LIVING CITIES
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SCALE PATHWAYS

Bringing Asset-Building Products and Services to Scale

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Founded in 1991, Living Cities is an innovative collaborative of 22 of the world's largest foundations and financial institutions. In 20 years, Living Cities members have collectively invested almost $1 billion, helping shape federal funding programs, redirecting public and private resources, and helping communities to build homes, stores, schools, community facilities and more. However, our members are not simply funders. They shape our work and priorities by participating on the Living Cities Board of Directors, four standing committees and three working groups. In sum, our members contribute the time of 80-plus expert program staff toward improving the lives of low-income people and the cities where they live.

OVERVIEW

In cities across the country, practitioners in the field of asset-building are developing innovative approaches to expanding savings opportunities in low-income communities. Unfortunately, these programs and services rarely reach enough scale to transform entire cities, regions, states, or even neighborhoods. This paper is based on insights developed from interviews with approximately 25 practitioners working in the field of asset-building and a meeting conducted by the Living Cities' Income & Assets Working Group on July 26th, 2011. We hope to generate discussion among funders and practitioners on approaches necessary for scaling. With this paper as a guide, funders can better assess the elements of scale best suited for their investments, while practitioners can more effectively design projects for scaling.

The tools and conceptual framework presented in this paper include:

- **Definition of Scale:** A working definition of scale for asset-building products
- **The Five Ps:** A five-element tool that can be applied when moving projects toward scale
- **System-Wide Change:** A discussion on the uses of complexity analysis to understand system-wide change in asset-building programming
- **Case Studies:** An active application of the Five Ps to two different asset-building efforts

DEFINITION OF SCALE

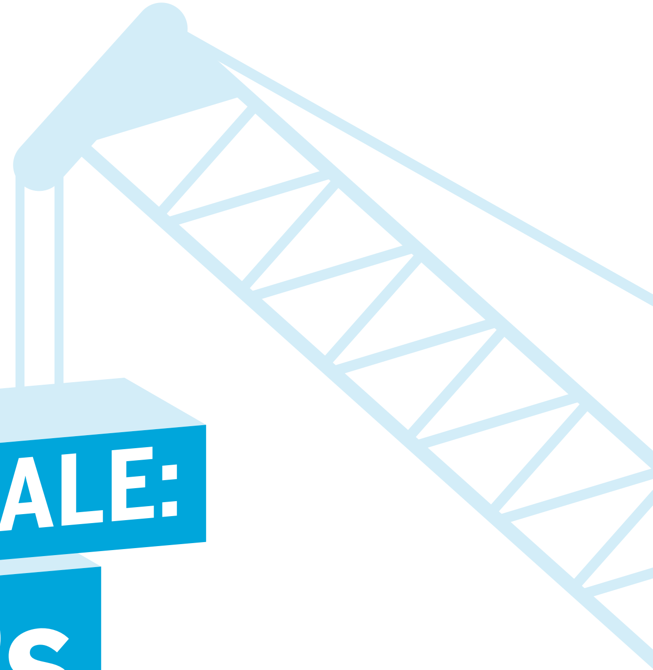
What is scale? Our interviews with thought leaders in the field of asset-building led us to a definition of scale that would resonate across sectors:

Scale is reaching enough of the market to make a material difference.

Given that this definition of scale focuses on both deep and wide impact in asset-building work, we should see the most scalable programs and services transforming from exceptions in the field to *business as usual*. There are two important corollaries to this definition of scale:

First, scale is *influenced by the size of the audience for a particular product or service*. A product or service aimed at every low-income family in America has a much higher numerical bar for scale than one aimed at families on Native American reservations. By default, scale is also *influenced by the depth of the impact on individual consumers*. It can be argued that the greater the impact on the individual consumer, the lower the number of consumers that must be reached in order to have a material impact.

Second, scale is *influenced by what it takes to make a difference in a specific market*. For some practitioners, this means that every consumer in the market has access to the product or service that they are scaling. For others, this means having enough of their product or service on the market to change the behavior of competitors, consumers, and regulators such that every consumer in the market has access to products and services that do a better job of building assets. In this case, scale is determined by the percentage of the market a product or service needs to reach in order to 'tip' the market toward providing more products and services that promote asset-building.



FOUNDATIONAL ELEMENTS OF SCALE: THE FIVE Ps

Asset-building products and services differ dramatically from one another. Nonetheless, they all work to transform the ways low-income people engage in savings and investments in order to have greater economic independence. In order to compare, contrast, and complement these programs, we propose a common set of elements that we call the "**Five Ps of Scale.**" This section will layout the Five Ps, use two case studies to demonstrate the application of the tool on specific programs, and provide a more detailed discussion of how the 'Platform' P element operates.

