

An Economist's Guide to Year-End Charitable Giving



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The end of the year is a giving season for many (I suppose a cynical economist might think tax deductions has something to do with it). Most of us like to make sure we're making well-researched and wise decisions when it comes to our money, be it reading the online reviews before a purchase or investing our savings. By contrast, donating to charities can seem like a "black box." Many of us our rely on what feels right or seek out an organization in an area we have a personal connection to, but examining some bad habits about charity giving might help make sure our dollars go farther this giving season.

Bad Giving Habit #1: Choosing based on low overhead and fundraising expense ratios

Administrative expenses tell you nothing about if the charity's work actually does anything, or if it does, how much good it does. The proper question to ask should be "for every \$1 I give, how much good is generated?" and not care about how the sausage is made. Different organizations might have different business models, and two organizations might approach the same problem, say clean water in poor villages from two different approaches – perhaps digging new wells versus cleaning existing water sources. Don't ask who spends less on expenses like copier toner and legal costs, ask which organization will get clean water to the most people with your money. I've went into this in more detail in a post a while ago, and when I compared charities' ranks on a site that rank using overhead ratios, to a site that does thorough research on effectiveness, organizations that were rated as more effective also tended to have slightly higher expense ratios.

The second reason to be wary of administrative expense rankings is that money is movable, and it's easy to manipulate one's ranking by shifting budgets around, so the difference between, say a 5% overhead expense organization and a 10% one might just be in accounting. The one exception, where it is useful to consult overhead expenses, is to weed out potential fraud. Organizations with crazy high expenses, say 30 percent or more (see a top 10 list of fraudsters [here](#)), should be avoided. These are groups that are so badly run they can't even massage their numbers enough to get them down.

Bad Giving Habit #2: Restricting what the organization can do with your money

Some organizations will tempt you to give by letting you earmark your donation to be spent on a particular item – the "give a goat" experience. It feels good to visualize something concrete you gave, but the reality is that the charity probably knows how to spend it best, be it on the goat itself or on identifying the best recipients. They spend all their time on thinking about the problem, give your money without strings and trust them to spend it well.

Bad habit #3: Spreading the love, dividing your donations among many charities

Organizations usually have [transaction costs](#) for processing each donation, and also spend time and

money communicating with their donors – you might have noticed all those mailings piling up this time of year. So giving a large number of small donations is actually less effective than a few larger ones. Plus, if there is one that is doing the most good for the cause you care the most about, then every dollar you give to the one doing the 2nd best work is a dollar not given to the one doing the best work!

Bad Giving Habit #4: Fooling yourself that you give what you think you should be giving

We have the best of intentions for things we mean to get to, quitting smoking, eating better, exercising, but the unfortunate truth is that we often don't get to those things we told ourselves we would, and that goes for charitable giving as well. A few techniques to help align our actual behavior with our desired behavior: (1) set up a repeating donation you won't have to think about – perhaps a workplace plan that automatically deducts from your paycheck, or a repeating donation from your credit card, (2) make an agreement with friends to make sure you're held to your giving intentions (and deciding together where to give can be fun and engaging), (3) if you don't give as much as you'd like because you are strapped for cash, think about some discretionary item that you'd like to give up, and go to instead.com to help put in place your plan, or (4) if you have the income to give more but don't give as much as you'd like to because you just never get around to it, think about attaching giving to something fun, so that it can add to the fun (e.g., family member birthdays, or perhaps just something simple, like matching all jewelry expenditures with a charitable donation).

Bad Giving Habit #5: Giving to things that advertise well, rather than to what works

I've seen hundreds of charities and aid organizations in my work as a development economist and with my work with the non-profit I founded, [Innovations for Poverty Action](http://InnovationsforPovertyAction.org) (IPA). IPA evaluates the effectiveness of poverty interventions around the world, and then works to scale-up the ideas most cost effective. Knowing if an organization is having an impact can be difficult, but there are a couple of shortcuts you can take.

First, check out they just post glossy numbers, or are there any academic papers they can cite that document their impact? I realize I'm an academic, so more prone to believe academic work, but the reality is that most academics care more about methods, and methods when it comes to evaluation do matter. At IPA we have championed the use of randomized trials to measure impact, and have found many ideas rise above the riff-raff and work better, and those ideas aren't always the popular ones. Examine whether they just post "before-after" stories (before, our participants earned \$1/day, afterwards they earned \$2/day), or whether they compare the changes for their participants to those of a comparison group, so that you know they actually caused the changes to happen. Maybe the economy or rainfall just got better, and everyone in the area went from \$1/day to \$2/day?

Alternatively, start the other way: find research and news articles on research on what works, and then fund the organizations that put forward the research, or other organizations that do the same thing.

So what's a good habit? Copying

Here's a time I wouldn't mind telling my students to cheat, cheat, cheat. Copy off the smart kid, like **Warren Buffet** did when he put his money behind the Bill & Melinda Gates Foundation, whom he knew was doing great work. Find an organization that has the right philosophy and copy what they're doing. At IPA, we didn't see a good place for people to donate to initiatives which had good evidence behind them, so we created the [Proven Impact Fund](http://ProvenImpactFund.org).

Foundations you might look at include [Bill & Melinda Gates](http://Bill&MelindaGates.org), and [Hewlett](http://Hewlett.org) foundations. Givewell.org also does thorough assessments of organizations' impact and recommends 3 top charities (full disclosure,

they use IPA's research a lot to guide their analysis).

You can also look at organizations which are dedicated to conducting rigorous evaluations of their work and making the results available for others to learn from. Examples of organizations that work internationally and evaluate rigorously a large proportion of their programs include [Pratham](#), [Seva Mandir](#), [Living Goods](#), [BRAC](#), and [Freedom from Hunger](#).

Although it might take a few extra minutes don't be afraid to open up that black box and take a look at where your money is going – it's the best way to maximize the good your dollars are doing.

TAGS: [charity](#)