

Op-Ed Here's how to determine if that charity is worth your dollars

By **DEAN KARLAN**

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When my sister and I were children and flew to summer camp together, our mother always asked us to call her once we arrived to let her know we landed safely. When we got older, my sister and I put our own twist on this practice: If my sister was giving me a lift to the airport, she had to call me when she arrived back home to let me know that her drive ended safely.

Why? A passenger is 100 times more likely to die in a car than a plane, per mile traveled. However, many more people are afraid of flying than they are of driving. Our tendency to make decisions based on easily recalled examples is called “availability bias,” and it can lead us to make poor decisions.

This same bias comes into play when people consider giving to charity. Headlines of charities gone bad instill too much fear in donors. Because I study charities, people often ask me about such waste. A survey of individuals with high net worth found that the most common reason they did not give more to charity was the fear “my gift will not be used wisely.” When charitable waste hits the news, it often goes viral quickly: Relatively recent exposes on “Three Cups of Tea” author Greg Mortenson and Hurricane Sandy relief efforts come to mind.

Are charities systematically spending wastefully, or is this another example of availability bias?

Some people turn to an organization's tax returns for guidance. The Internal Revenue Service requires charities to break down their spending into three categories: management expenses, fundraising expenses and program services. By doing so, a nonprofit reveals its “overhead ratio,” the percentage of expenses devoted to management and fundraising costs. This is useful for weeding out potentially fraudulent charities, but nothing more.

Recently, I analyzed tax returns of nonprofits with more than \$1 million in revenue, almost 55,000 organizations. Together, they account for 94% of donations to public charities. Merely 2.5% of these organizations had an overhead ratio greater than 50%, meaning that they spend more on administrative costs than they do their actual work. Only 1% of total contributions by the public were lost by giving to these “bad” charities.

Despite the headlines that stick with us, the numbers reveal that fraud in charities is not rampant.

But avoiding giving to potentially fraudulent organizations is not the same as donating effectively. The tax data reveal almost nothing about whether a charity is effective. What we should be looking for is the impact a charity is having, and those numbers are often less accessible or nonexistent.

An organization I founded, Innovations for Poverty Action, uses the same methodology as scientific studies — randomized controlled trials — to determine how effective a particular program is in actually helping people. The results show that some programs work quite well, making a huge difference in people's lives. However, sifting through the evidence and assessing effectiveness is difficult. So is there a good way to figure out which charity to give to?

First, don't spend too much time worrying about charitable waste. There are a handful of truly wasteful or fraudulent charities out there, but a quick search on the GuideStar or Charity Navigator websites for financial information on nonprofits can help weed out those. Set the bar fairly high for administrative costs, perhaps 30%, before scratching a charity off your list. If overhead spending is cut too much, it may make a charity less effective if the capacity to recruit talent or make evidence-based decisions has been compromised.

Second, think about a charity's impact. Is the organization actually running the best program to achieve its mission? This is not easy to deduce: There's no magic number that gauges positive effect. Charity evaluators such as GiveWell and the Life You Can Save can do the work for you by analyzing the research and data on the impact of international charities. Those two organizations focus on international work because of their emphasis on cost-effective approaches: Simply put, you can typically do more good with each dollar when working where problems are worse. The Coalition for Evidence-Based Policy provides a similar list for charities working in the U.S.

If you want to analyze a charity's impact on your own, consider two questions: Does the charity base its programs on ideas with strong evidence behind them? And does it generate appropriate data and evidence regarding its operations? Check out the charity's website, read its annual report and examine whether its claims of effect are backed by evidence. Ask yourself: Did they merely tell me some good stories here, or are they putting forward actual (and ideally, independent) evidence? Ultimately, effect — not costs spent on overhead — is what matters.

Dean Karlan is a professor of economics at Yale University and founder of the nonprofit Innovations for Poverty Action, which looks for and promotes cost-effective solutions to poverty. Elijah Goldberg, an undergraduate student in Karlan's class at Yale on effective philanthropy, helped analyze data for this article.

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Security is seen outside The Theatre at Ace Hotel before the premiere of the film "The Interview." On Wednesday, Sony Pictures canceled the December 25 release date of the film after threats from anonymous hackers. (STR / AFP/Getty Images)

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To the editor: You suggest that a john-shaming campaign by L.A. County for those caught buying and raping girls is akin to the Scarlet letters, stocks and tarring and feathering of the past. Sadly, the men you don't wish to see humiliated use those practices on our girls today: branding them...

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To the editor: Jennifer Dawn Carlson is quite right in stating that equipping police with body cameras won't be a panacea. If, as she suggests, some jurisdictions were to prohibit citizens from photographing police because of the body cameras, that would be a big mistake. ("Body cameras...

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