

Effective Philanthropy:

Towards a Research Agenda
A White Paper

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CHICAGO BOOTH 

Social Enterprise
Initiative

Giving Evidence

Enabling **giving** based on sound **evidence**

‘To give money away is an easy matter and in any man’s power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in everyman’s power nor an easy matter.’

- *Aristotle*

‘Deeply ingrained ‘best practices’ frequently add cost and reduce management flexibility in already difficult operating conditions. We end up hurting organisations we mean to help.’

- *Clara Miller, Founder, the Nonprofit Finance Fund*

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Foreword

Given how significant philanthropy is, both in terms of funds raised and importance to fueling social change, it is always surprising to me that evidence of how to do it *well* is so scarce. The effects of various modes of giving on the sector have received relatively little attention from researchers, and thus present an interesting opportunity for academic inquiry.

As the hub of social impact activity at the University of Chicago Booth School of Business, the Social Enterprise Initiative (SEI) is interested in the notion of evidence-based philanthropy and was pleased to support this paper in order to better understand the dynamics of giving. The paper lays out the various ways that donors give, meaning how they select, structure, and assess their giving. To conclude, it proposes a series of questions on the philanthropic decision-making process that are ripe for rigorous inquiry.

Decisions are at the heart of philanthropy. Decision research, an important area of focus here at Chicago Booth, has shown weaknesses and biases in human decision-making in resource-allocation situations such as deciding which stocks to buy or which students to admit to medical school. Similarly, recent research in this field illuminates various donor motivations and explores the factors that affect how much they give, helping us to better answer questions like, “what motivates donors to give?” and “how can organizations increase giving among donors?”

This paper serves as the beginning of an extension of this work, asking questions about how donors choose *between* causes, how they define and interpret *effectiveness* of charities, how they *structure* their gifts, and how they *assess* their giving, among other questions. This nascent trajectory of research helps us to better understand how we can motivate donors to give more effectively – **meaning to give in a way that optimizes their knowledge, is additive to the organization, and that allows them to learn over time how to give better.**

One example: does comparative advantage apply in philanthropy – and if not, how is it modified? Unearthed by economists, comparative advantage is a fundamental principle of how firms work, and it guides many commercial entities to limit the number of industries and sectors in which they operate. By contrast, many foundations operate in many sectors and issue areas, often quite unrelated to each other. As of now, no one knows whether this dilutes philanthropy’s effect or heightens it.

Examples like this underscore the fact that unanswered questions about effective philanthropy are ripe academically, as well as important practically. This is not least because philanthropy has a different set of incentives than traditional enterprises. These issues collide in a unique and interesting way in philanthropy because of the incentives: a fund manager can be persuaded to change her decision process if she sees that she could make more money through other means, but a donor does not usually feel the ‘opportunity cost’ of making bad decisions, so he may not see the levers which would increase his impact. Without the market feedback mechanisms present for traditional enterprises, most donors naturally lack knowledge about how effective their giving has been. While controlled experiments are often run on the effectiveness of social interventions, very rarely do we see evaluations of the gifts that fuel these programs.

Evidence-based practice has transformed—and continues to transform—other fields, from medicine to financial investment to marketing. It has the potential to do the same for philanthropy. This paper is an important step towards enabling evidence-based philanthropy. We hope that you are encouraged and inspired to explore the questions laid out here.

Christina Hachikian, Executive Director, Social Enterprise Initiative, the University of Chicago Booth School of Business

Introduction

The impact of charitable gifts doesn't correlate to their size. This is because, on one hand, charities vary dramatically in what they achieve with a given amount of resource, and, on the other, some ways of giving are better than others. This is evident from many observations, including that:

- Whereas some programmes are highly effective (such as distributing anti-malarial bed-nets), others make no difference at all (a microcredit programme in North East Thailand is an exampleⁱⁱ) and some even exacerbate problems (e.g., the Scared Straight programme which aims to reduce re-offendingⁱⁱⁱ);
- When donors divide their funds into many grants of \$10,000 rather than fewer of \$100,000, the costs incurred by non-profits in raising funds increases nearly six-fold^{iv};
- Charities say that they would rather have \$70 with no 'restrictions' on how they can use it than have \$100 with restrictions. In other words, these restrictions destroy about half the value^v;
- Funding from some donors creates so much work for recipient non-profits that it's not worth having at all. Sometimes the work created by the donor consumes most of the grant, sometimes all of it, and occasionally consumes more than the grant is worth, leaving the recipient organisation with a net loss.

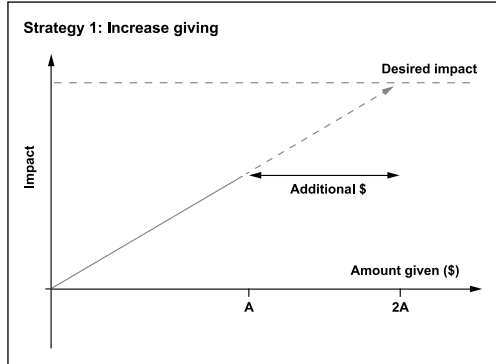
Much has been written about how *charities* can improve their impact: by making their programmes more effective and/or raising more funds: This paper moves the spotlight to *donors*, highlighting the importance of *what they give to and the way they give*. This complements the more established discussion about *how much* donors give.

Persuading donors to give *better* may achieve as much impact as getting them to give *more*. Perhaps it is cheaper and easier to persuade somebody to give in a way which doubles their effectiveness than it is to persuade them to double the amount they give. **Our interests are in assembling evidence about which donor behaviours produce the best outcomes, and how donors can be guided towards them.**

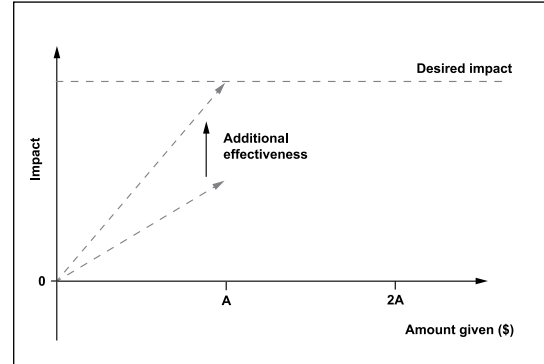
Figure 1 – A donor can increase impact by giving more or by giving better

To put this graphically, a donor wanting to achieve more impact has two options^{vi}:

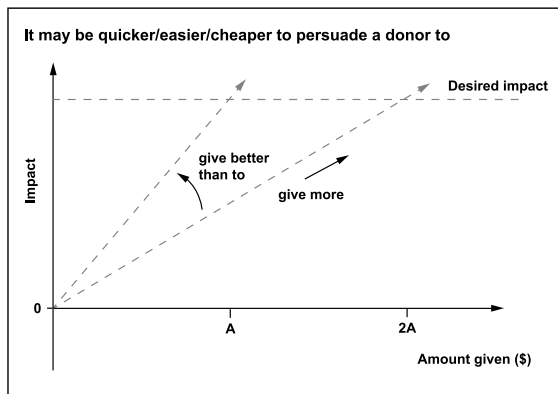
(a) They give more



or (b) They give more effectively:



It may be easier, cheaper, or quicker to *make this line steeper* than to *extend* it.



Many questions remain unanswered about how donors can achieve the best outcomes with the available resources. Many of these questions are important operationally as well as academically significant. This paper lays out those questions in the hope of encouraging researchers to investigate them. These questions are in three categories:

First, **what defines success for a donor**, or for donors in various situations? Much has been written about what defines success for a *programme* or for an operational *charity*, but less about defining success for donors.

Second, **what donor behaviours increase success** on those definitions? For example, are donors more successful if they have a few focus areas versus many? Are they more successful if they operate alone versus collaborate with others? What information should they consider when deciding whether to fund a particular entity: which characteristics turn out to predict success?

On each of these choices, the ‘right’ donor behaviour probably depends on context: it may be different for service delivery versus campaigning, in the arts versus in homelessness, in developed economies versus less developed economies, and so on.

There is much *debate* about how donors should behave on issues like these – and a growing literature and industry of philanthropy advisors – but, as yet, little *robust evidence*¹.

And third, **how and whether can donors be guided towards the most effective behaviours?** For example, if the donor's application and reporting processes create so much work for the charity that they absorb much of the donation, how can they be persuaded to reduce them? What factors and information should donors use when deciding what and how to fund? – How can they optimise their decisions?

Ultimately the goal is to identify which activities have the most attractive cost / benefit. That is, which ways of influencing donors – including education, providing more information, making information easier to find, designing 'nudges' etc. – increase outcomes for beneficiaries most cheaply, easily, rapidly and with least risk? For example, is effectiveness best served by influencing donors' choice of cause, or the amount they give, or dissuading donors from making grants restricted, or late? In sum, where is the best focus for efforts to make philanthropy more effective?

Below and throughout the document are some true tales which illustrate the effect of donor behaviour on charitable impact.

Exhibit A: Variation in cost per outcome

Diarrhoea is a major killer in Kenya, often caused by drinking dirty water and can be prevented by putting chlorine in water. One method of distributing chlorine is to deliver it to homes. Another is to dispense it at the water-source (e.g., pump in the village). Both methods work. Putting \$1000 into the first method will prevent 323 cases of diarrhea; putting \$1000 into the second method will prevent 689 cases^{vii}.

One programme achieves more than 200% of what the other achieves for the same input. If donors are supporting the first method we have two options: improve their giving by moving them to the second method or more than double the amount they give.

Exhibit B: Helping...again...and again...

A few months after the Asian tsunami of 2004, a girl turned up in a clinic in Banda Aceh province in Indonesia apparently with measles. This was a surprise because many agencies had worked to prevent measles (and other disease outbreaks) after the tsunami. It transpired that she had in fact been vaccinated: not once, as required, but three times by three different organisations. Her symptoms – and hence the work created for that clinic – resulted from the duplicated vaccinations.

¹ Donors and foundations have much accumulated wisdom and experience on these matters, and there is much insight in many real-life stories in the sector. There are also many studies and surveys of practices of foundations (fewer about major donors and companies) and their learnings and perceptions about what is effective. We absolutely value these, and have drawn on many of them, both in this paper and elsewhere in our work. However, we also are aware of the biases and blindspots that they may contain.

For example, donors who have adopted a particular approach may be subconsciously unwilling to collect or accept data which suggest that they have performed less well than if they had done something different. We do not blame them for this: it is simply an instance of 'confirmation bias', observed in many people in many contexts. Equally, many studies only include donors who have chosen to operate in particular ways, e.g., by setting up staffed foundations. It would be useful to have evidence which is as free of these biases as possible to give a clear picture of 'the truth'. It is also, insofar as is meaningfully possible, in collating and codifying the insights and experience, to make them useful for all donors.

This kind of mal-co-ordination happens all the time. In 2004, there was no common standard through which charities and government agencies in Indonesia could report publicly about their activities, so it was all but impossible to get data on what others were doing. That little girl's story was one of many from which grew the International Aid Transparency Initiative, a system to make it easier to find out what other agencies are doing, and thereby improve co-ordination, outcomes and costs^{viii}.

Such co-ordination work is often hard to fund because donors often perceive it to be 'administration' which is mistaken for waste.

