Alejandro Chafuen

Heather Wood Ion begins her paper by citing insights from Peter Drucker and Edward Deming, two very knowledgeable management experts. Drucker stated that "95 percent of what matters in an organization cannot be counted"; Deming, that "95 percent of the time within an organization is spent on measuring." I will add to these insights that of another management guru, Michael Porter, who has claimed that "billions are wasted on ineffective philanthropy" and that "philanthropy is decades behind business in applying rigorous thinking to the use of money." Those who want to improve the theory and practice of philanthropy need to be aware of both challenges: the need for rigorous thinking and the need to acknowledge that many important things can't be measured.

Although Ion's paper focuses more on the topic of measuring success at nonprofits than Emily Chamlee-Wright's contribution does, both wrestle with the same questions: How can we know how much good we are doing in nonprofit, microfinance endeavors? How can we improve the sector? The insights of both authors have value for the entire nonprofit sector.

Economists know that having more of any scarce and useful product is a positive thing. Abundance becomes detrimental only after passing a level of saturation. Just as too much water in soil can damage certain plants or lead to flooding, too many resources flowing into microfinance initiatives could lead to negative outcomes for the field. As long as it is not subsidized, the more microcredit the better, but if it is subsidized, with grants or with donated time, we should begin to take consideration of tradeoffs.

Knowledge Through Prices

In understanding the economic allocation of resources, one of the key questions we ask is, "How do we know we are using scarce resources in a manner that, in satisfying one need we do not leave another, more urgent, need unsatisfied?" Thanks to private property, markets, and the evolution of money, in the profit economy we have price signals which help us determine economic efficiency. Property, markets, and money arose from, and helped expand, the division of labor among participants unknown to one another (the

Hayekian "extended order" mentioned by Chamlee-Wright). By comparing prices, people who do not know each other can nevertheless learn from the results of social cooperation. After they sell their harvest, farmers who have an adequate knowledge of the price of new seeds, fertilizers, and other factors of production can assess whether they helped create or destroy wealth. The entire farming exercise may have been spiritually rewarding for the farmer; it may even have been a helpful and long-term positive professional experience, but unless the farmer finds a way to produce more than what his activities consume, as measured by the market process, his material well-being will plummet. If one generalizes this situation, we end up with a farm community consuming more than it produces, yielding a poverty-generating sector.

The assessment of whether a particular economic activity generates or dissipates wealth is possible only because of the existence of market prices. Prices are signals that reflect the relative scarcity of a product and thereby signal to entrepreneurs what activities are most likely to generate wealth. Philanthropies operating in a market economy likewise can use price signals to operate, but as their products or services are not sold, or are sold below market prices, we can't arrive at a conclusion as certain as the one at which we arrived in the example of farming. Those of us who work in the philanthropic sector place a high, even ethereal, price on the goods and services we provide, and that satisfies us that we are adding value.

Early economists among the late medieval scholars proposed a category of human action called "mixed donation." The term describes the practice of willingly selling a good at below the market price to help another person or organization. It also applies to those activities that we perform which, apart from increasing the value of our assets or creating some income, might help others and give us a spiritual reward. Planting trees to prevent soil erosion, while getting a small government subsidy or tax rebate in return, is an example. By contrast, it is often the belief that true, "pure" philanthropy is that which is given without expecting to receive something tangible in return.

The need for a concept such as mixed donation points to the complexity of evaluating philanthropic activities. Ion's paper likewise demonstrates that assessing the value of some of the most important aspects of philanthropic activity is difficult and that there are some outcomes that can't be measured at all. Nevertheless, as most philanthropic products have some competition in the for-profit sector, there are many areas where it is possible to measure results or at least have an approximation of effectiveness. The more the product of a nonprofit resembles the product of for-profit organizations, the easier it is to measure its effectiveness. Comparing results of a for-profit high school or university against a nonprofit entity can produce very relevant results. If we see a growth in the for-profit microfinance business, philanthropies working in the sector will be able to compare their cost of delivering a loan with that of their competition. If they neglect such self-evaluation, other not-for-profit or for-profit outfits will step in and do the job more efficiently. Microrate.com, a rating agency dedicated to the evaluation of microfinance institutions, is one example of this process.

