Journal of Economic Behavior & Organization 119 (2015) 234–253

Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

Beauty, weight, and skin color in charitable giving☆

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ARTICLE INFO

Article history:
Received 10 April 2014
Received in revised form 1 June 2015
Accepted 2 June 2015
Available online 2 July 2015

JEL classification:
D64
O16

Keywords:
Charitable giving
Microfinance lending
Statistical discrimination
Implicit bias
Peer-to-peer lending

ABSTRACT

This paper examines bias in online charitable microfinance lending. We find that charitable lenders on a large peer-to-peer online microfinance website appear to favor more attractive, lighter-skinned, and less obese borrowers. Borrowers who appear more needy, honest and creditworthy also receive funding more quickly. These effects are quantitatively significant: Borrowers with beauty one standard deviation above average are treated as though they are requesting approximately 11% less money. Statistical discrimination does not appear to explain our findings, as these borrower attributes are uncorrelated with loan performance or borrower enterprise performance. The evidence suggests implicit bias could explain our findings: more experienced lenders, who may rely less on implicit attitudes, appear to exhibit less bias than inexperienced lenders.

1. Introduction

A large literature in economics examines discrimination in a variety of market settings. Much of the literature has focused on discrimination on the basis of demographic attributes such as race, ethnicity and gender. More recently, studies have found a link between beauty and the labor market (Hamermesh and Biddle, 1994; Biddle and Hamermesh, 1998; Mobius and Rosenblat, 2006) and credit access (Ravina, 2012). While such evidence of discrimination has been robustly documented in market settings, it remains an open question as to whether discrimination plays a role in non-market settings such as charitable giving. In this study, we investigate whether systematic lender biases on the basis of beauty, weight and skin color play a role in charitable decision-making. We examine discrimination in a new setting – direct philanthropy on Kiva.org, an online peer-to-peer microfinance website.[1] We show that discrimination in direct philanthropy exists, and we argue that

☆ We thank participants at the Second European Research Conference on Microfinance, Australasian Meeting of the Econometric Society, Singapore Economic Review Conference, and Asian Meeting of the Econometric Society for helpful comments. Jonathan Heller generously provided part of the data and Joanne Pan provided excellent research assistance. Portions of this work were completed while Walter Theseira was affiliated with Nanyang Technological University, Singapore, and while Christina Jenq was affiliated with the University of Chicago Booth School of Business, USA. The authors gratefully acknowledge financial support from a National University of Singapore Start-Up Grant and from a Nanyang Technological University Start-Up Grant.

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[1] A number of other papers have utilized the Kiva data; a short discussion is provided in the literature review.

http://dx.doi.org/10.1016/j.jebo.2015.06.004
0167-2681/

it is increasingly relevant given the rapid growth in online direct giving, and given the extent to which private giving is increasingly substituting for institutional giving, which may be driven by very different preferences.

Our study departs from much of the literature on discrimination and charitable giving by using large-scale observational data of the decisions made by tens of thousands of actual charitable lenders, choosing over thousands of real charitable recipients. Previous studies have been based on experiments conducted on laboratory participants (Andreoni and Petrie, 2008), consumer research panels (Fong and Luttmer, 2009), and on households canvassed door-to-door (Landry et al., 2006; List and Price, 2009). While participants in the literature are representative of the general population, they are different from actual donors. In contrast with the literature, our paper examines how biases shape the intensive margin behavior of donors who give to international charitable causes. We examine how donor-perceived attractiveness, weight, skin color, and other characteristics affect charitable giving decisions made on a large sample of charitable recipients drawn from many developing countries. We circumvent typical omitted variables concerns that plague most observational studies because our data capture virtually all the information donors have access to.