Exhibit C: Success rate of grants

Many charitable gifts perform badly or fail outright. This is seldom discussed publicly: debate is dominated by the size of gift rather than its effect. [Facebook founders Mark Zuckerberg's donation to a San Francisco hospital is reported on its size (\$75m)^{ix}, the Guardian's Giving List rates donors by size, as does Forbes' 'Most generous people in America'.]^x

Gifts can fail by, for example, funding: research into a question to which the answer is already known, research which is too unrigorous to be reliable, which isn't published, and/or which is published too unclearly to be useful^{2, xi}; duplicate work, such as the measles example above; a 'pilot' with no hope or plan for scaling up if successful; work which was inadequately planned, has no budget for inevitable unexpected events, or where the budget / plan is far too small to fix the problem; and so on.

'The median grant made by America's larger foundations is less than \$50,000, while the average duration is less than 18 months (although many are renewed). How many social problems can be solved with \$50,000 over 18 months? Not many, I would venture to say.'^{xii}

- Thomas Tierney, former CEO of Bain & Company, Co-founder and Chairman of The Bridgespan Group

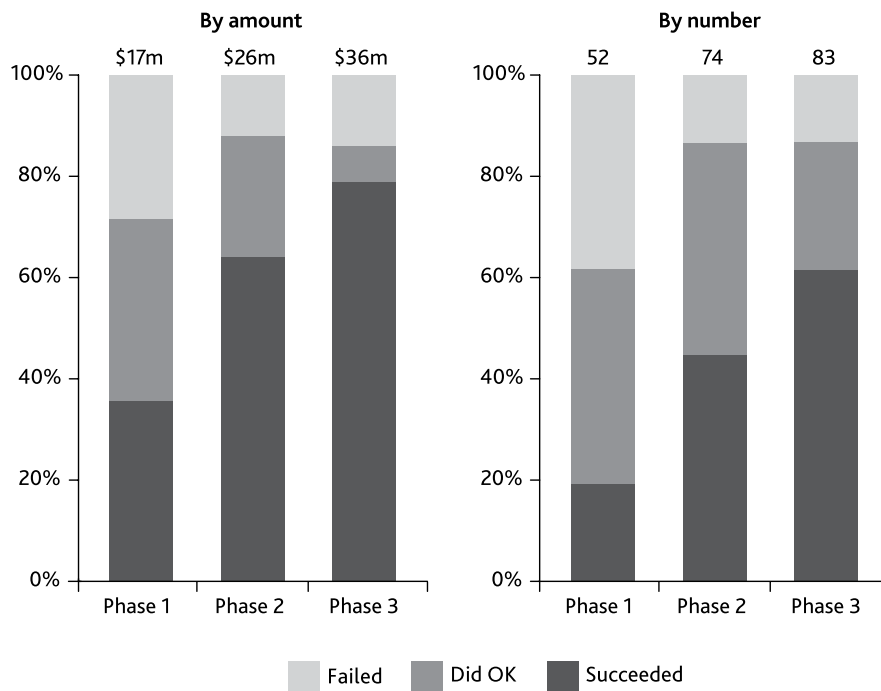
In its 10th year, Shell Foundation took the unusual step of rating each of its grants as having *succeeded*, *done OK* or *failed*, broadly speaking. During its 10 years, it used three quite diverse 'ways of giving', and found that changing the way it gave *tripled* its success rate^{xiii}.

Phase 1: 'Inception phase': 'an open Request for Proposal... consulting widely, publicising our areas of interest, reviewing proposals. We provided short-term project-based support to multiple not-for-profit organisations.'

Phase 2: Making larger investments, over longer period, in fewer organisations and being more engaged.

Phase 3: Focusing on a few, carefully selected partners into each of which it is putting \$10-\$15m for between five and seven years.

² It's thought that as much of 85% of medical research is wasted in these four ways.

Figure 2 - Performance of Shell Foundation Grants

It may be easier to get a donor to change the way they give than to triple the amount they give.

Exhibit D: 'Net grants'

When I (Caroline Fiennes) ran a charity, there was a family foundation I knew whose interests I thought aligned with ours. I approached them. There was no formal application process; rather several emails and conversations. All of this was handled by me (the most highly-paid staffer) since I had the relationship; many donors want to deal with the most senior person. It took ages. Eventually, "good news, you've been awarded a grant of £5,000". On becoming a grantee, we were invited to loads of meetings with family members, with others grantees and so on. I added up the time it had all taken and the salary cost of that time. It came to about £4,500. Eventually the foundation asked for a report on what we'd done with the grant, and I honestly felt like asking: 'What grant? You spent it all!'

There is a useful concept of the 'net grant': *the amount received, net of the cost of work created by the donor* (mainly through application and reporting processes). Here, the net grant was roughly nil.

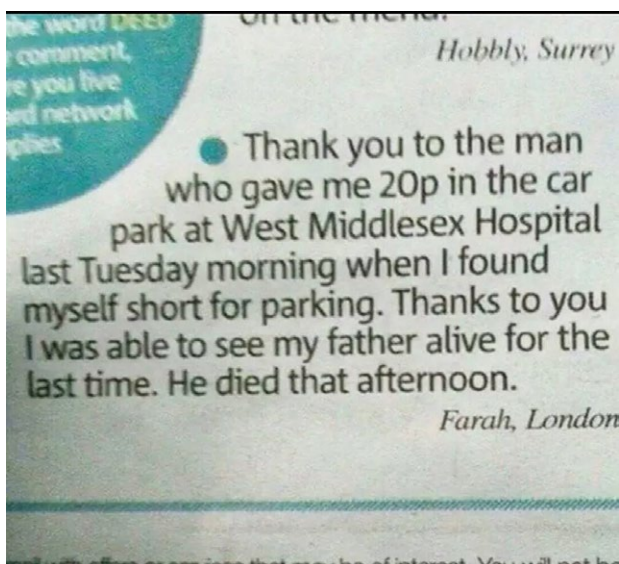
An experimental physicist at Columbia University found some of his grants to be net negative: in other words, he's better off without them^{xiv}.

Exhibit E: Timing

An international NGO (which asked not to be named) had a grant from a large US funder, used mainly for staff (as most grants are). Several months before the grant ended, the CEO opened negotiations about renewing the grant. The funder was interested. However, the funder's decision-making process was slow and the decision came after the first grant had ended. By then, the charity was required by law to lay off those staff. The grant was eventually renewed, though without money for recruiting a second batch of staff, nor the loss of time and experience incurred simply because of the delay. Clearly this dramatically reduces the net grant.

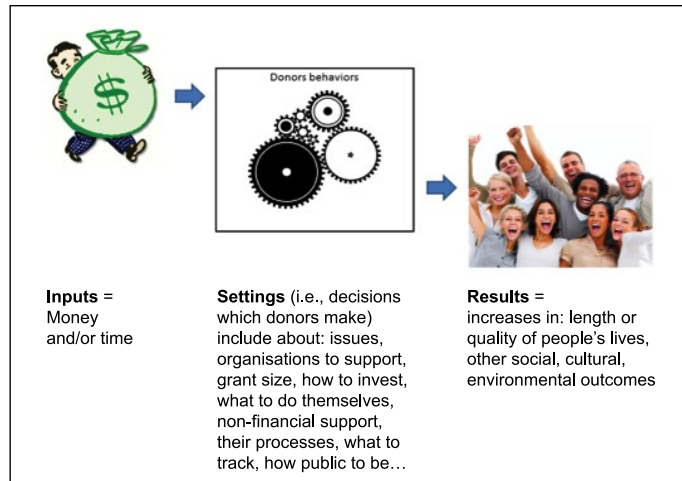
We heard once of a UK charity in a similar situation which had to make staff redundant, only to discover that the funder had in fact approved a repeat grant some time before, but nobody had told the charity nor answered its frantic calls.

The impact of a gift is surprisingly unrelated to its size. Letter to a British newspaper, November 2014^{xv}:



What options do donors have which affect their effectiveness?

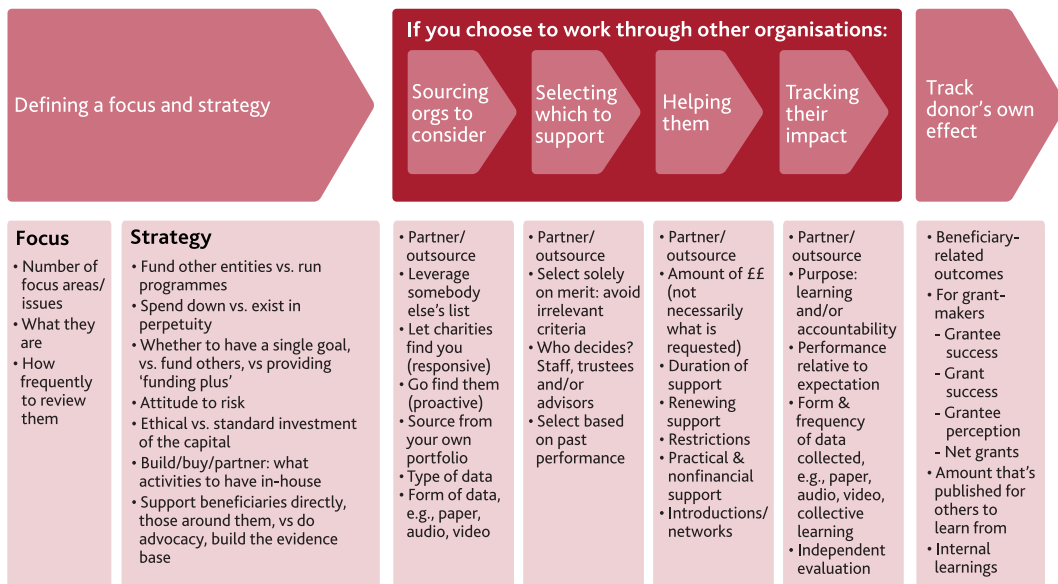
Philanthropic giving can usefully be thought of as a machine for turning money (or time) into outcomes such as improvements in health, wealth, well-being, environmental preservation etc.



The issue which grabs most attention is ‘which charities to support’, but donors have other ‘levers’ too, such the number of organisations which they support, how they engage with those organisations, and whether they work with other donors. As we’ve seen, those choices may be at least as consequential as the selection of recipient organisation.

Donors’ main ‘levers’ (issues on which they make choices) are in the arrows shown here, and the ‘settings’ (position of each lever: the options on each issue³) are shown underneath them⁴:

Figure 3 – Choices that donors make



³ To be clear, we are not using ‘setting’ here to mean ‘context’. It means setting in the way that a dial can be set to different positions.

⁴ The area around the middle four boxes is shaded because donors not all operate (solely) by giving to other organisations. ‘Operating foundations’ run programmes, advocate and/or campaign themselves. Bertelsmann Stiftung in Germany and the Emirates Foundation in Abu Dhabi are examples.

The question is which settings (donor behaviours) produce the best outcomes. In principle, one could investigate this question experimentally. One can *imagine* a randomised controlled trial which would investigate it (for a particular context). Roughly speaking, the experiment would work like this: First, take various grant-makers and agree on a desired outcome, i.e., what the machine is trying to produce. Let's say quality-adjusted life-years⁵ (QALYs).

1. Take numerous charities and measure the QALYs each produces. This is the baseline.
2. Randomly assign 'settings' to the various grant-makers: i.e., some make many grants, some make few; some provide non-financial support, some don't; some find grantees proactively, some don't; some do detailed scrutiny to select charities, some rely on judgement, etc.
3. Have the grant-makers give to those charities under their prescribed 'settings'.
4. Measure the QALYs produced by each charity afterwards. This is the endline.
5. Analyse the results to see which settings most increase the QALYs produced and which (if any) reduce the QALYs produced.
6. Repeat in different contexts.

(Notice that we've not asked the donors to give at random. Rather we've asked them to give as thoughtfully as they see fit within their prescribed settings.)

