind, suggesting that arbitrage across space is far from perfect (Beegle et al., 2011). Wage movements often differ greatly
across geographic regions during periods of growth or trade liberalization (Aryeety and McKay, 2007; Topalova, 2007). Local wages in rural areas drop sharply when poor rainfall reduces local agricultural production (Jayachandran, 2006). It seems likely that mobility is also costly within urban areas of developing countries, where transport and communication infrastructure are weak, and where small typical firm size probably raises search costs for job seekers and employers. Institutional norms sometimes prevent women from moving into the labor market or prevent members of culturally defined classes from crossing occupational boundaries.

The nature of mobility costs is not well understood, but it seems likely that to reduce them would require investments and institutional innovations that the private sector is unlikely to supply optimally. Again transport and communication infrastructure investments might reduce frictions. Information exchanges that gather and disseminate information about job seekers and vacancies might also be useful. Workers with better access to local informal safety nets seem more reluctant to migrate out of rural communities (Munshi and Rosenzweig, 2009), suggesting the potential value of creating public safety nets that include migrants in receiving locations. New modes of finance might help movers handle the costs of moving and job search, and improved modes for sending remittances back to families that migrants leave behind may raise the benefit of migrating relative to the costs. Relaxation of regulations that limit geographic movements or create large severance pay requirements can also improve mobility and growth (Ahsan and Pagés, 2009).

Even if the labor market benefits of such mobility-enhancing policies were clear cut, however, important questions about the policy implications would remain, because migration and other worker movements are more than mere labor market phenomena. Worker movements can place stress on families that must spend time apart, subject migrants to ill treatment as outsiders, and cause the disintegration of private safety nets in sending communities. And relaxation of regulations might render some workers more vulnerable to deception or intimidation. Much remains to be learned about how to encourage beneficial labor mobility while mitigating associated costs.

4. Liquidity Constraints and Investment

Well-functioning markets for loanable funds, which transfer funds from savers to investors and other borrowers, can contribute to development by increasing the quantity and efficiency of investment, increasing the pro-

poor nature of growth (by allowing poor households with good investment projects to invest), and reducing vulnerability (by facilitating consumption smoothing). The costs of carrying out lending transactions, which require borrowers and lenders to engage in costly information-gathering and trust-building activities, seem to be especially high in poorer countries, and are particularly high on a per-dollar-of-lending basis for poorer borrowers (Cull et al., 2009). Even after lenders and borrowers have incurred all these costs, default remains a real possibility, and well-known asymmetric information problems may cause rationing or the imposition of collateral requirements, and may cause some credit markets to go missing altogether. This motivates concern that “liquidity constraints” prevent some potential investors from undertaking high-return investment projects. Empirical evidence suggests that liquidity constraints hold back investments (at least) in education (Edmonds, 2006) and in the expansion of small businesses (de Mel et al., 2008; McKenzie and Woodruff, 2008). It seems likely that they also hold back agricultural technology adoption, job training, and other critical investments.

What sets liquidity constraints apart from other market failures is that they are more likely to constrain the investments of poor households than non-poor households, and thus create a link between efficiency and equity concerns. The costs of lending to poorer households are higher, and poor households also lack collateral and the wherewithal to self-finance. In principle, poor households could save up enough funds over time to cover indivisible investment costs, but the high cost of providing savings deposit services to poor households means that they face only low or even negative returns on savings (Ashraf et al., 2006a). Present bias and informal mutual assistance institutions may also inhibit poor individuals from saving (as discussed below), causing liquidity constraints to bind.

The logic of liquidity constraints and the financial market failures that underlie them have re-shaped many policy discussions over the years. In addition to motivating prudential regulation of financial markets and encouraging reform of policies that tax and constrain the financial system, it suggests that policymakers may be able to encourage some types of high-return investment by providing grants or loans to private actors, rather than by undertaking investments directly. On a smaller scale, it provides reason for caution about charging up-front fees for goods and services that deliver benefits in the future, such as bed nets and connection to piped water systems. It also suggests a possible efficiency-based rationale for poverty-targeted subsidies. In the presence of liquidity constraints, even traditional poverty-targeted transfer programs can contribute to growth
by relaxing liquidity constraints and raising investment by recipient households. Indeed, evidence suggests that cash transfers can induce modest increases in saving and investment by some poor households, even when receipt of transfers is not conditioned on such investments (Gertler et al., 2012).

The notion of liquidity constraints also encourages interest in microcredit programs. The logic of liquidity constraints offers no guarantee, however, that increased supply of microcredit will eradicate poverty, especially when microlenders seek to charge interest rates that cover costs. Poor households may lack investments that would yield the immediate, high and steady returns required to fulfill strict repayment schedules and still leave borrowers better off. In practice, while institutional innovations have greatly reduced the subsidy required to reach moderately poor households with credit services, most programs still require subsidy, at least during their initial years (Cull et al., 2009), and manage to cover costs only by charging high interest rates. The potential outreach of such programs among the poor appears nontrivial but limited. Johnston and Morduch (2008) find for Indonesia that at most 22 percent of poor households would be deemed credit worthy and would demand loans large enough to allow a highly regarded and efficient MFI to cover costs. More generally, microcredit programs seem to reach near-poor and somewhat-poor households, but not the very poor. Among households that do borrow, average impacts appear modest, and greater benefits go to borrowers who were better off to start with (Banerjee et al., 2013; Shaw, 2004). For these and other reasons, many NGOs are shifting away from microcredit toward savings-led microfinance, which encourages people to form savings groups within their communities. Such programs cost much less (per beneficiary) to implement, seem to reach poorer households than are reached by microcredit programs (though still not the poorest), and are less likely to do harm (Wilson, 2002), but the quantities of savings involved are small, raising questions about how transformative they can be.