The online international development donors we study comprise a growing and influential share of the overall charitable market. In the United Kingdom, charities focusing on international development rank at the top of the income tables, taking up to two-fifths of all private giving in some years (Atkinson et al., 2012). In aggregate, private giving from individual donors comprises 73% of the $298 billion charitable giving market in the United States (Giving USA, 2012). Online giving in particular has grown more rapidly than traditional forms of giving in recent years (Frostenson et al., 2013). Online giving often departs from traditional giving by allowing donors to give directly to a particular individual, group, or project, instead of having their giving distributed by a non-profit organization or government.[2]

The growth of online directed giving matters when the exhibited preferences or biases of individual donors differ significantly from those of institutions and governments, and when such preferences have an impact on social outcomes. Donor preferences and funding flows matter because microfinance institutions depend on donor subsidies, obtain a negative return on assets, and are generally not self-sufficient (Cull et al., 2007). Even the Nobel-prize winning Grameen Bank depends on capital subsidies from donors and would have to raise interest rates charged substantially without such assistance (Murdoch, 1999). This dependence on capital subsidies provides strong incentives for microfinance institutions (and other development oriented institutions) to focus on projects or clients who suit the preferences of donors – even if those preferences are based on physical characteristics such as beauty or weight.

Our paper's contribution is to document and interpret the causes of such exhibited individual donor preferences. As List (2011) points out, there is little evidence on how different types of agents pursue the same broad charitable goals. After the end of the Cold War, official development assistance from the major international donors and multilateral aid institutions appears to have been channeled increasingly toward poorer, more democratic countries (Dollar and Levin, 2006). However, it is not clear that private individuals in those same donor countries share these preferences; Desai and Kharas (2009) show that donations on Kiva appear to favor relatively rich and less democratic countries instead. Analyses that simply assume private and public sources of aid are substitutable in aggregate risk generating misleading conclusions if these differing preferences are not considered.

Kiva facilitates the transfer of funds from charitable lenders in developed countries to microfinance recipients in less developed countries. Although Kiva was only founded in 2005, by February 2012, it had facilitated the loan of almost $300 million US dollars, from nearly 700,000 individual donors, to more than 700,000 microfinance borrowers. Kiva facilitates loans by working with local microfinance institutions (MFI) to screen potential borrowers. When a suitable borrower or group of borrowers is identified, Kiva works with the MFI to create a loan profile on the Kiva Internet platform. The loan profile includes a picture of the borrower, a brief biography, loan purpose, loan amount and repayment schedule. The profiles also provide detailed information on the partner MFI such as their risk rating, tenure with Kiva, the number and volume of loans made and the delinquency rate of previous loans.

Potential lenders access loan profiles through the Kiva website and choose entrepreneurs they wish to support. Kiva aggregates the small loans provided by individual lenders to meet the loan amount requested by the borrower. Lenders on Kiva receive no interest on their loans, but are still subject to default risk and exchange rate risk. While borrowers are charged interest, this is retained by the local MFI and is not remitted to the Kiva lender. Kiva lenders are essentially providing subsidized, interest-free loans to the partner MFIs. Although each loan has a low risk of default (about 1.8% during the sample period), the majority of lenders make more than one loan. The average number of loans made by lenders in our sample is 16 (with a standard deviation of 94 loans), suggesting that the average lender in our sample faces roughly a 25% chance of having at least one loan default. Thus lenders forgo the use of their capital for the duration of the loan, bear credit risks, and in practice, often do not withdraw their funds from Kiva even after loans are repaid.[3] For these reasons, lender behavior has more in common with charitable giving than investing, and as such, we use the terms donor and lender interchangeably.

[2] "Directed" gifts may still be fungible if they relieve a charitable organization's budget constraint with respect to unrestricted donations.

[3] According to Matt Flannery, Kiva's co-founder, "They (lenders) are just keeping the (repaid) money in their [Kiva] account. Maybe they didn't know it was a loan. Maybe they thought it was a donation." (Kiva: Improving People's Lives, One Small Loan at a Time. Knowledge@Wharton Podcast, May 28th 2008 (Kiva, 2008).)