Such an experiment is probably impossible, not least because: donors rarely cite a single outcome measure for their whole portfolio, and it's even rarer for them to agree on outcome measures with other donors; charities often aim for multiple outcomes; grant-makers are unlikely to accept arbitrary changes to their 'settings'; assigning donors arbitrary 'settings' may reduce morale and commitment and hence unrealistically reduce performance; many philanthropic outcomes take ages to appear, and defy attribution (e.g., pushing for legislative change). Plus one would of course need a large sample to even out all the confounding factors.

Nonetheless it is a useful thought experiment since it highlights the need to identify the behaviours ('settings') which most efficiently produce the outcomes of choice.

⁵ Quality-Adjusted Life Years (QALYs) measure a person's length of life weighted by an assessment of their quality of life. They are used by health economists to choose between alternative treatments. Perhaps Treatment A will extend a patient's life a lot but make it pretty nasty, whereas Treatment B will make her life reasonable but extend it relatively little. Each year of life is assigned a score of quality, based on a wide range of criteria. A year of full health scores one, poor health scores less than one, death counts as zero, and some dreadful conditions score below zero. Clearly most charitable work aims to improve quality of life and/or increase length of life, so its effect can (in principle) be thought about in terms of 'producing' QALYs.

Returning to the graphs in Figure 1, clearly the gradient of the line represents the donor's effectiveness: what we might call their **outcome intensity**⁶, i.e., the amount of a particular outcome (QALYs added, drop in incidences of robbery, rise in proportion of mothers breast feeding) produced per dollar donated.

The unknowns are what determines the gradient of that line, and how to shift donors to behaviours for which the line is steeper.

From this graphic, it's clear that encouraging donors to give more is pointless if their 'net grants' are nil (i.e., their line is horizontal), and harmful if their net grants are negative or who fund programmes which exacerbate a problem because their line slopes downwards.

⁶ We have deliberately created a term which doesn't involve 'efficiency'. The term 'efficiency' started in engineering, where *it concerns losses*: the efficiency of a machine is the energy it produces *out* divided by the energy put *in*. It's a ratio, with a maximum value of one. The lower the number, the more energy has been lost, normally as heat. For example, coal-fired power-stations are about 33% efficient: meaning that of the energy in the input (coal), only about a third becomes electricity; the rest is wasted as heat.

The only role that losses have in philanthropic giving are quite different from what we mean by 'outcome intensity'. Losses occur through donor processes (captured by 'net grant') – and some people (excluding us) would argue that charities' 'admin costs' are a form of loss.

In the example earlier of variation in diarrhoea programmes, you could fund the worst diarrhoea programme mentioned (which prevents cases for just \$3 each) in a process with no loss at all. That would give an 'efficiency' of 1. Funding the *best* diarrhoea programme with no loss at all would *also* give an 'efficiency' of 1. This completely masks the fact that one programme is twice as good as the other. 'Outcome intensity' has no ceiling at 1, and would unmask this essential fact. It is more similar to economists' concept of productivity. It's clear from the graph that donors' outcomes have no maximum: the gradient can be almost infinite. The example of the 20p given in a hospital car park comes close to that.

A donor with a low net grant would have low outcome intensity. Negative net grants would automatically mean negative outcome intensity.

Why do donors not automatically find the optimal behaviours? Why do these problems arise?

‘The problems of philanthropy are not experienced as problems by the philanthropists’.

– Katherine Fulton, Director, Monitor Institute^{xvi}

Two features of philanthropy account for the problems observed. The first is that **it can genuinely be hard to tell whether something is working**. The effects of many social goals are diffuse (e.g., changing public attitudes), have long time-scales (e.g., upgrading workforce composition), and/or depend on many other factors (e.g., changing the law or accelerating technological developments). Some are not observable at all, such as preventing human rights violations in prisons in countries from which uncensored stories rarely reach foreigners. Even in ‘easier’ circumstances, such as diarrhoea in Kenya, it’s hard to know whether any given programme is the best. It’s particularly hard to attribute success to a donor – as opposed to an operational entity – since **most donors’ effect is vicarious**, through the entities they support. Hence there are lots of fashions in giving, and unsubstantiated opinion and advice.

The second is that **most donors have no incentive to do well**. If their donation helps one child when it could have helped ten, there is certainly an opportunity cost, but it’s felt by the would-be beneficiaries. If the gift is given so badly that it’s a net drain on the charity, there is a cash cost, but felt by the receiving charity. **These costs and opportunity costs of ‘bad’ giving are normally not apparent to the donor, and never borne by them**: few donors visit refugee camps, for example, to see what’s really going on, and fewer still visit camps which they’re not funding in order to see the difference. Indeed many major donors are not even alive – Rockefeller, Carnegie, Ford, et al. Few incentives stir the dead.

Hence Katherine Fulton’s comment above. If donors choose suboptimal charities, create costs for charities, won’t fund what the organisation actually needs, that is a problem *but not for the donor*. Perhaps the fundamental problem in philanthropy is that the problems of philanthropy – bad choice of charity, bad choice of ‘settings’ – are not problems for the philanthropists.

This lack of incentive probably accounts for various other observable differences between the philanthropic marketplace and most commercial markets. For example, few donors will pay for advice about improving their performance. Most services to guide donors to high-performing charities (e.g., online platforms such as GlobalGiving) struggle to charge fees, so are funded through separate grants or by taking a fee from tax relief (which doesn’t feel like a cost to the donor). In many fund-raising foundations such as ARK, or giving mechanisms such as Vodafone’s JustTextGiving, the costs are wholly covered such that ‘every penny you donate goes to the actual cause’. Whereas many commercial consultancies have grown to appreciable scale because corporate clients are willing to incur fees in order to improve, few consultancies advising donors have done so: few have more than about ten advisors.

‘Business is easy because the market tells you whether you’re right or wrong. But with philanthropy, you can keep doing something that doesn’t make any sense and there’s no playback from the market’

– Warren Buffett^{xvii}

Many questions are unanswered about why donors choose the behaviours that they do – how many even choose their behaviours consciously? One would imagine / expect that donors are optimising for beneficiaries and outcomes, but this may not be the case: Clara Miller, President of the F.B.Heron Foundation observes that ‘most philanthropy is not a process of discovery; it’s a process of bureaucracy.’^{xviii} Other unanswered questions are around which behaviours are best in which circumstances. There is at present little rigorous research on these questions. In this paper we present examples – of good and bad practice – and the research we know of. Perhaps if donors had more rigorous and comprehensive evidence around how to optimise for beneficiaries, more of them would do so, and they would achieve much more.

Scope and structure of this paper

This paper concerns the effectiveness of various donor behaviours. We therefore do not look at getting donors to give more. This is not because we don't think that important. But rather because, first, others are looking at that; and second, for many major donors (many family or corporate foundations) the amount they can give is fixed, so the question simply doesn't arise. We suspect that outcomes could increase substantially if donors switch to more effective charities, as per the Kenyan diarrhoea example, and better ways of giving. [To take an extreme case, if a donor's process creates so much work for charities that it consumes the entire gift, it doesn't much matter how much the donor gives.]

We do not look at methods for assessing the quality of a charity or an intervention. Again, we agree that these are important⁷, but they are well-studied and documented elsewhere. Rather we look at practical steps to enable donors to find what rigorous research has identified as the gems, and what donor processes enable those gems to shine.

By 'donor', we mean any donor, anywhere: 'retail' individuals (the public), endowed foundations, fund-raising foundations, private family foundations, companies, etc. The appendix outlines the various types of donor and their motivations. Suffice here to say that various research suggests^{xix} that not all donors are trying to maximise their effectiveness, or even to create impact at all. Many give because of social obligation, access to networks, to prevent offspring inheriting excessive wealth etc. It is often hard to discern what donors are trying to maximise. We give particular weight to large donors because some unhelpful practices are unique to them, such as application processes and restricted funds. In short, it's easier to do a bad job of giving a lot than it is of giving a little.

We cover giving to any social, environmental or cultural goal: for concision, we refer to them all as 'social goals'⁸.

The three main sections address the three categories of question outlined in the introduction:

Section 1 looks at what defines success for a donor: what outcome measures are used and what would be useful.

⁷ Indeed, the author, Caroline Fiennes, is on a board of Charity Navigator, the world's largest 'charity ratings agency', works with Innovations for Poverty Action which runs rigorous evaluations of interventions in international development, and is on a board of The Cochrane Collaboration – precisely because assessing charities and interventions is important.

⁸ A note on terms.

For concision, this paper uses 'giving' and 'philanthropy' interchangeably, and to mean 'the deployment of money for primarily social, cultural or environmental goals' i.e., to cover also social investment.

Except when stated otherwise, we use 'charity', 'non-profit' and 'NGO' interchangeably, and to mean any organisation or programme with a social or environmental mission, i.e., including social enterprises, government aid programmes (bilateral or multilateral), impact investing, public sector programmes when they can be funded by external funders (e.g., the Paul Hamlyn Foundation in the UK funds music programme in schools).

Unless made clear otherwise, we use 'donor' to mean the source of the resources, irrespective of whether they are an individual, foundation, company etc., and of whether those resources are financial or non-financial.

By 'grant-maker', we mean an organisation (such as a charitable foundation) which funds other entities to social purposes.

Also for concision, we use 'social goal' to mean any social, cultural or environmental goal.

Section 2 turns to what donor behaviours increase success, by laying out the various choices which donors make (such as: which cause to choose, which organisations to support, gift size, etc.) For each choice, we look at the various options (a simple example is that for the choice of gift size, the options include many small gifts versus few big gifts). We show some evidence⁹ that this choice matters: that it affects outcomes. We look at some of what is known about the effectiveness of the various options.

Section 3 looks at what is known about influencing donors' behaviours on the dimensions which affect outcome intensity.

Lastly, in Section 4, we suggest a set of research questions.

The appendices discuss the difficulties donors face in finding the research about charities' effectiveness which does exist; the size distribution of donors and non-profits; and the method used for this paper.

⁹ To be clear, our aim is to demonstrate that the choice matters: we do not pretend that this short paper is a comprehensive literature review. For concision, in this paper we say 'there are no studies' to mean 'we are not aware of any studies'. We may well have missed some relevant literature and evidence, and if so, please do alert us by sending them to admin@giving-evidence.com

1 Outcomes

To assess the effectiveness of any way of giving, we need some definition of the intended outcome. Donors' effects are normally vicarious, through the organisations they support, and are therefore hard to see. In this section, we discuss various outcomes which could be used to assess a donor's impact.

Of course, we are most interested in beneficiary-related outcomes, and helping donors to optimise for beneficiaries. We examine those first. However, they are sometimes difficult to measure, so we then turn to alternative outcomes related to individual grants.

A: Beneficiary-related outcomes

These include children's learning levels, crime rates, diarrhoea incidence etc. Some donors state goals in terms of beneficiary-related outcomes, which would support experiments or investigation of natural experiments. They include the UK's Esmée Fairbairn Foundation which "aims to improve the quality of life throughout the UK", for which there are many metrics. A historical example is a (real) Swiss corporate foundation which formerly supported non-profits in less developed countries to increase the income of poor households. Clearly this was readily measurable.

The Wikimedia Foundation and Robin Hood Foundation also have beneficiary-related outcomes, and below we outline how they operationalise them.