THE FIVE Ps OF SCALE

Product

Does the product or service have a design that can scale to meet demand in the target market?

To be an attractive product or service for asset-building, the product or service must enable the targeted consumer to build assets and must have *competitive advantages* over other products and services that are similar, but that do not build assets (e.g. payday lending). The product must also enable standardized production and delivery in large volume without expensive tweaks and customization for each customer or market segment.

Profit

How are all the costs covered as the product or service scales up?

Methods of covering costs include fee-for-service revenues, public subsidy, and in-kind donations. Practitioners must show compelling evidence that distributing the product or services makes all organizations required for distribution *better off* financially or provides sufficient *social returns on investment* to justify the effort and investment. For example, fees from users may exceed operating costs but this might be acceptable because distributing the product enables the organization to raise additional funds from other sources. If costs are not covered, a clear method of measuring social returns will be necessary (e.g. increased college graduation rates, decreased use of payday lending services).

Policy

What regulations and/or public sector agency actions are required to promote and sustain scaling up?

This may include changes to statutes, regulations, funding, and agency programs in order to provide more resources to support the delivery of the product, reduce regulatory barriers, institutionalize processes, or otherwise facilitate scale. Moreover, this channel asks that we consider the approaches that ensure consistency across political administrations.

Platform

What delivery channels, partners, and supports are required to deliver the product or service efficiently and effectively at scale?

These delivery systems may include bricks and mortar distribution (e.g. retail store, bank branch, ATM kiosk), Internet, and individual networks (e.g. direct sales through individuals, like mortgage brokers). It may also include a set of offerings from an existing private distribution channel or public agency program.

Promotion

How can demand be created and potential users educated at a cost that is feasible at scale?

Many asset-building products and services rely on marketing and education from multiple sources (e.g. community groups, local government) in order to get to scale. It can be useful to think both of *the type of organization* that does the marketing as well as the *method of marketing* (e.g. point of sale, mass media, social marketing, network marketing, and direct sales). Marketing and promotion through a trusted organization is essential—especially for the underserved.

APPLYING THE FIVE Ps: CASE STUDIES

THE CORPORATION FOR ENTERPRISE DEVELOPMENT (CFED), CITI FOUNDATION, KIPP AND THE UNITED NEGRO COLLEGE FUND (UNCF): PARTNERSHIP FOR COLLEGE COMPLETION

The Corporation for Enterprise Development (CFED), Citi Foundation, KIPP charter schools, and the United Negro College Fund (UNCF) are collaborating as the Partnership for College Completion (The Partnership) to demonstrate and scale up College Savings Account programs for middle and high school students. The Partnership opened 1,000 college savings accounts in KIPP charter schools in 2010, 2,500 accounts in 2011, and plans to open 8,500 accounts by the end of 2012. Together, the partners built infrastructure for production and distribution that supports thousands of accounts. College Savings Accounts are one element of the partnership, whose power and impact lies not just in the strategy to scale savings for higher education, but also in the approach to integrate savings with scholarships, financial education, and academic counseling. It is by connecting and delivering these elements in a coordinated way that the partners aim to achieve meaningful outcomes.

Product

Does the product or service have a design that can scale to meet demand in the target market?

The product is a deposit-only savings account and can solely be offered by a depository institution – in this case Citibank. The Partnership for College Completion's College Savings Account has the following features:

- An initial deposit of $100 in the account
- Up to $250 per year in match per student
- Support to encourage low-income families to become banked
- Deposits can only be made into the account prior to college enrollment
- Withdrawals can only be made when the student is enrolled in college

The primary market for this product is low-income students in grades K-12 whose families are interested in saving for college attendance. The potential national College Savings Account market could be as large as 10 million students.

Profit

How are all the costs covered as the product or service scales up?

The partners have worked to lower the costs of providing and managing the College Savings Account by building a system that is cost-effective at scale.

On the financial institution side, Citibank developed a middle office and back-end platform in partnership with UNCF that will drive account initiation costs down. Making these accounts deposit-only and establishing a dedicated Partnership for College Completion customer website also keeps servicing costs down. Another important scale factor is the decision to package and manage student savings accounts as custodial assets. By establishing a trustee to serve as an intermediary (in this case UNCF) and distribution partnerships (in this case KIPP schools), the marketing and outreach costs are lowered, while increasing client enrollment. In this example, UNCF was selected as the trustee because it already has a set of systems for managing trust accounts for scholarships at scale and KIPP is the distribution partner because of their deep engagement with families with children in K-12.