5. Insurance Constraints and Investment

As with markets for loanable funds, insurance markets have important roles to play in development but are subject to high transaction costs, which are especially high in developing countries and for poor clients, and to asymmetric information problems that often prevent them from emerging. Lacking insurance, households live in fear of being hit by the shocks to
which they are vulnerable and suffer serious reductions in consumption or asset holdings when hit by shocks. Lack of insurance also motivates concern that “insurance constraints” prevent some households – and especially poor households – from making choices that could raise their average income and well-being but would also increase their exposure to shocks. Households might, for example, choose not to use fertilizer or adopt higher-yielding crop varieties, or might choose to diversify their income-generating activities rather than reap gains from specialization. If insurance constraints have such effects, then policymakers might be able to encourage investment by the poor and raise their average incomes by reducing the risk intrinsic to important investments (e.g. by creating new crop varieties that are more resilient as well as more productive on average), by offering relevant insurance (e.g. crop insurance or health insurance), or by creating safety net programs that provide implicit insurance against farm productivity shocks or unemployment (e.g. some kinds of workfare programs).

The importance of risk in the lives of developing country households and the potential for new insurance products to raise well-being are hot topics. Academic researchers are especially interested in weather index-based insurance, which promises indemnities tied to rainfall measurements at weather stations or to vegetation measures derived from satellite photos. Tying indemnity payments to easily observed indices, rather than to individual farmers’ actual yields, reduces cost by reducing monitoring requirements and moral hazard concerns, but may also render insurance less effective, because it leaves farmers exposed to basis risk (i.e. residual uninsured risk). Basis risk may be high either because farmers face significant risk that is idiosyncratic within weather station catchment areas or because insurance policy designs link indemnities only imperfectly to local covariate losses. When poorly tailored to local risks, index insurance contracts can fail to reduce risk and even increase it for some farmers. Randomized experiments with weather index insurance in diverse locations have generated mixed results. Farmers who take up insurance seem to undertake riskier and higher-return activities on average, and the offer of (steeply subsidized) insurance can be even more important than the offer of credit for expanding agricultural production (Karlan et al., 2012), but uptake rates are often very low (even when insurance is offered at subsidized rates). Farmers may be put off by liquidity constraints or by lack of trust, knowledge or attention (Cole et al., 2013; Lybbert et al., 2010). Basis risk probably also constitutes an important deterrent. Uptake rates tend to fall as proxies for basis risk rise, and participation in groups
in which farmers might informally insure each other against idiosyncratic basis risk seems to encourage uptake (Dercon et al., 2014). In some cases, index-based insurance may simply fail to reduce farmers’ exposure to risk very much; Jensen et al., (2014) estimate that pastoralists in northern Kenya who purchased a carefully-designed index-based livestock insurance product remained exposed to between 68 percent and 93 percent of their original risk. Even when weather index insurance reduces risk for farmers and encourages them to take on riskier investments, it increases the wage variability to which landless workers are exposed. Mobarak and Rosenzweig (2013) find that the offer of weather index insurance to workers as well as farmers – an intervention rarely considered – could ameliorate the adverse consequences for workers.

6. Present Bias, Investment and Daily Choices

One insight from behavioral economics that has drawn significant attention in the development field is that human decision making is often subject to “present bias.” This means that people behave as if the discount rate they apply when comparing consumption now to consumption one period from now is much higher than the discount rate they apply when comparing consumption in any future period to consumption one period later. (This contrasts with the neoclassical assumption of constant discounting.) This means that people place especially great weight on foregone consumption in the present relative to consumption increases in the future when making saving and investment choices, and they may fail to undertake an investment today, even when they believe that the same investment under the same conditions will be attractive tomorrow. As a result, they might plan to undertake the investment tomorrow, but when time advances and tomorrow becomes the present, they again fail to undertake it. If unaware of this tendency, they might continue to procrastinate. If aware of their tendency to procrastinate, they might welcome opportunities to commit today to invest or start saving in the future. Present bias may represent an especially strong obstacle to investment for poor households, not because they are more subject to present bias, but because they are more likely to lack access to credit and, lacking both assets and credit, they cannot undertake investment without the costly reductions in present consumption that are magnified by present bias.

Present bias may help explain many intriguing phenomena. It may help explain why people take up “commitment savings accounts,” even when the accounts pay the same interest rates as savings accounts without
penalties for early withdrawal (Ashraf et al., 2006b), why they join savings groups that hold them accountable for weekly savings installments, and why they are more likely to invest in the use of fertilizer when nudged by small incentives to make advance commitments for purchasing fertilizer in the next planting season (Duflo et al., 2011). It may also help explain why some people finance investments by participating in microcredit programs, which charge high interest rates and require payment through strict weekly installments, rather than rely on themselves to save up toward investments through comparable weekly savings installments (Bauer et al., 2012).