Structures for Empowerment

To make her point, Ion focuses on the work of WORTH, a Women's Empowerment Program in Nepal. The women are encouraged and trained to save money which is then invested in their microenterprise. Each woman, writes Ion, "is put in contact with a literacy volunteer" and then goes on to learn how to work with numbers and basic accounting practices. To take part in the program, which provides no subsidies, the women pay a small fee. They are encouraged to be creative and not dependent on gifts. The structure of the program, according to Ion, "is in direct contrast to traditional approaches to philanthropy, which create dependence and are episodic in their focus on a specific 'problem' and its solution."

The major focus on helping women increase their personal skills and perception of self-worth creates a personal change which Ion regards as the most important contribution of this philanthropic effort. These women "are *transformed* from being defined as 'the poor' or 'in need' or recipients, into givers or teachers."

This great potentiality of human persons when there is an increase in respect for their dignity was also brought to the surface by the research conducted since the 1980s by Hernando de Soto and the Institute for Liberty and Democracy in Peru. The studies, originally published in de Soto's book, *The Other Path*, showed that the major barriers that the poor were confronting were the burden of governments' economic interventionism and over-regulation. Despite these hurdles, the poor working outside the formal economic sector were able to produce and accumulate an enormous amount of assets. In de Soto's *The Mystery of Capital*, a sequel to *The Other Path*, he further quantifies the wealth created by the poor, a wealth which yields only a small fraction of its potential fruits because of the weak rule of law and lack of respect for private property in the society.

I recall that almost twenty years ago, at the "Oxford Conference of Christian Faith and Economics," an outstanding Christian scholar from India, Vinaj Samuel, remarked during a keynote speech, "for years we have seen the poor as the victims or the necessary destinaries of our paternalism. *The Other Path* has shown us that the poor are a great source of wealth and creativity." De Soto's effort to quantify the number of days, steps, and bribes that it would take to register a simple business, and then, in his second bestselling book, to measure the amount of assets created by these informal endeavors, was essential in helping us begin to recognize the potential for wealth creation among the poor and to identify ways to unleash it. Unlike De Soto, Ion seems unaware of the key role played by the sense of ownership, be it private, familial, or even communal, in this process of change.

In addition to omitting discussions of the role of property rights, Ion may leave measurement too far behind. The fact that there are efforts that are not measured appropriately does not invalidate the need for measurement. Ion tells us that after major funding from USAID dried up, the WORTH project continued on its own and created between eight hundred and two thousand new economic groups reaching fiftenn thousand to forty thousand women, and points out that "since they are doing this on their own, no one knows accurately how far they have reached." The fact that there are efforts that are not measured appropriately does not invalidate the need for measurement. The statement by Ion would carry much less strength if instead of providing a rough estimate she had stated that WORTH has created many groups, reaching many women. Although Ion states that "the measures of success of this program do not conform to audits and accounting terms," she nevertheless acknowledges that those who run WORTH seem meticulous in trying to measure as much as they can for each aspect of their work and impact, even if much is unaccounted for and indeed unaccountable.

The Value of Traditions

Ion is correct, I believe, in stating that one of the most important lessons for philanthropy is the value of working primarily "through the use of existing local traditions" in ways that respect "the participants' autonomy and their positive strengths within the context relevant to them." In the line of business I am most familiar with, policy and educational think tanks, that has also proved to be the best strategy. There are, however, certain basic principles, rooted in human nature that seem to work everywhere: notions of trust, respecting commitments, timeliness, etc. During a workshop for nonprofit think tanks I once attended in Cairo, an expert from the World Bank likened these principles of human nature to a Japanese bonsai tree: if one respects the rules of how to grow those trees, they can survive and prosper anywhere.

My views are slightly different. I believe that successful think tanks, and this can be generalized to successful nonprofits, are more like vines for wine. To produce good grapes, they need to be a variety that adapts well to the local terrain. Even then, it usually takes many years to produce the first good wine. The vines need to plant deep roots in the local soil. Principles of sound management, including leadership, measurement, and accountability, work everywhere, but they need to be adapted to local contexts. Those of us who try to help philanthropies from outside, as Ion observes, need to respect local traditions and work as enablers more than as the actors ultimately responsible for the success of the effort.

From the importance of "dreaming" to her discussion of how change and learning depend on the sharing of information, there are many insights in Ion's paper that I see confirmed time after time in the nonprofit arena. One of the authors she quotes states that great change occurs "first in the minds of people," and hence information is "the wealth of nations; it explains the poverty of nations." Yet, someone has to use this information, has to have the proper incentives to act upon it. It is in this aspect of the use and the incentives to use information that I find Chamlee-Wright's paper to be a good complement to Ion's. Market incentives do matter.