Wikimedia Foundation

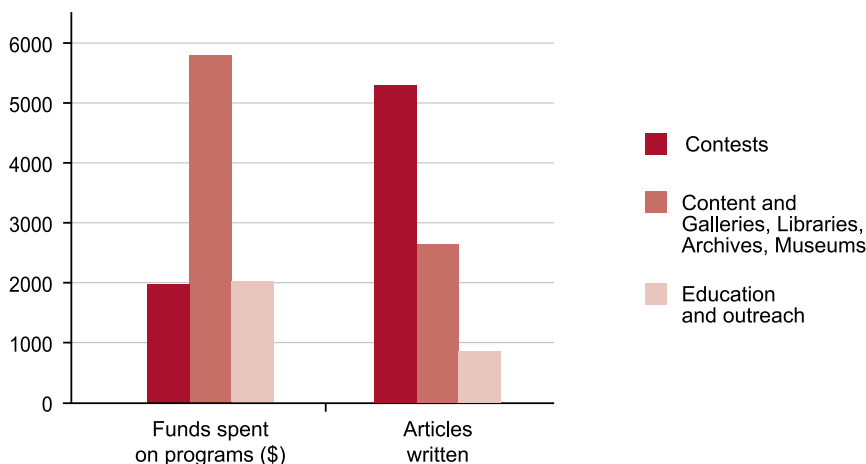
The Wikimedia Foundation which hosts Wikipedia and other wiki projects has recently developed a set of 'global metrics' that it applies to all its grants – though it doesn't expect to see results in each metric. These are:

- Number of active editors involved.
- Number of new registered users.
- Number of individuals involved.
- Number of new images added to Wikimedia articles/pages.
- Number of articles added or improved on Wikimedia projects.
- Number of bytes added to or deleted from Wikimedia projects.
- Learning question: Did your work increase the motivation of contributors and how do you know?

These metrics allow the Wikimedia Foundation to make comparisons between grants and between programmes. Wikimedia also publishes caveats to its metrics – including encouraging grantees and evaluators to respect the context of the grantee project, and that metrics such as 'participants involved' may not be easily compared (because it doesn't measure 'level of engagement').

One example of how these metrics can be used is shown below, in terms of cost-effectiveness of encouraging article-writing:

Figure 4 - Wikimedia Foundation performance, 2013-14^{xx}



The Robin Hood Foundation

Robin Hood Foundation makes grants to reduce poverty in New York City, in areas including job training, healthcare, and education. Its ‘Relentless Monetization’ approach puts a dollar value on 163 outcome metrics – ranging from ‘avoiding foster care’ to ‘prevention of first-time arrest’ – and allows RHF to choose programmes with a strong cost / benefit. [Robin Hood Foundation appears to steer clear of interventions where impacts are difficult to measure, though this does not appear to be stated.] Values on life and expected success rate of the programme are based on economic estimates and literature reviews. These are highly sensitive to variation in estimates.

For instance, Robin Hood Foundation calculates the value of prenatal education and care for vulnerable women in the following way: (no. of pregnant women in programme) x (percentage of women who get assistance solely because of the programme) x (percent of children who would die without intervention) x (60% of infants saved from death due to the programme) x \$4,000,000 per life saved.

Sadly, RHF doesn’t publish much about its outcomes on that basis.

Other donors’ goals

For some donors, using beneficiary-related goals is not practical. Many donors’ goals aren’t stated in terms of beneficiary-related outcomes, and/or aren’t measurable. (This doesn’t necessarily make them bad goals.) One reason is that some charitable work concerns honouring the dead or deities, which doesn’t lend itself to conventional measurement. Another is that some work is too diffuse or its results emerge too slowly for measurement to be practical. Some work concerns ‘taking risk’ (e.g., funding pilot programmes) where success may be conclusively demonstrating that something doesn’t work. Some donors fund heterogeneous work such that beneficiary-related outcomes would not enable them to make meaningful comparisons and choices. Furthermore, many donors see their role as *supporting people* rather than achieving goals themselves. For example, the \$7bn MacArthur Foundation ‘supports creative people and effective institutions committed to building a more just, verdant, and peaceful world’, and FACT, founded by a French-American family, aims to ‘help develop and sustain the field of progressive community organising and advocacy’^{xxi}. Many private families take this view.

These donors need alternative measures if they are to investigate the relative effectiveness of various behaviours.

B: Grant success and grantee success

Shell Foundation used ‘**grant success**’, which it defined as (roughly) whether the grant achieved what it set out to achieve. Grant success is probably simpler, that is quicker and cheaper, to assess in most circumstances than measuring a beneficiary-related outcome. Hence one could imagine experiments using ‘grant success’: donors would vary their ‘settings’, log the success of their grants (however they define that), and analyse how the setting and success rates correlate. These experiments require the donor to define success, and to retrospectively grade all their grants against that definition. [The analogy for ‘operating’ donors is programme success, much as it is for operating non-profits, and is again defined by the donor.]

To our knowledge, Shell Foundation is the sole foundation to have published its success rate. Giving Evidence has found other foundations strikingly resistant to defining success for grants and grading the success of historical grants. The reason given is normally that grantee success is subjective, or can’t be assessed. We suspect that more objectivity is possible since presumably each grant is given with some goal in mind, however loose: in many cases, if not all, it must be possible to see whether that goal or something like it was achieved. We suspect that most foundations or serious donors could, in principle, analyse their grants in this way.

A third option would be to look at **grantee success**. This could be measured without the involvement or permission of the donor – a major advantage. It can be defined however and by whomever one wanted, including by grantees. Measures might be: growth in revenues, beneficiary perception, assets, publications, press mentions, etc.

For example, suppose we choose to analyse back-to-work programmes. We could see whether the success of charities running them (i.e., the back-to-work rates that they achieve¹⁰) is affected by the size of grants they receive, or whether their funders are hands-on or not, collaborate with other funders or not, will give concurrent or unrestricted grants, are staffed or not, etc.

By analogy, the Nobel Foundation isn’t terribly clear about the purpose of Nobel Prizes (beyond ‘recognising’ experts and achievements), but analysts have noticed that getting a Nobel Prize, as opposed to merely being nominated, extends people’s lives by about two years^{xxi}. This analysis takes longevity as a measure of the Nobel Foundation’s ‘grantee success’. It would not be hard to define analogous measure(s) of ‘grantee success’ for other donors and see whether, how and when their prevalence depends on donor behaviour.

¹⁰ This more-or-less controls for the fact that some people are harder to place in work than others, i.e., the charities’ client groups maybe heterogeneous, and differ between charities.

C: Process outcomes

Other possible outcome measures look at the *process* of giving. (Clearly these only relate to donors which give grants and not to ‘operating’ donors.)

The ‘**net grant**’ figure is one option, i.e., the amount received net of the cost consumed by the donor’s own processes. One does not need to look at QALYs to know that a donor who costs a grantee money is not helping.

Another is **grantee perceptions of the donor**. Care must be taken in gathering these since grantees are understandably wary of biting the hands that feed them. However, it is possible as long as anonymity is assured¹¹. Of course, *happy grantees* aren’t necessarily *effective grantees* (there’s no guarantee that they have the most cost-effectiveness programmes), nor that effective giving always produces happy grantees: perhaps sometimes ‘tough love’ to grantees is best for beneficiaries.

Concluding on outcome measures

These outcome measures vary in the cost and complexity of collecting the data. It would therefore be useful to establish whether they correlate with each other and can be reliable proxies. For example, it would be useful to know if some cheaply-measured objective measure of grantee success (such as press mentions) turns out to be a great proxy for an important beneficiary-related outcome which is expensive to measure. Equally it’s important to know if any correlate negatively or are spurious: for instance, grantee perception may turn out to have no bearing on beneficiary-related outcomes.

Summary of possible types of outcome measures

- Beneficiary-related outcomes, e.g., reading years gained
- Grant [or programme] success. Defined by the funder according to what they wanted to achieve
- Grantee success. Can be defined by anybody to be any observable feature of the organisation
- Net grant figures
- Grantee perception

¹¹ The Center for Effective Philanthropy measures them in its Grantee Perception Reports, commissioned by foundations. DOI: Caroline Fiennes is an unpaid advisor to the CEP.

2 The various donor behaviours

We now lay out the main choices which donors face, and the behaviours they can select for each one (the ‘settings’). We look at the (limited) data and evidence available for choosing between them.

Choice 1: Focus

‘Of the 50 largest [US] gifts to public charities in 2012, 34 went to educational institutions...that cater to the elite. Museums and arts organisations received nine. Not a single one went to a[n] organisation that principally serves the poor and the dispossessed.’

– *The Atlantic*, April 2013^{xxiii}

‘In global health, 90% of funding goes to just 10% of the global disease burden’

– *Ben Goldacre, Bad Science*^{xxiv}

There are two issues here.

Choice 1a: Whether to focus, and how many focus areas to have. Some donors have a tight focus (e.g., the Emirates Foundation in the UAE works solely on youth development). Some have a few (the ZeShan Foundation in Hong Kong has five areas). Other foundations – and probably many individual donors – will fund more or less anything, subject to merit, interest and being asked well.

Evidence: Many people (including the author of this paper^{xxv}) argue that donors are more effective when they focus, though there doesn’t appear to be rigorous evidence for this. Beyond the single data-point from Shell Foundation, we’ve never see data about whether donor performance on any of the five outcome measures introduced in Section 2 depends on degree of focus. The notion that donors should focus is clearly consistent with the theory of comparative advantage – everybody does best if every person does only the few things that s/he does best. There may be reasons that that does not apply in philanthropy.

Choice 1b: What that focus(es) should be. They may be by issue (e.g., disaster relief, human rights), geography, or organisation type (e.g., venture philanthropists – borrowing from venture capital models (and discussed further in the appendix) – often support growth-stage organisations in any sector).

Evidence: Selecting a focus is a major determinant of a donor’s impact, because some causes allow for increasing or improving human life (or other outcomes) much more cheaply than do others.^{xxvi} For instance, suppose that a donor wishes to benefit blind people. It takes \$42,000 to train a guide dog in America. Yet it only takes \$25 to fund a trachoma surgery in many African countries, which is 85% effective.^{xxvii}

On foundations, few explain a logic for their choice: one which does is Stars Foundation, established by a Saudi company, which chooses countries based on their being low on the Human Development Index. From many anecdotes, we understand that donors’ focus decisions are often based on ‘internal’ considerations, e.g., respecting a settlor’s wishes or reflecting a settlor’s interests. On occasion, focus reflects new situations, e.g., the changes in Eastern Europe in the 1980s or rise in HIV/AIDS^{xxviii}.

The Life You Can Save (TLYCS) is an NGO inspired by the philosopher Peter Singer which encourages donors to give to causes and charities where their donations will produce the most QALYs (which are invariably in less economically developed countries). It runs 'giving games' in which a charitable programme is described and people have to say whether they think it has a positive effect, no effect or harmful effect, and are then shown 'the answer' from rigorous evaluations. TLYCS suspects that it is easier to influence a 'pre-donor' than somebody who is already giving: donors "have entrenched habits, emotional attachments, and they don't want to think they've wasted their giving to date."^{xxix} This is obviously consistent with confirmation bias and mental accounting.