The existence of present bias can have important implications for policy design. It creates greater potential for up-front fees to prevent poor households from using goods and services with delayed benefits. Furthermore, while liquidity constraints increase the potential only for monetary up-front costs to prevent investments by the poor, present bias also magnifies the potential for non-monetary up-front costs to derail investment. If present bias is very strong, for example, then even mild inconveniences may prevent families from vaccinating their children, even when they understand the important future benefits; and the offer of small immediate incentives that compensate them for inconvenience might greatly increase uptake of free and valued opportunities (Banerjee et al., 2010). Present bias may also mean that convenience- and comfort-improving changes in the design of health-protecting products, such as insecticide-treated bed nets and household-level water treatments, could increase use rates significantly.

7. Learning, Persuasion and Behavioral Change

Markets and private institutions lead people into making many important innovations as socioeconomic conditions evolve, but governments and NGOs probably have roles to play in encouraging some development-enhancing behavioral changes. If households’ preferences were fixed, as in the simplest neoclassical models of decision-making, then the only way to alter their behavior would be to alter their feasibility constraints by, for example, altering the prices they face or offering them cash or loans, possibly conditioned on behavioral change. Today’s development economists recognize, however, that households’ effective preferences might be subject to change for at least four sets of reasons, which suggest additional ways to encourage behavioral change.

First, people’s preferences are shaped by their knowledge and understanding. At the most basic level, farmers cannot adopt new
technologies unless they know that the new technologies exist (and markets may fail to supply them with this knowledge for diverse reasons). They also need to understand how to use the new technologies effectively. Furthermore, improved information about investments’ returns may encourage households to undertake investments, as has been shown for education (Jensen, 2010; Nguyen, 2008). Thus development economists have taken an interest in how and under what conditions people learn about new technologies and practices, especially those related to agricultural production and public health (see reviews in Foster and Rosenzweig, 2010, and Dupas, 2011). Often mere exposure to information is not enough to induce behavioral change. Some important knowledge is tacit and therefore difficult to transmit without significant investment of time and skill on the part of the transmitters. Furthermore, people may lack trust in the information deliverers and sometimes are unable to reconcile new information with their long-held beliefs.

Second, the effective preferences that shape people’s choices can depend on many contextual factors that are ignored in utility maximization models, creating the potential for promoters of behavioral change to increase their impact with marketing campaigns that re-frame people’s choices (Bertrand et al., 2006). Some contextual factors appear difficult to manipulate for practical impact, despite laboratory evidence of their effects on choices. For example, while documented “sunk cost effects” suggest that people might be more likely to use bed nets on a daily basis when they have paid for them (rather than having received them for free), such an effect was absent in a randomized control trial (Cohen and Dupas, 2010). Similarly, despite evidence that people are loss averse, and that they behave as if they have multiple identities with different preferences that can be made salient through appropriate questioning, marketing efforts to harness such preference traits made little difference for bed net purchases (Dupas, 2009). On the other hand, efforts to simplify choices and to provide reminders for periodic choices can make a real difference for savings behavior (Karlan et al., 2010). Some effective framing devices raise more questions than they answer: uptake of consumer loans increased significantly when a picture of an attractive woman was included on an offer letter (Bertrand et al., 2010).

Third, people’s preferences sometimes depend on the well-being or behavior of others (Datta and Mullainathan, 2014). If people derive utility from conforming, then efforts to promote new public health practices may achieve greater impact when targeting collective change by entire peer groups, rather than working with individuals. Similarly, if people
derive value from their identities as members of groups, and if the social norms shaping those identities discourage agricultural innovation, then it may be possible to increase agricultural productivity through programs that encourage change in group identities, or with temporary innovation subsidies that induce enough behavior change to push communities past tipping points (Barrett, 2005).

Fourth, preferences seem to differ across men and women within households, and institutional rules and norms help determine the relative influence of men and women in household decision-making. For example, in some African settings, cultural norms give women autonomy in cultivating and using the profits from food crops, while giving men autonomy in cash crop cultivation. This creates the potential to alter households’ choices, without changing their feasibility constraints, by altering gender-relevant institutions or by altering government programs in ways that cause their benefits to enter women’s spheres of influence rather than men’s. Unfortunately, the results of efforts to raise women’s influence within households by manipulating institutions are hard to predict. For example, some efforts to improve women’s relative status by raising food crop productivity rather than cash crop productivity caused food crops to become “men’s crops” rather than “women’s crops” (Kevane, 2004).

8. Cooperation and Private Institutions

Successful development requires cooperation as well as competition. Investments in transport infrastructure, agricultural research, and the creation of formal property rights institutions require cooperation on a large scale. Cooperation on a smaller scale can facilitate investment in local public goods, protection of common property resources, or reductions in transfer costs through bulk purchases and sales. Through local cooperation, neighbors may also provide each other with informal insurance against idiosyncratic shocks.

Unfortunately, cooperation is difficult. Voluntary cooperation on a large scale may be impossible, suggesting the importance of government intervention in the provision of large infrastructure services and agricultural research. Even among smaller groups of people, cooperation is very difficult, especially if people are purely self-interested. As simple prisoners’ dilemma games demonstrate, self-interest may preclude cooperation when free riding is possible. As coordination games and repeated prisoners’ dilemma games suggest, cooperation may fail even when possible and valuable, because groups may settle into uncooperative
as well as cooperative equilibria. Explicit rules and punishments may discipline people into making cooperative choices, but monitoring and punishing are costly activities and may be difficult to achieve in the absence of a third party enforcer (such as a national government with effective local reach). Local interested parties might pay for a jointly funded enforcement system, but only if they solve a secondary cooperation problem, because this enforcement system is itself a public good. They might instead promise to punish each other for noncompliance in a decentralized way, but such threats may not be credible, because people may have little to gain from engaging in costly punishment after infractions have already taken place.

