



## Making an impact? The relevance of information on aid effectiveness for charitable giving. A laboratory experiment

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### ABSTRACT

In a laboratory experiment, we analyze individuals' demand for information about a donation's welfare impact, and compare it with demand for information on recipient types and administrative costs. We find the least demand for information about aid impact, indicating that individuals either do not understand, do not trust, or do not care about the specific information we provide. Average donations increase in response to information about the recipient type and decrease in response to information about administrative costs. Information about aid impact does not significantly change average donations: donors who demand information respond positively to high impact projects and negatively to low impact projects, resulting in a zero net effect on donation levels. Our results further show that information has the same effect on donation behavior regardless of whether it is provided for free or at a cost.

### 1. Aid effectiveness and private charitable giving

A large body of literature in experimental economics is dedicated to understanding private charitable giving. One main strand of this literature studies why people gain utility from donating to charity. Andreoni's (1990) warm-glow theory explores different motives of giving; ranging from pure warm-glow, where utility is derived from the mere act of giving, to pure altruism aimed at increasing social welfare. This theory has often been tested and applied in experimental economics (Crumpler and Grossman, 2008; Tonin and Vlassopoulos, 2010; de Oliveira et al., 2011; Null, 2011; Evren and Minardi, 2017). A further strand of literature investigates which factors increase the size of average donations and/or expand the donor base (List and Lucking-Reiley, 2002; Karlan and Wood, 2017; Rondeau and List, 2008; Meer, 2013; Eckel et al., 2014; Huck et al., 2015). Yet other studies analyze whether prosocial behavior such as charitable giving is driven by the desire to appear altruistic, as opposed to true altruism (Dana et al., 2007;

DellaVigna et al., 2012; Tonin and Vlassopoulos, 2013; Kajackaite, 2014; Exley and Petrie, 2016).

Complementing this research in experimental economics, over the last decade many studies in development microeconomics<sup>1</sup> have shown that welfare impacts can differ remarkably across interventions implemented by charities. It remains largely unknown - both in experimental and development economics - whether individual donors incorporate such information on charities' effectiveness<sup>2</sup> into their donation decisions and if so, to what extent.

Understanding the impact of information about aid effectiveness on donation decisions is, however, important due to the considerable and increasing share of foreign aid that is contributed by private individuals. According to OECD statistics, the aggregate share of private aid grants in disbursed development assistance coming from DAC member countries has been increasing steadily.<sup>3</sup> In Switzerland, where we conducted our study, private charitable giving to international development stood at \$US 543.1 million in 2016 (or \$US 65 per capita). This

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<sup>1</sup> This applies to randomized controlled trials (RCTs) in particular. Examples are numerous since every aid intervention is evaluated separately. For an overview of randomized controlled trials see for example *The Abdul Latif Jameel Poverty Action Lab*: <http://povertyactionlab.org>, last accessed: April 5, 2018.

<sup>2</sup> The terms aid impact and aid effectiveness are used interchangeably throughout the text.

<sup>3</sup> See the OECD data base: <https://data.oecd.org/drf/grants-by-private-agencies-and-ngos.htm#indicator-chart>, last accessed: April 5, 2018. These numbers include grants from private corporations as well as foundations.

amounts to 15.4% of Swiss official development assistance.<sup>4</sup> In the US, private charitable giving to international causes amounted to approximately \$US 16.92 billion in 2016 (or \$US 52 per capita).<sup>5</sup> These numbers underline that donors' consideration of differences in aid impact across development interventions and organizations can have considerable welfare implications for the poor.

A natural field experiment conducted in the U.S. by [Karlan and Wood \(2017\)](#) is the only study we are aware of that analyzes the effect of information about aid effectiveness on individual donation behavior. The authors test if donors increase their donations to an NGO that provides microcredit services, when informed that the NGO's projects effectively reduce poverty. Three different fundraising letters were sent to over 16,000 donors of this organization. In the first wave of the experiment, the control group received an emotional donation appeal, relating the story of a poor woman who increased her income with a microcredit loan and business training. The treatment group received a similar appeal, plus confirmation that the NGO's positive development impact had been scientifically proven in a study. In the second wave, the treatment group was told that Yale researchers, using a randomized controlled trial, had provided scientific evidence of the effectiveness of the NGO's work. The main result of the study is that information about aid effectiveness has a positive effect on the contributions of large prior donors, while it has a negative effect on the contributions of small prior donors. [Karlan and Wood \(2017\)](#) suggests that impact matters to large and, as they assume, altruistic donors who will rationally increase their donations with increasing impact. In contrast, small and, as they assume, warm-glow donors may respond negatively, because evidence-based donation appeals distract from the emotional component that triggers warm-glow giving.

Similar to [Karlan and Wood \(2017\)](#), one of the main objectives of this study is to analyze if individuals respond to information about aid effectiveness when making a donation. In particular we analyze the following three questions: First, we test for individuals' willingness to pay a small fee for information on aid impact before giving to charity. Second, we analyze how the opportunity to buy information affects donation behavior relative to situations in which additional information is not available or provided for free. Third, we compare the donation behavior of individuals who choose to buy information to those who do not.