As the program grows, the Partnership will come under increasing pressure to identify revenue sources and models that support greater scale, especially given the challenges in identifying public sector financing in today's fiscal climate. Citi is currently working with the Partnership to raise approximately $5 million in revenue in order to grow the College Savings Account program from 1,000 students to 8,500. To this end, they are working to connect to foundations, individual donors, and perhaps even Citi customers. For the program to grow beyond 8,500 students, it will need to be replicated by other financial institutions and/or find support from new revenue streams.

Policy

What regulations and/or public sector agency actions are required to promote and sustain scaling up?

Currently, Citi provides the entire match for the College Savings Accounts. Ultimately, the hope is that the federal government will step in and provide funding to scale the approach. CFED is coordinating a dual policy approach that aims to leverage federal support through a refundable Saver's Credit and access federal program revenues in partnership with the Department of Education through both mainstream education funding programs and specific college success initiatives. Attaining federal support as well as expanding individual donor support will be important because, at 10 million students per year, the total match could be as high as $2.5 billion per year. Despite potential political shifts, federal support will be central to ensuring the longevity of the program.

Platform

What delivery channels, partners, and supports are required to deliver the product or service efficiently and effectively at scale?

Citi is using an account opening and management platform that has been customized on the front end for the Partnership for College Completion, but the architecture can be used with other efforts. In fact, Citibank is currently using a similar model with the City of San Francisco's Kindergarten to College program. This is not a "boutique" offering designed for one community-based effort – Citi has approached this as an opportunity to create a platform that can support similar efforts across the country.

Promotion

How can demand be created and potential users educated at a cost that is feasible at scale?

KIPP schools are the obvious sites of promotions as they have the closest contact with families and students in the target market as well as have an institutional and programmatic commitment to college completion. The partners have worked to embed a financial module on college savings into KIPP's curriculum, thus educating potential customers in the classroom. In addition, the partners plan to use a wide-range of approaches to encourage savings behavior, including text messaging, Facebook accounts, and social media as the program develops.

The partners also use insights from behavioral economics to help boost participation rates. For example, the program is designed as opt-out rather than opt-in, which has been shown to dramatically increase participation.

Getting to Scale: Supports and Challenges

The Partnership for College Completion designed their College Savings Account program with the explicit goal of getting to scale. Accordingly, they built in many supports and features into the program, including choosing a scalable product design, building partnerships to provide the required core competencies in an efficient way, using behavioral economics and powerful institutional reinforcement to scale up promotion, embedding the product in a mainstream business line of a major financial institution, engaging in a coordinated policy approach to build the subsidy stream required, and developing a scalable platform for quality service delivery. The collaboration of cross-sector organizations has resulted in a meaningful shift in the asset-building, charter school, and financial provider ecosystem. Even though the Partnership for College Completion faces challenges in getting to scale, the partners are committed to this goal. Thinking about these challenges through the lens of the Five Ps makes the pathway required to achieve scale explicit.

Profit — matching funds: The Partnership will need to track the effect of matching funds on household savings rates. If this proves to be an important lever, the partners will need to extend support for matching funds. As noted above, the Partnership is pursuing a variety of strategies to raise the funding, but the challenge is still real and intricately linked to the type of matching fund that will be proven to be the most effective. The Citi Foundation has funded the Center for Enterprise Development and a third party researcher to deepen their understanding of how financial incentives can *best be structured* based on demonstration results.

Profit — financial sustainability: In the long run, it will be important to show financial sustainability on a fully costed basis. The effort is too early to evaluate from a cost perspective, but the Partnership is carefully tracking financial sustainability indicators.

Policy — expanding adoption: The ability to deliver College Saving Accounts is predicated on the pure existence of educational institutions like the KIPP schools that sends a very high proportion of its students to college, provides "wraparound" supports that make CSAs work, and is committed to making CSAs readily available. If this model is to grow, efforts must be made to ensure that adoption is not unique to a particular set of schools, but rather institutionalized into school systems or far-reaching networks.

Platform — custodial accounts: UNCF is providing the ownership and management of the custodial accounts for the partnership. UNCF currently provides ownership and management for over 50,000 custodial accounts for scholarships and clearly has the capacity to manage the program at its current scale. However, neither UNCF nor any other non-profit intermediary is currently prepared or structured to manage the millions of accounts that are required for the program to fully scale. If the custodial model is going to move to scale, more emphasis must be placed on building out these systems.