Despite these theoretical difficulties, many communities in the developing world do manage to cooperate in important undertakings. For example, many communities studied by Ostrom (1990) and Wade (1987) successfully cooperate in protecting local common property resources (CPRs) such as shared grazing lands, forests, fisheries, and irrigation systems. They achieve cooperation not (only) by encouraging warm cooperative feelings, but by devising sophisticated systems of rules and punishments cleverly tailored to local circumstances, with monitoring and enforcement sometimes carried out by jointly financed agents and sometimes carried out in a decentralized fashion. The creation of high quality institutions appears vital for cooperation. Understanding better how such institutions are created and sustained might give development practitioners new ideas about how to promote local cooperation and might yield insights about how to develop healthy institutions on a larger scale.

Much remains to be learned about cooperation and the institutions that support it, but diverse evidence suggests that people with a particular type of other-regarding preferences – preferences for “negative reciprocity” – can play an important role. People with such preferences derive utility from punishing others who have behaved unfairly. Such people are willing to bear small costs for punishing rule breakers, even when they have little to gain from future cooperation. By rendering threats of punishment for rule-breaking credible, common knowledge that at least some people have such preferences can prevent free-riding and resolve prisoners’ dilemmas. Laboratory experiments suggest that many people (rich and poor) indeed have preferences inclining them toward negative reciprocity (Fehr and Gächter, 2000). Many study participants punish others at some cost to themselves by rejecting offers that they perceive as unfair. Perhaps anticipating such behavior, many participants offer to share much more than would be dictated by pure self-interest; and groups are more likely
to achieve cooperation when members are provided with technologies for punishing others at some cost to themselves. Surveys of case studies in poor communities around the world reveal, furthermore, that a defining characteristic of successful CPR use rules is that they are perceived as fair (Ostrom, 1990). All this suggests (somewhat troublingly) that human beings’ interest in fairness and revenge, rather than their practice of grace and brotherly love, may be the glue that holds cooperative institutions together in many real world cases.

However they are sustained, local institutional rules and norms can have important implications for the analysis and design of development interventions. Such institutions sometimes solve classic “market failures” (e.g. local public goods problems), reducing the need for external intervention in those areas and even raising the potential for ineffective externally imposed institutions to make matters worse. Institutional rules and norms may also alter people’s responses to policies (relative to the predictions of neoclassical models), significantly altering policy impacts. In the presence of mutual assistance or sharing norms, for example, cash transfers to poor households might crowd out private transfers the program participants would have received in the absence of the program, crowd in private transfers (by rendering participants more attractive partners in mutual assistance arrangements), or induce participants to share out benefits to other community members (Chantarat and Barrett, 2012). Unfortunately, even when indigenous institutions encourage beneficial cooperation, development actors might prefer to replace them with new public institutions, because indigenous institutions can have side effects that are detrimental to development and because they often work only for certain privileged groups while excluding poor and vulnerable groups. For example, local norms of mutual assistance, which provide households with informal insurance, can also dull investment incentives by requiring potential investors to share any investment returns with their neighbors. Local land rights institutions, which secure property rights and encourage investment for men, often exclude women (Kevane, 2004).

9. Governance Challenges for Public Sector Institutions

The discussion thus far suggests that intervention by governments and NGOs can speed growth and help spread the benefits of growth more broadly throughout society by reducing transfer costs, relaxing liquidity constraints, encouraging cooperation, or in other ways. Corruption, poor service quality, and problems of exclusion reveal, however, that even well-
intentioned and seemingly sensible policies can fail. For good reason, then, development economists pay much greater attention now than they did 30 years ago to the practical details of policy design and implementation.

Central to the study of policy implementation is the observation that to implement their policies, policymakers must work through agents of many sorts, including country-level and local administrators, local government officials, community committees, private sector contractors, and frontline service providers such as teachers and nurses. Policies are implemented well only when these agents make implementation choices that are of high quality, in the sense that the choices reflect development priorities and put resources to efficient use.

An agent produces high quality implementation outcomes only when she brings to her implementation choices some combination of five critical inputs to good decision-making: motivation, resources, capacity, local information, and coordinating oversight. She must be motivated to pursue developmental rather than personal or political objectives, either because she brings intrinsic motivation or because she is held accountable in some way. She requires budgetary or physical resources that are adequate for reaching her target group with high quality services. Even when she has adequate resources and is well motivated, she may fail to make high quality choices because she lacks necessary capacity, in the sense that she lacks technical or management skills, or lacks knowledge of best practices. Some choices are better made by agents close to the local level, who have better access to local information, with which they can tailor choices to local circumstances and more effectively manage frontline service providers. Other implementation choices are best made in a more uniform or coordinated way (i.e. with coordinating oversight), so that groups of communities can reap economies of scale or policymakers can distribute resources across communities in ways that respect equity and efficiency objectives.