The Value of Market Incentives

Chamlee-Wright analyzes microfinance, but she focuses more on the knowledge generated by social interaction and the market process. She asks, "Will the development of microfinance in the first half of the twenty-first century be advanced most effectively by significant increases in donor support, or by a massive commercialization of the industry?"

The path of commercialization, which Chamlee-Wright sees as the road which can best help reveal the knowledge existing in social networks, is really a path of ownership and better definition of property rights. She correctly names property and contract as two of the social and moral institutions which allow the extended order of the market to disseminate knowledge. Market prices, as she states, "are certainly of particular importance to this process, not just because they provide incentives and allocate resources to competing ends, but also because they serve the vital cognitive function that makes economically rational choice possible."

Chamlee-Wright also describes some of the dangers that might take place with increased commercialization. "Market incentives may make organizations more responsive to the economic environment, but this response may require them to move away from meeting the needs of the very poor." Current dynamics are moving organizations to focus on efforts that, as she suggests, are more helpful for their fundraising than for "the entrepreneurial business development and refinement that are at the very core of their social mission."

The answer to these tensions between fundraising and mission activity might be a process where some of the activity in the microfinance market continues to move toward commercialization and bigger clients while other efforts enter the market to serve the poor. Within the nonprofit groups, we might see them develop a two-tier product line: one to attract larger donor grants and keep building capacity, and another to continue serving the neediest candidates. In such cases we would begin to see how interdependent commercial and philanthropic action can be.

The Importance of Design

Chamlee-Wright's major point, the need to connect the poor to the extended network of the market order, takes me to my last topic for discussion. Ion, at least in her paper, tends to pay little attention to the importance, in economic development, of market incentives and a rule of law based on respect for people and their belongings. Chamlee-Wright takes these institutions into account but does not focus much on how this network or rule of law comes about. There are simplistic notions of spontaneous orders based on a dogmatic bias against human design. As so many social institutions essential for the free society evolved through time without having a single architect, some of us, Chamlee-Wright included, are sympathetic to the notion of spontaneous orders. But the fact that many human designs do not produce the intended consequences and need constant adaptation does not negate the importance of human actions intended to improve institutions. In the same way that one can plan one's charitable activities, one can and should "plan for freedom" or for institutions that make freedom possible.

I have no doubt that new demands for rule of law, rights to free trade, and property titles would come out of the many new participants producing and trading through projects such as those studied by the authors of these papers. But these demands can easily be squelched by authoritarian regimes regardless of their ideological bent or structure. Maoists, monarchists, and illiberal "democrats" continue to manipulate public opinion and close the doors to freedom against microentrepreneurs in large regions of the world. In addition, many of those benefiting from microfinance have no knowledge of the importance of the extended order and might seldom act on their own to protect private property or rule of law for their neighbors. In order to change that, we need new kinds of efforts, and these too might belong to the nonprofits rather than the for-profit sector.

While those who are engaged in microenterprise and receive the benefits of microfinance can truly be defined as entrepreneurs, those who are promoting microfinance schemes or WORTH-type solutions can be defined as social entrepreneurs—people who see a need for a social solution and are able and willing to attract resources and allocate them to satisfy that need. Something absent in these papers but needed in my opinion for the microenterprise movement to reach its full potential, is a new kind of actor: *intellectual* entrepreneurs with accurate understandings of the institutions needed for prosperity. I define intellectual entrepreneurs as those who discover a need for an intellectual or policy change and are able and willing to attract resources and allocate them to satisfy that need. It is people like that who help create legal frameworks conducive to prosperity.

Intellectual entrepreneurs also have their weaknesses, and a principal one is that they tend to become so enamored of their own ideas that they seldom make an effort to test them against reality. While social entrepreneurs and their sponsors often fall to the temptation of neglecting the battle for ideas, intellectual entrepreneurs, on the other hand, tend to neglect the personal battle of helping people actually improve their lot, instead focusing purely on indirect means of personal and social improvement. Although I am biased toward the importance of indirect means of alleviating poverty, I am convinced that more collaborative efforts between social and intellectual entrepreneurs would create the conditions for improved, measurable results in the world of microenterprise and many other nonprofit fields. Perhaps these conversations can help us move in that direction.