NEW YORK CITY OFFICE OF FINANCIAL EMPOWERMENT: FINANCIAL EDUCATION NETWORK

The New York City Office of Financial Empowerment is bringing a variety of asset-building products and services to the citizens of New York, including financial education. The Office of Financial Empowerment developed a scalable way of connecting individuals to financial education classes and counseling through the use of the city's 311 system, a city-wide phone number that anyone can call for referrals to support and services. The use of the 311 system as a platform creates a centrally integrated financial education platform linked to a high-impact system of resources. The main audience for these publicly provided services is the 1.5 million low-income individuals who live in New York City.

Product

Does the product or service have a design that can scale to meet demand in the target market?

The product is financial education and counseling, with an emphasis on connecting residents to high-quality one-on-one financial counseling with defined performance and outcome metrics. Counselors work with clients to identify financial priorities and develop a customized service plan to help them achieve financial goals. Education and counseling is provided by a combination of non-profit organizations participating in the City's Financial Education Network (Network) and City-sponsored Financial Empowerment Centers (Centers) in all five boroughs of the city. The participating non-profit organizations are required to meet a set of standards created by the Office of Financial Empowerment (in consultation with leading practitioners in the field), such as fee transparency, and have been providing consumer education for at least a year. All Centers' counselors and coaches have passed a City-approved training course. The Office of Financial Empowerment also provides small grants to its Network partners to improve their capacity to track activities and outcomes. The Office of Financial Empowerment administers and maintains a database that tracks all Center counseling sessions and monitors outputs across five service areas: banking, budgeting, saving, reducing debt, and improving credit. Network partners are invited, but not required, to use a common data management system to track outcomes.

Profit

How are all the costs covered as the product or service scales up?

Since this program leverages existing City infrastructure, the cost per consumer reached is low. Public awareness campaigns and the Network's capacity building efforts are funded by City general revenue funds. The Centers were initially supported solely through private philanthropic support. In early 2011, after three years of solid performance data and continued demand for services, Mayor Bloomberg announced a City investment of $1.9 million to expand the Centers. The training has been incorporated into the City University of New York's curriculum and therefore is now self-sustaining. The Office of Financial Empowerment still covers the cost of Centers' counselors training and facilitates targeted scholarship funds.

Policy

What regulations and/or public sector agency actions are required to promote and sustain scaling up?

The development of the Network did not require additional subsidy. The critical role played by the City of New York was to organize, coordinate, and convene the field of non-profit financial education providers. The City infrastructure offers key "platform" elements, such as integration into the 311 system and promotion of financial education opportunities through the Mayor's office. There is almost no additional expense incurred in maintaining the 311 system or for answering additional calls generated as a result of the system expansion.

More importantly, twenty-one of the locations in the directory are Centers, which are entirely supported by the Office of Financial Empowerment (which initially supported the Centers through private funding). Last year, the Office of Financial Empowerment received approximately $2 million in tax levy dollars to support these centers. In order to justify the support for the Centers, staff still maintain a tight evaluation focus on social return on investment metrics.

The Office of Financial Empowerment is working to increase the impact of the Network and Centers by integrating them more closely into the work of other city agencies. For example, staff working with clients in homeless prevention programs receive information on linking their clients to the resources at the Centers. In the future, Centers staff hope to show that when coupled with other city programs (e.g., homeless prevention, foreclosure prevention, etc.) the investment in financial counseling actually saves the taxpayers money and merits the commitment of additional public resources. Additionally, this cross-issue collaboration is seeding new working relationships that will eventually make financial education standard practice.

Platform

What delivery channels, partners, and supports are required to deliver the product or service efficiently and effectively at scale?

This program is centered on NYC's 311 system and delivered entirely by organizations that are already working together – non-profits providing financial education. As the platform for service provision, the 311 system has made a significant impact. In 2007, the program generated more than 120,000 inquiries with 70,000 individuals having attended classes and workshops through both call and website referrals.

Promotion

How can demand be created and potential users educated at a cost that is feasible at scale?

One key innovation of this project is its integration into NYC's 311 dial-in referral system. The Office of Financial Empowerment started this process by surveying 60+ organizations engaged in financial education in the City.[1] Using survey findings, the Office of Financial Empowerment determined which organizations would be appropriate to include in the Financial Education Network. It then created an online directory classifying organizations by services, location, and mode of service delivery. This online directory also allows practitioners to log-in and keep their service profile up-to-date. The Office of Financial Empowerment then loaded this information onto NYC's 311 system and provided training to the 311 operators on how to make referrals. The Office of Financial Empowerment used its ability to generate public service announcements (PSAs) and other public education methods to encourage people to call 311 for a referral.