Policymakers influence the types and quantities of these inputs brought to implementation choices indirectly, through their governance structure design choices. A policy’s governance structure is the set of rules defining which types of agents (e.g. central-level administrators, community committees, or private sector contractors) have the authority to make specific sets of implementation choices; what resources or capacity-building services the center supplies to those agents; what resources the agents may, may not, or must raise through local contributions or fees; the qualifications or process requirements that must be satisfied before people can take on the relevant decision-making roles (e.g. minimum education
requirements for teachers or rules about how to form community water committees); and how they are to be held accountable for making good choices (e.g. through competition, local democratic elections, or the use of monitoring and performance pay arrangements).

Over the last three decades, developing country governments have attempted to improve governance in many policy areas with reforms that decentralize decision-making authority within government bureaucracies, increase the use of performance contracting, increase community participation in policy implementation, or privatize implementation activities through contracting or demand-side financing. Often the aim is to improve implementation outcomes by shifting key implementation choices to agents with better access to local information and stronger motivation. In practice, while some reforms have generated significant improvements in policy implementation, many others have failed or produced mixed results, because they ultimately failed to improve the mix of inputs brought to implementation choices. For example, even when community members have better access to local information (relative to administrators in the capital city) and stronger intrinsic motivation to provide good oversight for education or health care workers, governance reforms that seek to increase community participation by placing decision-making authority in the hands of community committees can nonetheless fail to improve governance for many reasons. The committees may be captured by the elite, lack technical skills, or lack ways of holding frontline service providers accountable. They may also be handicapped by the reductions in central government funding that so often accompany governance reforms.

Development economists now partner with governments and NGOs in studying whether supportive interventions by NGOs, or changes in the details of governance reforms, can improve governance reform impacts. Evidence suggests that the results of decentralizing reforms can be improved by (among other efforts) tightening the rules by which decision-making committees are formed (Fritzen, 2007) or empowering government service users to hold local facility staff accountable (Björkman and Svensson, 2009), and that community-managed road construction can be improved by increasing the probability with which project officials’ books are audited (Olken, 2007).

10. Usefulness for Policy Analysis

The analytical framework sketched above has many virtues that were
lacking in the development economics to which I was introduced as a student years ago, rendering it more relevant to practical policymaking. It offers a richer and more nuanced perspective on potential rationales for intervention, and thus provides development actors with better tools for identifying where intervention or reform might be useful and for brainstorming about policy design and governance. It emphasizes the importance of evaluating policies’ benefits and costs, and suggests a systematic approach for comprehensive study of policies’ direct and indirect effects, and of the benefits and costs of policy design changes and reforms. It furthermore facilitates policy analysis that is disaggregated from beginning to end, highlighting the importance of studying not only aggregate impacts, but also the ways benefits and costs are distributed across diverse socioeconomic groups. In so doing, the framework treats the study of poverty impacts as necessary and integral to comprehensive analysis of any policy question, rather than treating poverty concerns as separable from other policy considerations.

The framework has the potential to improve the quality of debate about development policy (if only debaters could be convinced to care about the quality of debate!). It could steer debaters away from unhelpful discussions of overgeneralized questions such as “Is aid good or bad?” or “Is growth the best thing for reducing poverty?” It would require debaters to get more specific about the policies they are debating and about the mechanisms connecting policies to benefits and costs, and could help them clarify whether their disagreements rest on differences in beliefs about how the world works or on differences in values. The framework also provides useful guidance for empirical work with which debaters could attempt to search for better understanding of how the world does, in fact, work.

Careful study of how the world works suggests the importance of questioning some standard practices in program design. For many governments and NGOs, for example, current notions of best practice dictate that they plan to exit the communities into which they introduce programs within one to three years of entering; the assumption is that by planning ahead they can empower community committees to sustain the programs’ benefits for many years without the development organization having to provide any on-going subsidy or assistance. Unfortunately, just as cooperation problems, lack of information, or financing constraints may prevent communities from making one-time up-front investments in economic and social infrastructure, so they may prevent the communities from carrying out on-going operation and maintenance activities
effectively. In some cases, development actors may be able to achieve much additional good at small cost by providing communities with on-going subsidy or technical assistance (Ahuja et al., 2010).

Empirical research also sheds some light on how to focus interventions to increase impact. For example, a growing body of research demonstrates that episodes of poor nutrition during the critical early life period between conception and age three can have large life-long impacts on people’s physical and cognitive abilities, and on their adult incomes, and that efforts to improve nutrition for pregnant women, and to improve nutrition and cognitive stimulation for children from birth to three years old, can be especially powerful ways of investing in the human capital of the next generation (Alderman, 2011). Such investments add to human capital in adulthood not only by raising cognitive capacity directly, but also by preparing children to learn more while in school and to stay in school longer.

11. Possible Implications for Christian Development Work

I believe the framework described above is just as useful for Christians as it is for other groups and raises some interesting questions about Christian development work. I see the framework as fully compatible with a Christian world view. Much more than was the case 30 years ago, the development economics field now recognizes the many dimensions of life that contribute to temporal well-being; the importance of beliefs to behavior and cognition; and the ways that altruism and greed, prudence and impatience, love and vengefulness, attention and inattention, compete within us human beings as we make choices. It does not contain any explicitly Christian elements, but neither does it purport to describe spiritual reality. It does not even purport to provide a complete description of temporal reality, just an ever-improving approximation that is useful as a guide for research and policy. Christians pursue larger objectives than mere improvement in temporal well-being, but even so, the framework remains highly relevant to their practical choices about what, exactly, to do in their poverty reduction and development work.