Choice 2: Strategy

Michael Porter and Mark Kramer argue that foundations create value when they 'achieve an equivalent social benefit with fewer dollars or a greater social benefit at comparable cost' to government. They found (in 1999) that US foundations paid out an average of only 5.5% of their assets each year:

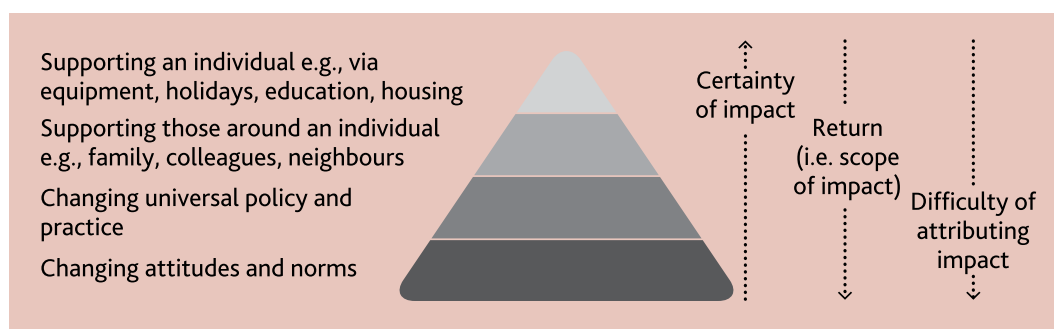
'When an individual contributes \$100 to a charity, the nation loses about \$40 in tax revenue, but the charity gets \$100, which it uses to provide services to society. The immediate social benefit, then, is 250% of the lost tax revenue. When \$100 is contributed to a foundation, the nation loses the same \$50. But the immediate social benefit is only the \$5.50 per year that the foundation gives away – that is, less than 14% of the foregone tax revenue'.^{xxx}

Strategic decisions are about fundamentally how resources are configured. Strategic giving decisions include those below, which lead to various donor behaviours:

- a) Whether to operate through other organisations (by funding them in some way, like the Ford Foundation does) or whether to deliver programmes directly (as an 'operating foundation', like Bertelsmann Stiftung in Germany).
- b) (For foundations) Whether to exist in perpetuity or to 'spend out' over some period. Large foundations, such as the Gates Foundation and Atlantic Philanthropies, have stipulated deadlines by which all the money must be spent.^{xxxi}
- c) Whether to be organised around goal(s) such as eradicating polio, or supporting a particular field, as MacArthur Foundation does.
- d) Whether to disburse the capital as gifts versus as loans or return-bearing investments. For example, The Russell Family Foundation invested in Shorebank Pacific in Washington state, a community bank which lends to environmentally sustainable businesses. Whereas some donors invest in conventional assets and use the proceeds to make grants, others invest in entities which support their missions: this latter strategy might yield less to 'give away', that may be offset by the social benefits of the investment. The F.B.Heron Foundation which invests solely according to its mission thinks that this only costs it 30-50 basis points.^{xxxii} A striking example here is the recent decision by Rockefeller Brothers Fund to divest from all fossil fuels: "For a fund so devoted to fighting climate change, to continue to be invested in fossil fuels that are actually causing climate change was hypocritical and unacceptable," said its president Stephen Heintz.^{xxxiii}

- e) Build / buy / partner: Whether to operate *alone*; or to *partner* with other funders (e.g., via giving circles, or some foundations pool resources, such as The Baring Foundation and John Ellerman Foundation, two endowed UK foundations who combined their funding in sub-Saharan Africa); or to *outsource* (e.g., Robbie Williams' foundation is handled in its entirety by UK grant-maker Comic Relief).
- f) Where on the triangle in Figure 5 below to operate. Suppose that you want to help disabled children. At the top of the triangle are entities providing services directly for those children, such as providing equipment; on the next level, providing services to the people immediately around them (family or teachers); one step further removed is improving services across the board (e.g., to all teachers); and then there is systemic work such as advocating for better legal rights or more state funding or societal attitudes or building the evidence base around disabled children. This relates to risk and timescale, because work nearer the top tends to be lower risk, faster, and more readily attributable.

Figure 5 – Various Types of Social Impact



Evidence: Clearly we'd like to see evidence on which of these behaviours ('settings') produces the greatest outcome intensity in particular circumstances. We've not seen any.

For several of the choices listed, there are logical arguments. For example,

- on the issue of whether to build, outsource or partner, one can *imagine* that partnering is cheaper than building. (Foundations are required to publish only relatively little information about their costs, so it's rarely possible to see from their accounts whether this is true.)
- on whether to spend out there are studies of the frequency and motivations for the various options, but none investigating their impact.^{xxxiv} Some people argue that funds spent faster create more impact: they 'wait less long' to be spent so have a higher net present value, and also 'solve today's problems at today's prices'. That may be true.

The following four choices only pertain to donors who are operating through other organisations.

Choice 3: Sourcing organisations to consider

The 'fax grant'

The Philanthropic Ventures Foundation (PVF) in Oakland, California created a Teacher Resource Grants programme, which differs wildly from the standard process.

'PVF provides [money to buy] inexpensive but badly needed classroom materials to teachers in its region – materials that are useless if they don't arrive quickly, when the teacher needs them. PVF notified more than 6,000 teachers that grants up to \$1,500 would be available for teaching materials, field trips or teacher training. Teachers refer to the programme as the 'fax grant programme' because the foundation takes requests by fax and then sends an answer within one hour of receipt and a cheque within 24 hours.'^{xxxv}

Behaviours here include:

- Sourcing proactively (donor goes out to find charities) versus reactively (donor funds a subset of charities which approach it: also called 'funding responsively'). Most 'retail' donors give reactively, the major prompt is being asked^{xxxvi}. We know that the effectiveness and cost-effectiveness of charitable interventions varies (e.g., the Kenyan diarrhoea example earlier), and since there's no guarantee that only the best will approach you in the street or write applications to you, funding solely reactively *seems* like a bad idea.
- (If funding responsively) how visible to be / what resources to devote to being visible.
- The application format. Most are made on paper, in one language. Some vary from this, such as the Lankelly Chase Foundation in the UK, which allows applicants to apply with a video (as well as brief registration form).^{xxxvii}
- The application process. Many foundations' processes are arranged around infrequent, closed meetings, and are slow. Funders rarely share application forms: most have their own form, which presumably increases wastage on charities completing them. Some application-based funders simply use the form; others visit the charities; some ask the charity's team to come and pitch, etc.

Evidence: The issue is how the various search or application processes (i.e., behaviours) affect success, on any of the five outcome measures discussed in Section 2.

As discussed, it's clear that these processes matter because some are so laborious that they consume the entire gift.

Some behaviours are clearly unhelpful, such as inviting applications and then declining to fund any of them, since this obviously is net negative, i.e., a drain on the system. Box 1 below shows the transaction costs created by funders through application and reporting processes. These can be reduced by funders being clearer about what they want, and it would be valuable to research how to encourage these shifts.

But for other questions, we've not seen data, such as whether processes vary in their effectiveness at finding high-performing charities / interventions, or at improving grantee perceptions.

Again, there are logical arguments. It's clearly likely that 'light' processes are less time-consuming and therefore increase 'net grants' and thereby increase outcome intensity simply by diverting fewer resources. One can also imagine that the selection processes which are best for finding work at the top of the triangle (typically easily described and photogenic) are not necessarily those best for finding work further down (typically needing longer descriptions, and more time to produce results).

Box 1 – Transaction costs in grant-making

Transaction costs

BBC Children in Need, a UK foundation attached to the broadcaster, used to fund one in four of its applicants. Though that is quite high for the industry, it sought to reduce the transaction cost by becoming much clearer so as to deter low-probability applications. The diagram and table show the transaction costs before and after, assuming that each application and report costs £1000.

The bank NatWest ran a programme in 2012 to support local charities, in which it solicited widely for applications, gaining far more than it needed. Awards were given on the number of 'votes' from the public, so each applicant had to drum up supporters to vote, the process for which was laborious. The UK Cabinet Office's Social Action Fund in its first round received over 43 times more applications than it needed, but did at least make large grants^{xxxviii}.

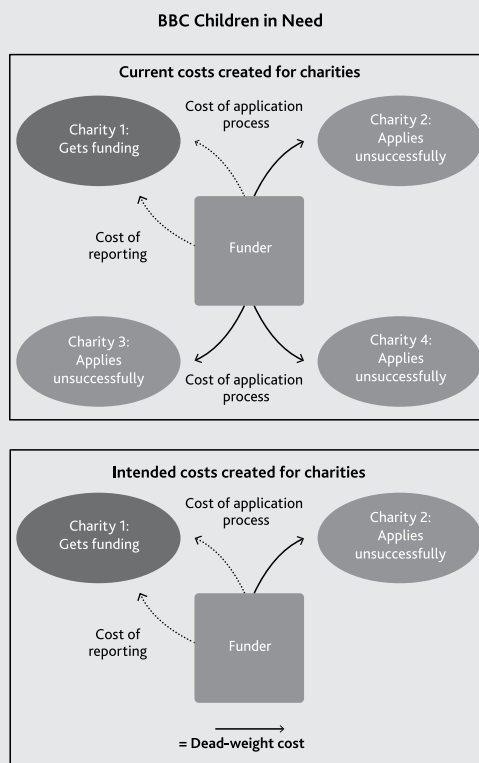


Table 1 - Transaction costs for various ways of giving¹²

	BBC Children in Need, original process	BBC Children in Need, amended process	NatWest's CommunityForce programme	Cabinet Office Social Action Fund
Applications per grant made	4	2	14.7	43.8
Cost of applications per eventual grant	£4,000	£2,000	£14,700	£43,800
Total transaction cost per eventual grant	£5,000	£3,000	£15,700 Average grant made = £6,000	£44,800 Average grant made = £562,500

¹² To aid comparisons and because information to enable better accuracy is not available, these calculations assume that all applications and reports to each funder cost £1,000. We recognise that this is a simplification.

Choice 4: Selecting which organisations to support

Fragmentation

Some foundations limit themselves to one grant per organisation at a time. Esmée Fairbairn Foundation in the UK is one^{xviii}. Though this is intended to be fair between organisations, it has the effect of deterring mergers and thereby encouraging fragmentation^{xi}. Two separate charities are eligible for two grants; but if they merge, they're eligible for just one. It can also create transaction costs: if Charity A has a relationship with and grant from Foundation X, and devises a programme which would be useful to beneficiaries and within Foundation X's field of interest, it can't leverage the existing relationship with Foundation X but must take that idea elsewhere.

The fragmentation matters because it prevents economies of scale. That drives up unit costs, and hence probably reduces grantees' outcome intensity, it being harder to hire two great CEOs than to hire one.

Why this matters: The Kenyan diarrhoea example earlier shows that the choice of programme and charity matters hugely. There are many similar examples, where some programmes are 10%, 50%, 100% better than others. Equally, there are many examples of charitable and social programmes which achieve nothing, and others which are harmful^{xii}. Clearly then, it's important to identify the good programmes and organisations and guide donors to them. The effect of this choice can dwarf the impact of the amount given.

Current behaviour: For retail donors, the main determinant appears to be whether they are asked. One peculiar effect of this is that the location of a person's name in the alphabet can affect their giving: a study found that fundraisers in one university worked through an alphabetical list and, because students with names higher in the alphabet were more likely to be asked, they were more likely to give.^{xiii} However, there is evidence that giving in groups changes how they behave. The Life You Can Save finds that group dynamics improve giving: somebody may be inclined to support a particular charity because (say) their cousin works there, but they might not even voice that opinion in a group context. People's individual attachments seem to 'wash out' in group discussions, allowing for a focus on shared values, which often include impact.^{xiiii}

For major donors and institutional donors, selection decisions are normally made by trustees (voluntary and part-time, and often not experts in the subject) informed by material from the grant officers, itself informed by conversations and written material from applications. Whereas in medical research funders routinely use numerical scoring in assessing proposals, this is rare (perhaps non-existent) in non-medical funders. Use of systematic reviews or other third party research pertaining to the proposed work is rare. Thus considerable weight is given to human judgement.^{xlv}

Choices and options: For major donors, there are three main choices here:

- what criteria to use;
- where to source the data to assess organisations on those criteria; and
- who to involve in the decision-making process.