1 *There are currently 78 organizations in the FEN directory providing education and counseling at 94 locations across NYC (that has grown from the 60+ first surveyed in 2007). 21 of those locations are Financial Empowerment Centers.*

Getting to Scale: Supports and Challenges

Staff of the Office of Financial Empowerment designed the Financial Education Network and the Financial Empowerment Centers to reach all New Yorkers who need financial counseling. They built on an existing infrastructure of non-profits and a key citywide system to reach a large number of individuals. In addition to efficiently integrating their products into the services that City agencies already provided, there are dedicated efforts to capture and communicate the social returns of the services. However, similar to the Partnership for College Completion, NYC OFE still faces challenges as it seeks to scale up its financial empowerment work:

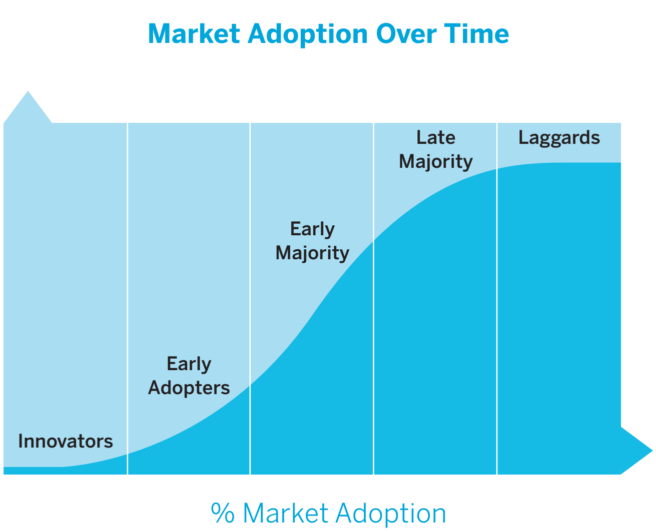
Profit — increased subsidy: Currently, the Office of Financial Empowerment has met the demand for services with a modest level of subsidy, in part because it is making use of existing resources and funding. As demand grows, so will the need for resources to add new classes and staff. The Office of Financial Empowerment staff is building the case for a higher level of funding by demonstrating the public benefit of these programs, but gaining increased funding will be difficult in times of fiscal constraint no matter how excellent the outcomes.

Policy — agency resistance: The integration of Network services into other city agencies can help improve outcomes for clients but there have been challenges convincing some mid-level managers who struggle to meet existing service goals to take on additional work. The Office of Financial Empowerment is addressing this challenge by cultivating senior level champions in agencies, as well as working with field staff and program managers to identify additional opportunities for financial counseling to support existing programmatic needs without creating additional burdens. This process takes time but will lead to the eventual integration of Network services into other service processes.

Promotion — jurisdictional boundaries: Although it is not a formal concern of the Office of Financial Empowerment staff, scaling for the Network is limited to the boundaries of New York City. The staff of the Office of Financial Empowerment and staff of other cities with similar programs are addressing the desire for national scaling by partnering through the Cities for Financial Empowerment Coalition. This Coalition invites local governments committed to financial empowerment programming in their cities to teach and learn from one another. The Coalition is the vehicle that can help scale up and replicate successful approaches such as the Network across jurisdictional boundaries.

MOVING BEYOND EARLY ADOPTION

The case studies presented in the previous section allow readers to understand how to apply the five Ps and raise important issues for programs working to scale. We want to offer the use of the Innovation Adoption Curve as a tool for thinking about market adoption of products and services beyond the pilot phase. The tool can help practitioners distinguish between those users identified as the initial target market for use, Innovators and Early Adopters, and plan for the expansion of the market to include those who require convincing of the value of the product or service, Late Majority and Laggards.



GRAPH I: *Innovation Adoption Curve*

As the Curve makes evident, it is a steep climb from the innovators to the early majority and beyond. Critical to this "climb" is the platform built into the design of the product or service.

Practitioners should prioritize thinking and planning around the 4th P, Platform, as it becomes difficult to change platforms once initiated. Given its importance, we would like to focus on four platform channels, and highlight the unique challenges associated with each, as well as offer suggestions for how these challenges can be overcome. The Platform channels are:

1. **Financial Institutions**
2. **Public Agencies**
3. **Non-profit Organizations**
4. **New Distribution**

1) Financial Institutions:
A focus on profit and promotion

These products scale up by having financial institutions as the ultimate delivery platform for their products and services. In these strategies, the asset-building focus tends to be on a product rather than a service. The College Savings Account noted above is a good example of a product that will be scaled up using financial institutions as the delivery vehicle.