In my mind, the framework raises a broad question about how Christians should choose which kinds of development work to do or support. The framework suggests that robust development performance requires government and non-governmental actors to carry out a package of diverse but complementary interventions and reforms, including everything from road construction financing to contract law reform to
community organizing. In such a world, the challenge for a Christian development organization is not to devise a stand-alone Christian solution to poverty, but the more humble challenge of finding a sensible role to play within a large partnership. It seems to me that as Christians choose among the many valuable roles they might play, it would make sense for them to choose roles associated with two kinds of complementarity: between their development activities and their larger Christian missions, and between their development work and the work of the larger development community.

A first set of activities that seem to exhibit these complementarities are activities that are done best by professionals committed to long-term relationships with the people they hope to serve. Christian development organizations pursuing the larger missions of manifesting God’s love and grace, and of inviting people into Christian fellowship and discipleship, would probably want to invest in long-term relationships even if they were not also pursuing development goals, and might thus be well positioned (relative to other development actors) for such activities. It is striking to me that contemporary development economics points to so many important development activities in which the trust and real two-way communication fostered by long-term relationships are critical! Christians might have a comparative advantage, for example, in supporting communities in community-led development efforts, encouraging cooperation, bringing local producers face to face with potential value chain partners, encouraging behavioral change, or providing trustworthy safety nets that truly help people feel less vulnerable. Commitment to long-term relationships might also give Christians a special role in some poor communities where the pressures for quick exit that weigh on the rest of the development community should probably be ignored.

A second set of activities that seem to exhibit the suggested complementarities involve outreach to the poorest of the poor. I would hope that Christians are more willing than some other development actors to sacrifice in the interest of helping other people thrive, and would be eager to make special efforts to reach the poorest households, even when this is more costly on a per-person basis than other kinds of poverty reduction work. Many policies and programs that bring significant hope to moderately poor people tend to exclude the poorest, for reasons related to remoteness, disability, ill health, loss of breadwinners, illiteracy, ethnicity, caste, or greater difficulty covering user fees. Might Christian organizations have an especially important role to play in reaching these groups? This might require the development of new kinds of stand-alone programs
designed to reach specific very poor groups (Hulme, 2010), but I wonder if it might also involve taking creative steps to improve the outreach of programs implemented by other organizations that face stronger pressures to cover costs. For example, using their knowledge of communities and individuals, Christian staff or local church members might be able to seek out and find the poorest of the poor and help them cover the fees that other governmental or non-governmental organizations charge for health insurance, clean water, or electricity (as well as helping them overcome informational, social, and logistical barriers to participation). In so doing, Christians might allow those other organizations to charge fees that cover larger fractions of cost, without fear of excluding the poorest, thereby allowing those organizations (on a fixed budget) to reach more of the people who are willing and able to pay the fees.

By contrast, some development activities that have been popular in Christian circles do not seem to me so obviously complementary to Christian outreach or to the work of the rest of the development community. Here I have in mind microcredit, and especially microcredit programs striving for financial sustainability. Staff members who must serve as loan officers – demanding repayments even when people are suffering – are probably not well placed to bring messages of grace and freedom, or to provide examples of care and generosity (Schaefer, 1996; Wilson, 2002). And staff members who must worry about covering the costs of lending probably lack motivation to seek out the potential clients who are hurting the most. If microcredit programs have benefits for Christian organizations that outweigh this lack of complementarity, it would be interesting to see them articulated.

Whatever development activities Christians decide to pursue, the development economics framework has implications for the way they approach program design. Some Christian authors suggest that good program design choices can be made on the basis of biblical principle alone. For example, a theme in Corbett and Fikkert (2009) is that, except in the direst of circumstances, Christian groups should always impose work conditions or charge fees when providing poor people with assistance or services, because this will help address the indiscipline, opportunism, or low self-esteem that the authors see as the root causes of people’s poverty as revealed by the Bible. Development research and experience reveal, however, that the world is a troublingly complicated place, where any one program design change – such as introducing a fee or work condition instead of distributing a service or benefit without charge – brings costs as well as benefits, where both the costs and benefits involve people who
matter to God. To make such choices well, decision makers must bring their values regarding what is important, and what is good and bad, into contact with context-specific empirical evidence regarding the sizes of the benefits and costs. In my opinion, if the benefits of introducing a particular design element into a particular program are small and the costs large, then decision makers should choose not to introduce that design element, whatever its instinctive appeal might be.