Little is known about how these affect success, on any definition. Bear in mind that donors do more than simply fund programmes or interventions: they are often funding an organisation to grow, to

scale, to gain influence, and so on. As Jim Collins says in *Good to Great and the Social Sectors* about restricted giving, this “misses a fundamental point: to make the greatest impact on society requires first and foremost a great organisation, not a single great programme.”^{xiv}

On the *criteria*, most donors cite a range. Some criteria seem independent of performance, e.g., whereas some foundations have ‘absolute’ criteria, others make a particular number (or value) of grants in each meeting. Some donors won’t fund the same organisation twice, nor fund more than one project at once, and some won’t fund organisations above (or below) particular sizes.

Assessing information using just human judgement has been shown in many situations to be problematic. These include funding decisions in medicine. A study^{xv} at McGill University Health Center Research Institute in Canada compared the judgements of two different types of peer-review process for selecting research proposals: 32 proposals were assessed by (a) a panel of 11 members (the traditional decision-making model) and (b) two reviewers selected for content and methodological expertise. Agreement of the two methods was poor. A bigger study of 248 research proposals^{xvi}, also in Canada, also compared assessments of two peer review systems, and it too found that agreement was poor, little more than chance.

A possible alternative is combining or replacing judgement with an algorithm or scoring system, such as has been very successful in, say, guiding doctors in the treatment of newborns. A possible experimental method for exploring the potential of such systems is in Box 2.

On *where to source the data*, from many conversations with major donors and foundations, Giving Evidence understands that most use information provided by the charity (e.g., on the application form). We’ve found few who use the independent literature (e.g., from J-PAL and IPA¹³).^{14,xlviii, xlix, l} This is remarkable given that (a) many charities are requesting funding for interventions which are known and may have been independently evaluated, or are variants on known interventions, and (b) there may be more cost-effective ways of solving the same problems (as per the Kenyan diarrhoea example). It’s rare (in our not-scientific-logged experience) for foundations to systematically use ‘monitoring and evaluation’ reports produced by charities. [This is partly because of the difficulty of finding it: see appendix on research infrastructure.]

On *who to involve*, funders vary in how they involve staff, trustees, outside experts, the public^{li}. Very few involve beneficiaries and other charities^{lii}. We only know of one which makes its decisions in public: the City Bridge Trust in London. There is often argument (including from Giving Evidence^{liii}) that open processes are better for legitimacy and accountability – which arguably are important in their own right, irrespective of whether they produce objectively ‘better’ decisions.

13 Building on the success of the National Institute of Health and Care Excellence, which determines what treatments should be available on the UK’s National Health Service (i.e., funded by taxes), the UK government in 2013 set up several ‘What Works Centres’ to guide policy-making. They are in crime reduction, education, local economic growth, ageing and well-being. Their work includes assessing and synthesising the existing evidence in their areas. Clearly those assessments should be a fantastic (and free) resource for anybody, including charitable donors.

14 Funders who do conduct literature reviews include:

The UK-based Children’s Investment Fund Foundation;

- The Education Endowment Foundation (founded by the UK government) which publishes an extensive literature review to inform applicants, and each topic is ‘judged by the strength of evidence regarding educational effectiveness’.

- The Wallace Foundation (US) which uses advocacy and grant-making in education and the arts

- The Robin Hood Foundation (NYC) which has created comparative cost-benefit analyses of 163 anti-poverty interventions

- The McKnight Foundation, which has a ‘resource center’ detailing its positions and research on issues, which includes commissioned research with specific recommendations for action.

Experimental designs for identifying how to improve decision-making: In principle it is possible to log the ‘success’ of grants and grantees, and simply look for how that correlates with the various criteria, data used and people involved, and thereby refine the selection criteria. We’ve never seen a foundation do this. The box below describes how such an experiment could work.

Box 2 - Could an algorithm out-perform a foundation?

A grant-maker is largely a machine for making decisions - most notably around which charities to support and which to decline, but also other decisions such as what support to provide. Those decisions are based on predicting how a charity will fare and whether it will use resources well. So a major question is whether their decisions are any good, and **how to optimise their decisions and predictions**. In other words, how to ensure that a grant-maker makes the best decisions given the information available.

To our knowledge, nobody has ever investigated the quality of decision-making in grant-makers nor how to improve it.

The normal decision-making process in a foundation is this: staff identify opportunities (either proactively or reactively); they do some analysis and research and form a judgement about which opportunities to recommend to the board; which uses its judgement (perhaps informed by the analysis) to decide.

This decision-making process is similar to that of many other professional decision-makers such as pension funds and university admissions offices. Yet research from many sectors and many countries suggests that human judgement is not good at making reliable decisions or predictions. It doesn’t even agree with itself: given the same information on different days (or even just before and after lunch), radiologists make different diagnoses, as do stock market analysts and others. This rather implies that grant-making decisions could be a lot better.

Of course, grant-makers don’t realise this because the human mind is terrible at assessing itself. Daniel Kahneman cites Paul Meehl’s finding that a psychologist who believed his own assessment of a person’s IQ because he’d “noticed” a “pretty good” correlation between his view and the results of an IQ test. The correlation turned out to be 0.04: essentially nil^{iv}.

So could grant-makers improve decisions by changing their decision-making process? Below are two possible research methods.

First method: Use regression analysis to figure out the predictive factors

When a grant is made, write down loads of characteristics of both the grant and the organisation: revenue, age, governance structure, lifestage (start-up, growth-stage, stable-state etc.), fragmentation of existing funders, grant size, purpose duration, etc. Note whether the grant eventually succeeds. Then run the regression to identify the predictive factors. Experience from elsewhere suggests that, though the selection process there may consider a host of factors, good predictions can be made with only a few factors.

Second method: Use algorithms and scoring systems

In many sectors, scoring systems with a few variables have been shown to outperform expert judgement at making predictions. Indeed, Kahneman reports that “no exception has been convincingly documented.”^{iv} Such scoring systems have been used successfully on parole violations, fine wine prices, and mental health. The Apgar Score for assessing the health of newborn babies, and figuring out whether they should be in intensive care, is credited with substantial decreasing neonatal deaths.

Perhaps, then, we should see whether such a scoring system could improve philanthropic decisions. Kahneman also says that an expert can normally devise a decent scoring system in about half an hour.

Devising the scoring system

Giving Evidence tried this in summer 2013, asking half a dozen experienced grant-makers what factors they thought the scoring system should include. There was remarkable consistency. [List at end of this box] We didn't get as far as creating a numerical scale for each factor, though that is probably possible.

Researching whether the algorithm outperforms human judgement

One could research which of the following decision-making systems leads to better decisions: (a) the current ‘judgement system’ or (b) the proposed scoring system. A ‘rational funder’ would adopt whichever is the more reliable (or other system, if another proves to be better). There are two stages of this research:

1. ***Do the two systems produce different answers?*** This is important because clearly if they don't, then we don't need to decide between them.

This can be researched pretty quickly. Having devised the scoring system, we divide the staff in a large foundation into two random groups. One group is trained to score opportunities. This should be pretty swift since it should be designed to be intuitive. (The great strength of the Apgar Score is that it has just five criteria, each of which is readily observable, such as the child's color or breathing.) We'd have those staff assess some applications / opportunities using the scoring system. The other group assesses those same applications / opportunities using the ‘judgement system’. We then simply see whether their answers differ.

If they do differ, we need to establish:

2. ***Which system provides the more reliable answers?*** This is imperative, but will take a while for the predictions to play out, which is of course necessary to see which ones are more accurate.

We could run a randomised trial: an incoming application is randomly assigned to be analysed under (a) the ‘judgement system’, or (b) the scoring system by staff trained in that. The ‘outcome measure’ is grant success, i.e., the systems are judged on the proportion of successful grants that they produce. (Clearly this requires the foundation to somehow define success for its grants.) Staff in both groups have to be clear about their prediction: i.e., to state what they think will happen during a grant. Then, after a suitable time (say 36 months), we see how accurate they are, i.e., how reality compares to their prediction.

We should include quite a number of applications, and enough staff and offices for random fluctuations to even out between the two groups (e.g., each group should have a reasonable mix of grant sizes, durations, service delivery vs. systemic change, etc.).

The system with the higher success-rate seems the more reliable, and should be used.

In fact the two systems are not mutually exclusive, since an application can be analysed both ways. There could be a 'shadow' group which would avoid disrupting the current system. All applications would go through the current 'judgement' system and grants are made on that basis; but a randomly-chosen subset (or all applications) would also be analysed using the scores. After a while, we compare the success rate which we actually get (from the judgement process) with the success rate we would have had if we'd followed the answer from the scoring system.

Summary of criteria

Giving Evidence asked some experts who have all worked in large grant-making entities in the US for the criteria they would suggest for such an algorithm. Though they have worked in diverse sectors, and varied in their emphasis and model, there was striking consistency, as shown in Table 2 below.

Table 2 – Possible Criteria for A Grant-Making Algorithm

	Person A	Person B	Person C
Clear goal	Yes	Yes	Yes
Evidence of need around that goal	Yes	'Do they have a good understanding of their market'	
Clear activities	Yes	Yes, and do they understand their finances in programme terms, and the programme in financial terms	Yes
Clear link between activities and goal	Yes		Yes
Track record	Yes	Yes	'Do they have capacity to deliver' (emphasis seemed more prospective than retrospective)
Leadership (in the org)	Yes	(including management)	'Do they have a decent process for making strategic decisions'
Leverage / wider influence (~leadership outside the org)	Yes	Yes, and do they 'understand their market and where they play in it'	Yes ('do they play well with others in their sector')
Data-orientation	*	*	*
Fit with funder strategy	*	*	Yes

* These people would probably not have argued with these criteria, but didn't happen to state them – but they were given no notice that they would be asked their opinion.

Choice 5: Providing the support

Pay day loans

Nearly half of US nonprofits rely on taking (interest-bearing) loans^{vi}. The top reason for them – the cause of 48% of all loans taken by nonprofits – is lateness of payments for grants or government contracts^{vii}. Around 20% of US government payments to nonprofits are up to a month late; around another 20% are 30-90 days late; and another approximately 10%, are over 90 days late.^{viii}

Gift size

When donors divide their giving into many small grants, they may inadvertently increase the workload on charities. The average staff time required to secure and manage \$100,000 (i.e., to write applications and later to provide monitoring information to funders)^{ix}:

Grant size	Average time spent on grant application & monitoring	Average amount raised per hour spent	Time to raise \$100,000
\$10,000	7 hours	\$1,500	70 hours (nearly two person-weeks)
\$100,000	12 hours	\$8,500	12 hours (only a day and a half)

Behaviours here vary in relation to:

- the size of grants (or investments);
- hence the number of concurrent grantees (or investees);
- restrictions placed on grants (e.g., whether it can only be used in Thailand, or only for irrigation work and not for overheads);
- the returns required from loans or investments;
- when support is provided, e.g., when grant instalments are given;
- the non-financial support provided (such as training, networking contacts, office space etc.) Some donors just donate money (including most retail donors); others get involved some take seats on the board;
- duration of the grant / involvement. Often, donors only fund the 'pilot' or early stage of a programme, which makes it hard to scale programmes which prove effective.

Box 3 - Giving behaviours of US foundations^{ix}

Restrictions: 25% of foundation dollars are unrestricted, according to the foundations (though it's not unusual for recipient non-profits to perceive foundation behaviour quite differently from how the foundations perceive it). 81% of foundations claim to give some unrestricted funding, i.e., 19% claim to give solely restricted funding.

42% of US foundations never or rarely give multi-year support.