Since private sector entities are the delivery vehicle, *Profit* is a key issue to be addressed in this channel. This can be challenging because many asset-building products are less profitable than competing products that do not support asset-building. The product or service must have a compelling business case if financial institutions are to bring it to scale. Many strategies rely on partnerships to change the cost models in ways that enable the specific product or service delivered by the financial institution to be profitable. In practice, this looks like non-profit organizations or public agencies leading their program or service provision planning with a cost benefit analysis as opposed to a plan led by planning for the social impact of product provision. Integration of partnerships is central to making sure that profit is not the only driver of product development and scaling.

Promotion in this channel is complex because these products typically require more education and marketing than competing products that do not support asset-building. For example, the alternatives to payday lending both require more education for consumers to demand them over regular payday loans and often include financial education as part of the product. In order to make the business case work, financial institutions often partner with non-profits to deliver some of the education and marketing.

Practitioners looking to scale with a financial institution platform should therefore ensure the product offered will ultimately achieve profitability. Furthermore, the costs of promotion should not increase the overall cost of the product decreasing profit and creating financially unsustainable products.

2) Public Agencies:
A focus on policy and profit

In this channel, public agencies serve as the vehicle to deliver products to scale. For example, the Corporation for Enterprise Development (CFED) is now in ongoing conversations with the Department of Education to integrate College Savings Accounts into Department of Education programs that are focused on college success. Why? Studies have shown that having a College Savings Account is a powerful incentive for college attendance and completion. Children with College Savings Accounts are four times as likely to graduate from college. Children with College Saving Accounts in their own name are seven times as likely to graduate from college. From a *Policy* approach, integrating College Saving Accounts into the Department of Education's programs will enhance the program's outcomes and offer College Savings Accounts to young people across the country. That said there is critical work that needs to take place convincing a public agency to make the appropriate policy change and ensure that the change can survive shifting political landscapes.

Not surprisingly, *Profit* tends to be the most important "P" to address in this channel. Making the *Profit* case – demonstrating the social return on investment – is important if public agencies are to deliver the product. The project needs to create compelling data showing that the benefit to the public is worth the public support and regulatory change is required. This return on investment can be due to the asset-building benefit or may include improvements in outcomes for other public programs, such as avoiding foreclosure or improving college graduation rates.

Hand in hand with the *Profit* P is the *Policy* P. There is great need to convince elected officials, policy leaders, and the general public to adopt and support the product or service in this platform channel. Once the practitioner is able to find champions for their efforts, there is the long-term work of sustaining this support across elections and shifting public priorities. The product needs to be flexible enough to be adopted by various types of users and resist the draw to be tied to a single political official or party.

For practitioners looking to scale in a policy platform, attention should be paid to ensuring that the product offered will ultimately achieve profitability so that it will not be viewed as a public burden. It should also look for broad political support and flexible ties to any one political champion.

3) Non-profit Organizations: *A focus on profit*

Practitioners here look for non-profits to be the delivery vehicle at scale. This strategy is particularly important when delivering complex services that require both volunteers and subsidy. The VITA income tax prep service is a good example. The VITA service has expanded at a growth rate averaging over 30% a year for the past five years. In the 2009 tax year, 45,000 volunteers served 1.2 million tax filers.

Getting the *Profit* model to be scalable and to work across varying geographies is typically a key challenge in this channel. Many services have a *Profit* model that works well at a small scale and in specific locations due to a particular arrangement of funders, non-profits, and access to volunteers that lower costs and create efficiencies. However, making this model something that is broadly scalable across a range of communities, as has been done with VITA, can be quite challenging.

Practitioners looking to scale using non-profits as their platform channel should keep in mind the need to weave together a network of smaller scaled initiatives that are local in focus but function identically. Using the non-profit platform requires practitioners to deepen work locally while keeping an eye on opportunities to connect with similar programs or services across funding, policy, and volunteer geographies.

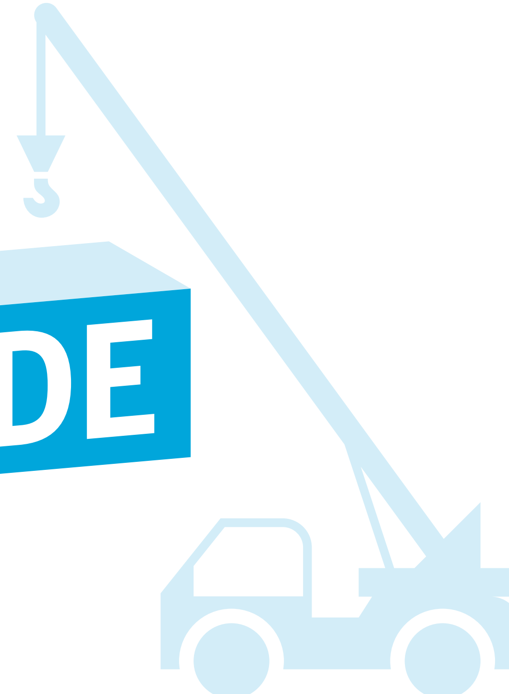
4) Building a New Distribution Channel: *A focus on promotion*