In the case of charging fees and imposing work conditions, the intended benefits of encouraging responsibility or stretching a fixed budget to reach more people must be questioned, examined empirically, and weighed against the potential costs of reducing program outreach and altering incentives in undesirable ways. The assumption that most people in the target group will be opportunistic and undisciplined if they are given the chance may be false. Even if this were true, externally imposing fees and conditions may do little to encourage internal growth of responsibility and self-esteem. More important, even if imposing fees and conditions would have these salubrious effects on participants, they might also prevent the poorest and most vulnerable households from obtaining valuable services, reduce the time poor parents spend nurturing their children, or have other undesirable consequences. Sometimes the empirical benefits are small and the costs large. For example, in Kenya, charging even very small fees for bed nets caused the share of households obtaining them to drop by 60 percent. The poorer households that dropped out were no less likely to use the nets on a daily basis than those who bought them, and charging fees failed to increase daily use rates among those who purchased them (Cohen and Dupas, 2010). In another study, charging fees also caused the households who did purchase nets to acquire fewer nets than required to cover all family members and to prioritize net use by adults, increasing the number of vulnerable children sleeping without nets (Hoffman, 2009). In Malawi, making cash transfers conditional on school attendance by adolescent girls successfully increased school attendance rates among the girls who continued to participate, but also caused many girls to drop out, and thus to lose access to a small income source that would have allowed them to resist early marriage (Baird et al., 2011). As a result, the inclusion of the schooling condition increased rates of early marriage and early exposure to sexually transmitted diseases among adolescent girls. In my view, these are difficult tradeoffs that merit careful study and case-by-case consideration.

Recent development research leads me to ask two narrower and more subtle questions about program design. The first arises out of evidence that
marketing techniques can matter for program uptake. If more persuasive marketing can increase uptake, even when the substance of the program on offer does not change, then we can’t assume that people always choose what is best for them, and it is possible for a marketing campaign to induce people to join a program that leaves them worse off. This raises practical questions about when it is ethical to mount marketing campaigns to encourage program participation, perhaps especially when participation in a program would involve risk. Presumably it is ethical only when development organizations are sufficiently confident that programs will generate benefits that outweigh the costs for most people and will harm very few, but what standard of evidence should be employed when deciding that an intervention passes this test? Which marketing tactics are acceptable and which are not? Should staff be provided with strong or weak incentives to drum up participation in programs with uncertain benefits?

A second set of subtle design questions arises out of growing appreciation that people’s worldviews shape their capacity to understand and act on information. I suspect that helping people replace many traditional worldviews by Christian worldviews can improve people’s material and social lives, by reducing their fatalism, removing the burdens of ceremonial responsibilities, or rendering them more open to innovation. But it seems to me that the elements of the Christian worldview that facilitate these improvements are not the elements that make it a distinctively Christian worldview. Many non-Christian worldviews, too, can help people reject fatalism and give up harmful traditional practices. And I don’t believe God promises any special prosperity benefits to people who come to faith. So I wonder: How can Christians welcome and encourage the worldview benefits that can arise as byproducts of Christian faith, without inadvertently spreading a prosperity gospel, which links Christian faith too closely to promises of temporal poverty reduction?

The development economics perspective also raises questions about governance within Christian development organizations. Like any other development organization, a Christian organization is made up of human beings who are subject to temptation. Christian organizations must, therefore, seek to ensure that their staff members and partners bring appropriate motivation to their work. How should Christian organizations go about doing this? To what extent should they rely on the same kinds of transparency and monitoring requirements used throughout the development community? To what extent and how might they also pursue good governance by fostering discipleship within their organizations,
challenging staff to seek help from the Holy Spirit for doing their jobs with integrity, diligence, and skill? Should we or should we not think that such practices can give Christian development organizations an integrity advantage? How might Christian donors identify organizations that prioritize this kind of discipleship?

Contemporary development economics research suggests the importance for Christian development organizations of nurturing internal cultures of evaluation, and more generally of critical analysis, research, evidence gathering, and acting on lessons learned. As suggested above, development organizations should be reluctant to roll out and promote programs without solid evidence that the programs will do significant good for many and harm very few. In many cases, the necessary evidence will be forthcoming only if the organizations undertake evaluations of their own.

I believe that Christian (and other) development organizations should strive for evaluations that are broader and deeper than has been the norm. They should push beyond estimating a program’s average impact to estimating the distribution of its impacts. Looking only at averages, evaluators might conclude that a program’s impacts are positive and encouragingly large, even when most benefits go to a few participants who were better off to start with, and even when some participants are left worse off. In addition, they should push more deeply into systematic exploration of possible unintended consequences and spillover effects, and should take a consistent interest in assessing program outreach. Many studies that provide rigorous estimates of impact among participants have little to say about outreach questions, such as: Who, exactly, does the program reach? Are most participants near poor, moderately poor, or very poor? Among the poor or very poor, what fraction of the local population is benefitting or could benefit from the program, and who is left out? What could be done to make the program more inclusive of the poorest? Answering such questions is difficult, because it requires collecting information representative of entire populations (rather than just program participants and their peers), but it is important. I am skeptical about many organizations’ claims to reach the “poorest of the poor,” and I would like to see them held to some standard of evidence. While studying their outreach, organizations might also become acquainted with some very poor groups who would otherwise have remained hidden.

An important and more widely recognized message of contemporary development economics is the need for evaluations that are more rigorous than has been the norm. In the case of program evaluations, rigor requires
that evaluators exercise great care in distinguishing between programs’ causal impacts and other reasons for correlation between program participation and the outcomes of interest. Current trends in development economics research may seem to suggest that the necessary rigor can be achieved only by running randomized control trials, but that message is unfortunate. Barrett and Carter (2014), among others, point out reasons why randomized control trials might be unethical or yield misleading results in some cases. And in many cases they are simply not feasible given financial and logistical constraints. In my view, the keys to rigor are logically disciplined and comprehensive thought about why an impact estimate (produced by any method) might be misleading; well-informed judgments regarding which of those problems are most likely to render estimates misleading in a given case; and creative and skillful econometric analysis of any available data, searching for patterns that can help rule out the most likely biases, or at least provide reasons to believe that the remaining biases are small (Schaffner, 2005). Evaluation teams are most likely to achieve such rigor when they bring together people with diverse skills and experiences, allowing them to employ detailed understanding of programs and context; high quality economic analysis; expertise in sample design, measurement, and statistical analysis; and familiarity with related research and experiences from around the world. For some Christian development organizations, the next step in this direction might be to allow Christian development economists (many of whom are members of the Association of Christian Economists) to participate in brainstorming discussions about evaluation, program design, and strategy.