53% of foundations say that they regularly solicit feedback from grantees.

53% say they never or rarely give support for grantee collaboration.

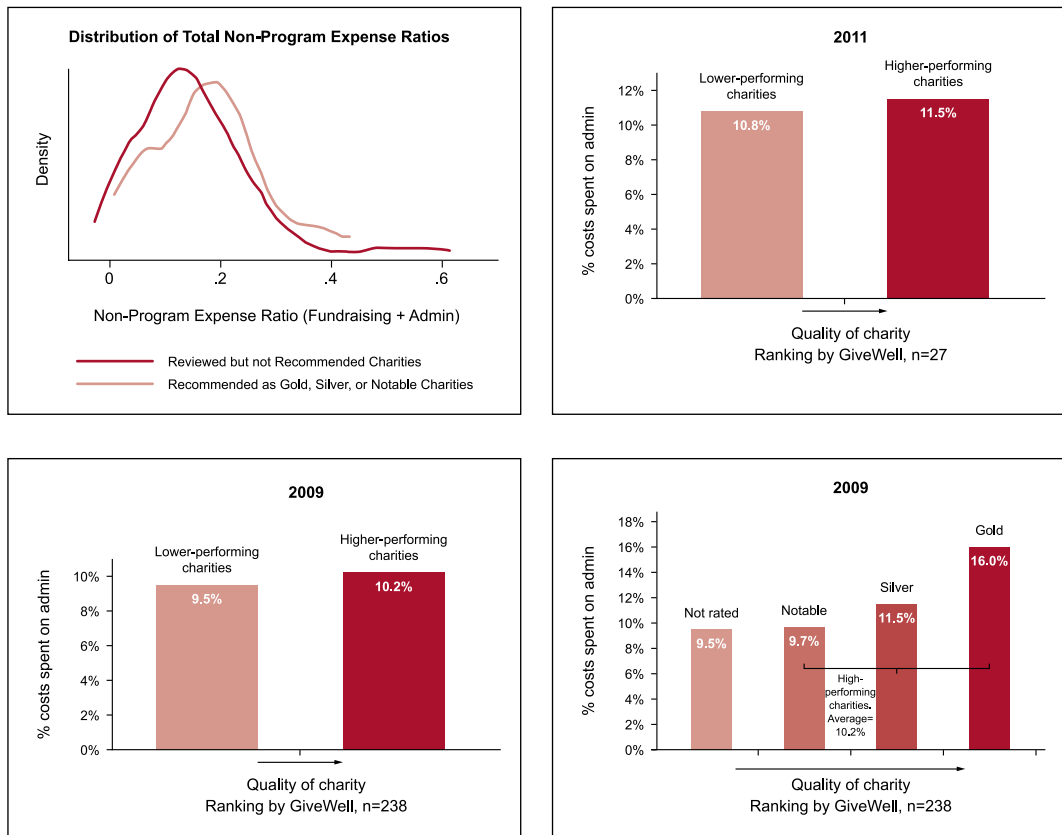
Evidence: That some of these behaviours affect outcome intensity is simply obvious: making payments very late as per the examples described clearly reduces the net grant. Equally, the data we saw show that small grants produce lower outcome intensity than do large grants, simply because they are more expensive to manage which reduces the net grant^{lxix}:

On other behaviours, data are scarcer. The Shell Foundation data suggest that making a few, big bets and being highly engaged drives grant success. However, as noted, those data entangle the effect of several behaviours which changed together.

We've not seen analysis of how these behaviours affect other outcome measures.

We could find no quantitative, independent evidence about the effect of funding overheads (i.e., non-programme costs) or not. Many charities have many stories about how lack of unrestricted income hampers them and drives up cost: restrictions are legal and contractual, and mean that charity accounts often have literally dozens of revenue lines each of which must only be matched with particular cost lines. The notion that this increases costs is both plausible and borne out by our own experience. Furthermore, the evidence suggests that strong performance relies on adequate overhead expenditure: charities rated highly by GiveWell consistently spend more on overheads (and on fundraising too actually) than do their lower-rated peers. The sample is small here, but consistent over time.

Figure 6 - GiveWell-recommended charities have higher overheads than average charities^{lxii, lxiii}



Choice 6: Tracking grantees

This doesn't apply to retail donors, since they don't normally require reports from charities they support.

Current behaviour: Many foundations, government commissioners and some major donors ask grantees to 'monitor and/or evaluate' their work and to report to them on it. (The terms are used loosely and often interchangeably. Strictly speaking, monitoring might be 'counting', e.g., how many children came to your breakfast club, and their demographic mix; whereas "evaluation is distinguished from monitoring by a serious attempt to establish attribution"^{xiv}. For concision, we refer to them collectively as tracking.)

Why this matters: Monitoring and evaluating, and reporting to donors is a significant cost: in the UK, about £1bn annually, i.e., 2.7% of charitable sector income^{xv}, and about 2% in the US. There is evidence that much of it is too low quality to guide good decisions (see Appendix D), and that neither charities nor funders find it terribly helpful. So either the quality should be improved, or this work should cease: that £1bn – and its equivalents in other countries – could fund a lot of trachoma operations or diarrhoea prevention.

Furthermore, the purpose of this tracking is to influence behaviour, and it is known that some ways of presenting and receiving information are better at achieving this than others. It is not clear that charities' tracking research is being best used to that end.

Choices: There are choices around: what to ask for; how frequently; and what to do with it.

On *what to ask for*, the options include:

- the degree of detail requested;
- the research method, and rigour required. Evaluations are typically 'observational' – few take account of beneficiaries' views, though these may be an effective 'early warning system',^{15, bxi}.
- the acceptability of information produced for other funders or other purposes. (Many donors require monitoring data on bespoke definitions, which drives up cost);
- who pays for the research. If the charity pays, it is unlikely to get a decent budget because non-project income is so scarce. By contrast, sometimes the donor funds research separately from the grant itself;
- who conducts the research: the charity itself; an 'independent' evaluator hired by the charity; or somebody paid separately (i.e., where the charity is not the client). Experience in clinical trials suggests that charities' research findings may vary depending on who conducts and funds it^{xvii}: published trials of pharmaceutical drugs are about four times as likely to show a favourable result than is independent research into the same question,^{lxviii, lxix}
- reflection internally by grantees, learning sets comprising grantees (and perhaps other operating organisations), reflection and dialogue between grantees and donors.

On *frequency and timing*, there are options around: the timing being driven by the donor (the norm is probably an annual cycle which starts when the grant starts); fitting in with existing requests from other donors, which avoids adding work; or fitting in with the grantee's cycle. Sometimes cycles are unhelpful, such as requiring school-based organisations to report quarterly, when clearly those organisations will be organised around terms (or semesters) rather than quarters.

¹⁵ For example, recent surveys of front-line health workers in Sierra Leone dealing with Ebola are proving to provide rapid and cheap indications of operational problems, such as stock-outs.

On *what do to with it*, probably much monitoring and evaluation material is unpublished¹⁶. That which is published is often hard to find, and too unclear to support reliable comparisons of interventions. All of this prevents it from being used by other practitioners, funders, policy-makers and academics. Clearly the aim is (or at least, perhaps should be) to inform future practice, and to our knowledge, there is as yet no research about the best ways to do this, i.e., on research uptake by philanthropic donors. We return to this later.

16 We have never seen a study of the extent to which charities research is unpublished, or whether the published material is biased. Selective non-publication clearly happens: the author herself withheld unflattering evaluations when a charity CEO. At the time of writing, Giving Evidence is working to estimate non-publication and bias in research by UK charities in mental health.

Choice 7: Tracking the donor's own performance (as distinct to that of grantees)

Why this matters: This is the learning loop through which donors see if their practice is effective and hence identify what to amend. It's therefore imperative that the data are reliable, and presented and communicated such that the lessons are absorbed and heeded, i.e., that donors 'learn well'.

Donor behaviour: Retail donors don't track their own performance, and can't do so meaningfully. However, it does pertain to major donors, irrespective of whether they are funding other organisations or 'doing work' themselves.

From many conversations with major donors and foundations, few grant-makers consistently track their own performance as distinct to that of their grantees. Almost three-quarters of US foundation CEOs surveyed in 2011 said that assessing their foundation's effectiveness was one of their top priorities. Yet few of the indicators they use are good indicators of programme success. The most frequently-cited tool was anecdotal feedback (94% of CEOs), then written reports (92%) and site visits (90%). Cost-benefit analysis was used by 26%.^{lxx} Relatively few methodically gather anonymous views of grantees and applicants – which is essential for what Warren Buffett calls 'the playback from the market'.

Many staffed foundations undertake internal reflection in order to learn, some have periodic external assessments, some gather views from grantees (sometimes these allow for anonymity, though not always, and some foundations include rejected applicants in those surveys). There are quite frequent private discussions within and between staffed foundations about what they are learning, though the extent to which they draw on data or external perceptions is unclear. There are plenty of accounts of foundations changing behaviour from internal reflection, some have periodic external assessments methods producing changes^{lxxi}.

Relatively little of this material is published. Some foundations publish grantee perception reports, though only a handful outside the US. Shell Foundation's analysis of its own performance over its first ten years 'was triggered by a simple question: "Has our performance to date in achieving scale been good, average or poor when compared with our peers?" Given the lack of other published information around performance – including both success and failure – from peer organisations, this proved to be very difficult to answer.'^{lxxii}

Outstanding question: As with tracking grantees, it would be useful to know which types of tracking help donors to understand and improve their performance, and ways of collecting and sharing information from other donors most effectively influences their practice: that is, identifying what helps operating organisations to learn well.

3 What's known about influencing donors on these choices

Having now seen the range of behaviours between which donors choose, we look at what is known about influencing them on those choices.

Choice 1: Choice of focus ('cause selection')

Individual donors

Oxford-based Giving What We Can tries to influence individuals' 'cause selection'. Utilitarian in outlook, it wants people to give where their donation will most increase or improve people's lives, i.e., generate most QALYs (with high certainty). This almost invariably means global public health, in its analysis.

It claims success in most cases^{xiii}. Clearly perhaps its advice is only sought by people willing to be persuaded, who haven't already chosen a cause, and/or who are attracted by their logic: perhaps attempting to change the 'cause selection' of other people might offend them to the point that they cease giving completely. Somebody deeply affected by cancer may not be impressed by being told that cancer isn't as important as malaria.

We don't currently know:

- About the success rate of influencing cause selection, i.e., which types of donors can be influenced, or when or how. We don't know how 'far' it's possible to move a donor: perhaps they can be moved from healthcare in their location to global health, but not from the opera to global health.
- The 'energy' (i.e., the cost in time, money and other resources) needed to change a donor's cause selection.
- The 'durability' of any change, i.e., whether or when they stick to the 'new' cause forever versus revert to their original cause.
- Whether influencing cause selection is a good use of resources. Perhaps it is so expensive per marginal QALY 'created' that we'd be better off using the money to buy and distribute bednets.

Institutional donors

Some have **legal restrictions** on their focus. For example, the City Bridge Trust is obliged to give to London, having been established by the state to do so. (Its funds are tolls collected on London Bridge over centuries.) Other foundations are set up with specific purposes, e.g., the European Climate Foundation (funded by wealthy individuals), or the Elton John AIDS Foundation. It's hard for foundations to change their remit, though of course perhaps one can influence the donors *before* the remit is set.

The **default** seems to carry massive sway. In the UK, it's (deliberately) hard to change a charity's legal objects (UK foundations are legally indistinguishable from operating charities). Plenty of foundations have broad objects but nonetheless rarely change their areas of interest. Hence few of the 'old' UK foundations give to 'new' causes such as the environment, AIDS or international development: the foundation money in those areas is largely from new foundations.