The final scaling strategy in this set is the development of a new channel, typically through an effective online delivery system. The Asset Platform being developed by the Aspen Institute Economic Opportunity Program (EOP) is a good example of this approach. EOP is building a web-based platform, www.assetplatform.org, that brings together effective asset-building tools and products for budgeting, savings, debt, credit scores, insurance, and organizational resources. The platform is aimed at assisting counselors in asset-building organizations to better serve their clients. Web-based technology allows for significant scaling at low cost, because once built, the platform allows the basic infrastructure to handle significant increases in volume without significant increases in cost.

Promotion is often a significant challenge for new technology-based distribution channels. Although they have the advantage of low unit cost at high volumes, they often start with the disadvantage of low volume and low customer familiarity. As Amazon and eBay have shown, customers can eventually be attracted onto web platforms, but the cost of building the customer base can be significant. One approach is to search for a “utility” – a particular product or service that people want to use frequently and that will serve as a magnet to the site. Once customers are used to coming to a site to use the tool or service, then interesting them in other products and services becomes less daunting a task.

For practitioners interested in scaling using this new online platform channel, there is a real need to partner with supporting, auxiliary, and similar online services in order to build a consumer base quickly. For example, placing ads in strategic online locations to target a specific demographic of users allows scaling to take place without the work of populating this service with unique users. This will also create a consistent stream of new users if the ad site is appropriate.

THE BIG PICTURE: SYSTEM-WIDE CHANGE



In our interviews with practitioners, we found a dizzying array of strategies, products, and services, but they all shared the aspiration of changing the way "business is done." With that end in mind, we wanted to address the challenge of achieving system-level impact.

COMPLEXITY THEORY

Complexity theory provides a critical lens for thinking about systems change, allowing us to consider the ways in which policy, regulators, markets, and consumers interact as elements of a complex system to create the field where asset-building efforts take place. We want to highlight three insights from complexity theory for the purposes of our discussion:

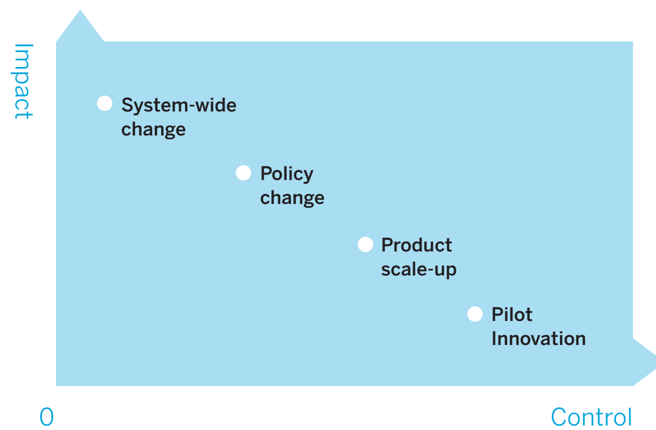
- All the elements of a complex system *mutually interact*. Working to change just one element can be frustrating, because changing one element of the system leads to unpredictable change in all of the others.
- Interactions between the elements of the system form *feedback loops*. Negative feedback loops occur when a small change in one direction creates feedback that increases the pressure to return to the original state (e.g. pushing a ball up a hill). Positive feedback loops occur when a small change in one direction creates feedback that increases the pressure to move in that direction (e.g. avalanche).
- A complex system has a set of "*stable states*" and "*tipping points.*" These stable states are configurations that systems default into and often exhibit "homeostasis" – making a small change that pushes the system away from that state tends to be met with forces that push the system back into the stable state. The classic example is of a ball in a valley between two hills: if you

push the ball a little way up one of the hills, it will roll back down to the lowest point. To make change that sticks, you have to make enough change in enough places such that the system shifts away from the old stable state into a new stable state. You need to get to a "*tipping point*" to move from the old state to the new one and have the change stick.