For all three research questions, we look at individual responses to three different information types: aid effectiveness, the recipient type, and administrative costs. Previous studies have shown that information about recipient types, as well as administrative costs affect donation decisions ([Gregory and Howard, 2009](#); [Borgloh et al., 2013](#); [Bachke et al., 2014](#); [Caviola et al., 2014](#); [Meer, 2017](#)). A choice experiment by [Bachke et al. \(2014\)](#) showed that when participants were confronted with projects targeting different sectors (health, agriculture, or education), recipient types (children, boys, girls or women) and geographical regions (Asia, sub-Saharan Africa, Eastern Europe), the recipient type had the biggest impact on donations. Children received most donations, followed by girls, women and boys. Based on survey data, [Gregory and Howard \(2009\)](#) found that respondents ranked "overhead ratio and financial transparency to be more important [...] in determining their willingness to give [...] than the success of the organization's programs", suggesting that aid impact may not be a priority for individual donors.<sup>6</sup> Similarly, [Meer \(2017\)](#) discussed the excess focus on overhead costs by donors and policy makers. [Borgloh et al. \(2013\)](#) found in a lab-in-field experiment that participants donated more to

financially smaller NGOs. They believed that smaller NGOs have lower administrative costs and that more money reaches the target group. A laboratory experiment by [Caviola et al. \(2014\)](#) also showed that participants strongly react to administrative costs.

To analyze the questions outlined above, we conducted a laboratory experiment that introduced variation along three dimensions: (a) the type of information offered, namely aid impact, the recipient type, or administrative costs; (b) whether participants can buy or receive free information about their donation; and (c) the precise donation outcome revealed upon information purchase, which could be "better" or "worse" for each information type. In the "aid impact" group, we informed the participants that their donation would support either a high or a low impact education project. In the "recipient type" group, we told participants that their donation would support an education project for either children or young adults. In the "administration costs" group, we informed the participants that their donation would support an NGO with either high or low administrative costs. Before making their donation decisions, participants in the treatment group were given the option to buy information about the NGO to which they were matched. Participants in the control group were not given the option to buy such information; therefore, they made a donation decision under uncertainty, as did individuals in the treatment group who decided not to buy additional information ("non-buyers"). However, half of these non-buyers were still given free information about the NGO they were matched with, despite having decided against buying it. Moreover, in a follow-up experiment, we provided information about the NGO matched to each participant ex-ante and for free. Participants in this group made a donation decision under certainty and never had to decide whether or not to purchase information. This allows us to better understand the motives behind the decision to stay uninformed.

Our main results are the following. First, while only 28.73% (se = 0.03) of the participants in the treatment group buy the offered information, 57.09% (se = 0.02) donate to charity. That means, about 28% of the participants make an uninformed donation. Second, demand varies considerably across information types. Demand for information on aid impact is the lowest with 22.33% (se = 0.04) and highest for information on the recipient type (37.81%, se = 0.05). Furthermore, we find that the opportunity to buy information does not significantly change average donations in the aid impact group whereas average donations increase in response to information about the recipient and decrease in response to information about administrative costs. These results are mainly driven by individuals who buy information ("buyers"). Buyers in the aid impact group give less to the lower impact project and more to the higher impact project, resulting in a zero-net effect on donations levels. Buyers in the recipient type group focus on the positive outcome and reward the children, driving average donations up. Buyers in the administrative costs group focus on the negative outcome and donate little to the charity with high overheads, driving average donations down. Last, we find that non-buyers do not respond to information: they hardly change their donation behavior when they receive information for free. This suggests that individuals, who decide against acquiring additional information do not understand, do not trust, or do not care about the information provided in this laboratory experiment.

## 2. Experimental design

### 2.1. The control and treatment group

We base the experimental design of this study on [Fong and Oberholzer-Gee \(2011\)](#), and [Null \(2011\)](#). In a laboratory experiment, [Fong and Oberholzer-Gee \(2011\)](#) analyze if individuals are willing to pay for information that helps them allocate donations in a way that aligns with their preferences. Before making a donation, the authors give participants in the treatment group the chance to buy information about the

<sup>4</sup> See the Swiss Federal Department of Foreign Affairs: [https://www.eda.admin.ch/deza/de/home/aktivitaeten\\_projekte/zahlen\\_und\\_statistiken/statistische-tabellen.html](https://www.eda.admin.ch/deza/de/home/aktivitaeten_projekte/zahlen_und_statistiken/statistische-tabellen.html), last accessed: April 5, 2018.

<sup>5</sup> See *Giving USA*: <https://givingusa.org/see-the-numbers-giving-usa-2017-infographic/>, last accessed: April 5, 2018.

<sup>6</sup> The survey was conducted by the *Better Business Bureau's Wise Giving Alliance*: <http://www.give.org/?id=230639>, last accessed: April 5, 2018.

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