Finally, the development economics perspective has implications for churchgoers and other donors to Christian development work. While I believe that we churchgoers should practice spontaneous and nonjudgmental generosity when we encounter needs in our daily lives, I believe we are also called to give generously in planned and thoughtful ways, especially when responding to the needs of poor and vulnerable people who live far away. When giving for global poverty reduction and development work, I believe we should lean toward funding the work of professionals in Christian development organizations and against funding schemes devised by churchgoers in the U.S., because, as Richard Stearns of World Vision U.S. puts it, “Solving poverty is rocket science” (Stearns, 2013). Exceptions might arise only when churchgoers can draw on expert assistance for developing effective interventions and avoiding harmful unintended consequences (Corbett and Fikkert, 2009). When choosing which organizations to support, we should lean toward organizations that
demonstrate commitment to high-quality study of effectiveness; willingness and agility to modify or scrap programs that don’t work; careful attention to discipleship and governance within their organizational cultures; a focus on interventions that are complementary to the larger Christian mission; and, perhaps, a focus on people groups and needs that receive too little attention from the rest of the development community. When evaluating organizations’ concern for effectiveness, we should look for concern not only about impact among people who participate in programs, but also about effectiveness in reaching the neediest within their target groups. When looking for organizations likely to have good impact, we should look not just for organizations pursuing specific kinds of interventions with proven impacts (e.g. distribution of insecticide-treated bed nets), though that is a useful consideration (Wydick, 2012), but for organizations with the orientation and capacity to help communities identify their own most important needs and to respond skillfully to those needs, whatever they might be, either directly or through diverse and strong partnerships. When looking for organizations with such capacity, we should lean toward organizations committed to long-term relationships with the communities they serve, and should make our own commitments to provide them with steady financial support over the long term, whether through child sponsorships or other creative long-term financing arrangements.9

Endnotes

1 The framework and themes reviewed here are discussed at greater length in Schaffner (2014).

2 Institutions are frequently defined as “humanly devised constraints” on behavior, following North (1990). The more specific definition given here, which draws on North (1990), Ostrom (1990) and Greif (2006), seems more useful, because it indicates how institutions influence behavior (i.e. as constraints defined by rules and norms) and raises the key analytical question regarding institutions, which is “Why do people comply with institutional rules and norms?” I discuss some possible answers to this question below.

3 I do not include “social capital” as a category of asset, because I find the term analytically unhelpful. The term suggests that all the details of a household’s diverse non-market interactions and related institutions can meaningfully be aggregated into a single whole, which unambiguously improves its well-being. In fact, institutions have diverse effects, and a particular institution may raise a household’s well-being along some
dimensions or under some circumstances while reducing its well-being along other dimensions or under other circumstances.

4 Use of the term “transfer cost” is not common among development economists, but it is a convenient way of referring to an important set of costs that is broader than “transaction costs.”

5 For a nice introduction to the use of game theory in the study of development questions, see Wydick (2008).

6 Several decades ago, the list of rationales for intervention was limited to the market failures involving public goods, externalities, market power, and asymmetric information, plus equity considerations. A contemporary list would also include common property resource problems, weak contract enforcement and property rights institutions, liquidity constraints, insurance constraints, coordination failures, information problems (of diverse sorts other than asymmetric information), problems related to self-control and cognition, and private institutions that exclude, exploit, or dull investment incentives. Analysts also now recognize that markets and private institutions must fail before intervention is likely to improve things, and that there is no neat divide between equity and efficiency considerations.

7 The approach involves (1) studying the details of the policy’s design, and then drawing on those details in (2) identifying the agents through whom the policy is implemented; (3) studying the inputs (as described above) that the agents bring to their implementation choices and how the policy ultimately alters households’ opportunities and constraints in practice; (4) determining which households become directly affected by the policy (by, for example, choosing to participate in a program or to use new infrastructure services); (5) assessing the multidimensional impacts of the policy on the well-being and behavior of those directly affected households; (6) assessing the indirect impacts on other groups throughout society that might arise as the behavioral changes of the directly affected lead to changes in markets, institutions, and the environment; and (7) measuring one-time and on-going budgetary costs.

8 I offer these reflections with some hesitation, knowing that I am neither a practitioner nor an ethicist. I hope some readers find them useful as conversation starters and I welcome comments and corrections.

9 Note that I am referring here to child sponsorship as a financing mechanism that encourages donors to commit to steady giving over many years, rather than to a type of programming. The child sponsorship funding mechanism can be used to finance diverse types of
programming, each of which requires careful evaluation, as discussed above. Wydick et al. (2013) examine the impact of one type of programming (employed by Compassion International) that is financed using the child sponsorship mechanism.

References