Applying these insights to the challenge of asset building strategies yields a useful set of questions:

- **Mutual interaction:** How does the work of an individual asset-building entity create impact across the system? How does that ripple impact the ability of other entities to achieve their goals? If we look at system interactions, does it suggest that there are ways to shift the work of one practitioner to positively impact the scaling that others can achieve? For example, how could the work of the KIPP schools affect the approach taken by other charter school networks or drive the requirements a school system creates for financial education and college savings accounts?
- **Feedback loops:** What are the sources of positive and negative feedback associated with the changes various proponents are pursuing? How can we best find and unleash the positive feedback to create self-reinforcing change? For example, if Citi Foundation's work on breaking down regulatory barriers creates positive feedback, how can we maximize the changes to create an 'avalanche' of other adopters within the financial realm?
- **Stable states and tipping points:** What are potential new "stable states" that encourage higher levels of asset-building than the current one? What will it take to reach a "tipping point" from the current state to that new one? For example, at what point and in what circumstances does the transition between skepticism by New York City agency managers and full integration into existing programs take place?

Complexity theory also suggests that there are inverse relationships between impact and control. With high levels of control, implementers need to isolate as many variables as possible. This is the usual approach in pilot efforts. However, the greater the impact desired, the less control that can be exercised over the design elements and implementation.



GRAPH II: *Impact-Control Chart*

Conversely, the greater control practitioners and funders exercise over a project the less likely it is to create system-wide change. These projects tend to keep their pilot characteristics and never move out of their geographic or community niches. Examples might include funder-driven initiatives in specific places with pre-determined service providers. Those identifying multiple opportunities to scale their product and identify policy levers that allow the product or service to be tested and adopted by diverse markets are much more likely to create system-wide change.

One example of this approach is the work of the Aspen Institute Initiative for Financial Security, Corporation for Enterprise Development and many others to change policy at the federal level in order to scale the impact of local asset-building programs. These organizations are working towards *'mutual interaction'* by bundling programs that operate in the same field. This allows for the best thinking from each program to influence the others as well as working against redundancy.

Practitioners and funders focused on system-wide change tend to frame their work as adaptive rather than technical problem solving; they recognize that there is no existing, mechanical recipe for the solution but rather that the solution will be discovered through the problem-solving and experimentation efforts of diverse actors. A good example of this approach is the Ford Foundation's efforts to drive the modernization of state-delivered work support programs such as Medicaid, SNAP, and childcare. The Foundation is working with a set of state governments to help them simplify and integrate benefits programs in order to help individuals access benefits faster and avoid "churning" in and out of programs, maximizing both scale and effectiveness. The integration of these programs has softened the ground for system change, allowing service and program users to begin engaging in financial education and asset building efforts. In both these cases, the level of impact is high, while the level of control necessary is relatively low. Examples include:

- **Louisiana's Express Lane:** The Express Lane builds on the understanding that children eligible for food stamps are also eligible for Medicaid, yet historically not enrolled in both programs. Louisiana is now comparing the state food stamp and Medicaid lists and automatically cross-enrolling children in both programs. This has increased Medicaid enrollment by as many as 10,000 children.
- **New Mexico's Work Support Strategies:** Through a detailed analysis of case flow, New Mexico state officials determined that 50% of the people who applied for Medicaid each month had come off the program in the past three to six months. By reorganizing workflow and changing follow-up procedures and policies, they were able to cut down this rate by half. Similarly to the Louisiana's Express Lane, the system wide change is accomplished through policy changes that institutionalize an effective asset-building strategy.

Complexity theory invites us to think through how products and services get to scale using the concepts of mutual interaction, feedback loops, stable states, and tipping points. In short, efforts to achieve system-level impact require dynamic collaboration, positive feedback loops, and tipping points in order to radically transform the economic independence of low-income people.

CONCLUDING THOUGHTS

The asset-building field has been characterized by significant creativity and innovation, but few efforts have reached scale. We have written this paper to spur dialogue and introduce a common framework for thinking through this challenge. Thus, we hope that funders will use this framework to make better investments and encourage asset-building grantees to think about scale in both planning and implementation. Similarly, we hope that innovators will use this framework to bring discipline to the product and service development process. Scale is a matter of design and execution, but it is also a matter of intent and aspiration. Working with scale in mind will allow us to transform the landscape of asset-building.

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1 **Graph I:** Weiser, J. Rochlin, S. Kahane, M. Landis, J. (2006). Innovation Adoption Curve [Graph I]. In Weiser, J., *Untapped: Creating Value in Underserved Markets*. Barrett Koehler.

2 **Graph II:** The concept emerged from discussion among the participants of the meeting conducted by the Living Cities' Income & Assets Working Group at the Annie E. Casey Foundation on July 26th, 2011.

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* *These participants were also interviewed.*

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