One study^{lxxiv} of European foundations (interviews with 26 foundations, deliberately non-representative) found that major shifts in focus are mainly prompted by hiring a new leader, or external assessments of the foundation.

Choices 2 & 3: Strategy and (if appropriate) sourcing organisations to support

Some major donors explain their choices – though those donors tend to be those who differ from the norm, such as F.B.Heron Foundation or the Omidyar Network, both of which 'use all the tools' of grants, loans, for-profit investments etc. We've never seen a systematic study.

Choice 4: Selecting which organisations to support

Many studies examine whether and how much people give to an individual charity when asked in a particular way. We've only ever seen one paper^{lxxv} about how donors (of any sort) behave when asked to choose between several competing charities (as foundation boards do routinely). It describes several experiments in which people were given information about charities' admin costs and cost-effectiveness (as defined by outcomes such as lives saved per unit input). When people assessed a single charity, their giving decision was based on administrative costs (there being no natural comparator or benchmark for outcomes). But when given information about two charities, they chose on cost-effectiveness. When asked to choose between two charities with the same cost-effectiveness, they chose the one with the lower admin costs. This is particularly tragic given the data in Figure 6 suggesting that charities with lower admin costs are the *less* effective ones.

On whether a charity's effectiveness affects donations, we're aware of two rigorous studies: one about programmes and one about organisations.

On programmes, an RCT^{lxxvi} found that including information about programme effectiveness in a solicitation made no overall impact on whether or not someone donated. However, among frequent donors, substantial differences emerged. Frequent large prior donors (who had given more than \$100) who received the 'programme effectiveness' information were *more* likely to give, and gave \$12.98 more on average than those in the control group. However, frequent small prior donors (who'd previously given less than \$100) were *less* likely to give and gave \$0.81 less on average. Infrequent donors weren't swayed either way.^{lxxvii}

On organisations, a multi-arm RCT^{lxxviii} looked at the effect on donor behaviour of including a charity's rating by Charity Navigator in solicitations (Charity Navigator ratings use a 4-star system). It found that there's no benefit to the high-rated charities of showing the rating (vs. not showing), but that for charities rated lower than 4/4, showing the rating reduces donations, and the lower the rating the more it reduces donations. In other words, donors appear to use ratings as a hygiene factor: people expect the charities to all have 4-star ratings, and so they reduce donations when disappointed, but never increase because they're never positively surprised.

A study^{lxix} of public donations to charities rated by Charity Navigator (in 2008, at which time Charity Navigator was rating charities solely on solely on financial criteria) found that when a charity is upgraded, its donations rise, and when it is downgraded, they fall. Less strong but still significant is the correlation between a charity's rating last year and donations it receives this year.

Another 2008 study found that 'pass' ratings from the BBB Wise Giving Alliance – derived from financial indicators - led to increased donations, but there was no fall in donations when a charity was rated negatively, or lacked information.^{lxxx} The author attributed this to the fact that charities were able to promote their positive rating but were not compelled to report a negative one, and that donors may be loyal to charities for reasons unrelated to performance.

Other evidence about influencing behaviour

Significantly, the Hewlett Foundation had a programme to encourage better giving – for example, funding Charity Navigator and other information 'platforms' for retail donors. That programme was cancelled after some years, apparently because of insufficient change in donors' behaviour.

Some donors do seek and heed independent assessments of charities' effectiveness. The amount of money moved by GiveWell is considerable and growing: it claims to know of \$17.36 million moved because of its recommendations^{17, lxxxi} (This is likely to be an underestimate, since it only tracks donations through the GiveWell website, and where donors specifically mention GiveWell when making a donation.)

However, consistent with many other findings that people 'think fast', donors' appetite for detail seems low. Of funds influenced by GiveWell, 87% goes to its top two charities^{lxxxii}, which its directors have told us they believe is because people don't read anything about the others.^{lxxxiii} Similarly, Charity Navigator reports that many donations to its site are from very brief visits to its website: its former CEO Ken Berger calls them 'drive-by donors'.

Many studies ask donors what factors they consider. The answers are barely credible. For instance, a study by New Philanthropy Capital stated that 58% of UK individuals claimed that their donations are influenced by 'evidence that an organisation is having an impact'. This is hard to reconcile with Charity Navigator's findings and our own observations about the paucity of charities' research and the poor infrastructure to enable anybody to find it (see Appendix D). However, only 7% of donors claimed to have conducted research to choose between different charities.^{lxxxiv}

Choices 5, 6, & 7: What support to provide, tracking grantees, tracking the donor's performance

Again, some donors - typically the atypical donors - explain their choices publicly. For example, Arcadia and Zennstrom Philanthropies explain their logic for unrestricted giving^{lxxxv}, and the Global Innovation Fund explains its approach of grants and support to take programmes to scale^{lxxxvi}.

However, we've not seen systematic studies of how donors behave on these dimensions, why they choose those behaviours, nor what influences those choices.

¹⁷ Equivalent to 0.005% of all US gifts to charities (the total of which was \$335.17 billion in 2013, according to http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=42#_VD0le-fCLLc

4 Priority research questions

‘...We [the Nudge Unit] make the rounds [in] government. Two guidelines have come to be team mantras:

- 1) You can’t make evidence-based policy decisions without evidence.
- 2) If you want to encourage some activity, make it easy.’

- *Richard Thaler, in the New York Times*^{lxxxvii}

Philanthropy comes out badly on both mantras: we do not have good evidence about what decisions lead to good outcomes, and it is currently not easy for donors to make good decisions. Hence the questions which we suggest researching are around: (1) defining good outcomes and getting evidence into what donor behaviours create them and (2) guiding donors to those behaviours.

As stated earlier, it would be valuable to identify activities which have the most attractive cost / benefit; and those which increase outcomes for beneficiaries most cheaply, easily, rapidly and with least risk. For example, is effectiveness (and hence) best served by influencing donors’ choice of cause, or the amount they give, or dissuading donors from making grants restricted, or late? Where is the best focus for efforts to make philanthropy more effective?

Below is a list of research questions arising from the foregoing discussion. We do not pretend that it is exhaustive, and have highlighted where we think research might have a particularly significant effect on donors’ effectiveness. We invite your opinion on this list.

Identifying good outcome measures

1. Are there easy or cheap beneficiary-related outcome measures that donors, major donors and foundations can use?
2. What outcome measures would be useful, beyond the five listed in Section 2? (To recap, those are: beneficiary-related outcome measures such as reading years; QALYs; grant success; grantee success; net grants; grantee perception).
3. How do the various outcomes correlate with each other? This is important because they vary in the cost and complexity of measuring them, so it would be useful to know if some are proxies for others, as discussed.

What is good donor behaviour (in particular circumstances)?

Priority question:

4. How are donors’ outcomes (on any of the five measures discussed in this paper, or any others) affected by the various ‘behaviours’ open to donors, e.g.,
 - a. Focus: whether the donor focuses, the number of focus areas, and what the focuses are.
 - b. Strategy: whether the donor makes grants or ‘does work’ itself; whether it collaborates with other donors or acts alone; where on the triangle in Figure 5 it operates.
 - c. Sourcing: how opportunities were sourced; type of application process.
 - d. Selection: factors used in the selection process; people involved.
 - e. Support provided: grant size, duration, purpose, restrictions, extent of donor involvement, etc.
 - f. Tracking the grantee: are some methods more helpful than others? More expensive?

- g. Tracking the donor: do some tracking methods produce better outcomes than others?

Clearly, this question is at the heart of the evidence gap, and constitutes a substantial research programme.

Two methods could potentially be used for this: case-control studies using historical data, and experiments.

In analyses of historical data, one could take a selection of funders with a common interest (say, hospices), codify their giving behaviours (say, whether or not they restrict their grants), define and gather data on some outcome measure (say, grantee perception), and look at how the outcome varies with the behaviour. Similarly, one could codify how funding decisions are made (e.g., who is involved, and the criteria used) and look at how that correlates to grant outcomes.

Clearly, 'control studies' like this are open to biases and confounding variables: perhaps all foundations which heed grantees' requests for unrestricted grants are also agreeable in other respects, so the effect of restrictions is co-mingled with other effects. Nonetheless, they can yield useful insights: it was case-control studies which established the link between smoking and lung cancer.^{lxxxviii}

The alternative is to do some parts of the randomised 'machine' experiment described earlier.

5. What activities should major donors (in particular circumstances) have in-house versus access through partnerships or suppliers? Foundations vary substantially in this. It seems analogous to 'the theory of the firm'. ['The theory of the firm' looks at what companies should own versus buy, in order to minimise transaction costs. It is not clear what foundation or major donors are currently maximising. One could look at what activities they should have in-house versus buy for each variable they want to maximise.]
6. What factors predict a good grant (in various circumstances)?
 - o The regression analysis described in Box 2.
7. Are major donors' decisions different to and better than an algorithm?
 - o The study described to generate an algorithm for making grants (rather like the Apgar score) and testing it against donor judgement.
8. On providing support, what are the additional costs created by placing restrictions on grants (e.g., in additional accounting complexity)?
9. On tracking performance of *charities*,
 - a. What are the costs of the various types of tracking performance of operational charities?
 - b. Do the expensive ways of tracking performance (e.g., large-scale RCTs) produce substantially different answers to cheaper ways (e.g., SMS-based surveys of beneficiaries?) Clearly this is valuable to know since if they produce the same answers, we can simply do the cheap methods.

- c. Which methods best help *charities* to learn and change their practice (e.g., around programme management?) Which ways of *collecting*, *presenting* and *disseminating* that information are best for influencing practice i.e., best help organisations absorb the lessons and change their practice: what helps operating organisations to learn well? This is about research take-up. For example, in medical education, there are studies of whether General Practitioners' prescribing behaviour is influenced more by information delivered in, say, a five minute podcast or a two page leaflet. The UK's Education Endowment Foundation is doing similar studies on the effect on teachers' practices of various dissemination mechanisms^{lxxxix}, and one can imagine exploring such questions around influencing the behaviour of operating charities.
 - d. If the various types of tracking vary in their cost, which are best (in which circumstances) at influencing practice, i.e., which most cost-effectively improve performance?
10. On tracking performance of *donors*, which methods best help *donors* to learn and change their practice (e.g., change the behaviours we've seen)? Again, what is the cost of these various tracking methods, and which look have best cost / benefit (in particular circumstances)?

How to guide donors to those best behaviours (i.e., what is good choice architecture)

11. What behaviours are currently used by donors of various types? This is simply what medics call 'prevalence mapping', and defines the baseline. For example, how many corporate foundations have a single focus, involve constituents in grant decisions, measure their net grant figure? And how many family foundations are spending down, have beneficiary-related goals, and listen to grantee perceptions?¹⁸
12. Where do major donors and foundations get their information from which influences their practices – especially when they are new? This is important as it may indicate how to influence those practices. For example, are they influenced by friends, or accounts of major donors in the press, or information from lawyers who structure the foundations?
13. What are donors trying to maximise? It might be possible to analyse their historic behaviour to derive this: from their 'revealed preferences' as opposed to 'expressed preferences'. Several commentators have noted that they sometimes behave more as though trying to maximise staff tenure than impact on beneficiaries. Understanding what they are maximising may help identify how to influence them.
14. What do donors perceive drives / influences their choice of behaviours? Some are probably very intentional about their choice; others may have 'chosen' them because of accident, history, ease, a particular person involved, or following the crowd. These questions are relevant because we are interested in this: donors who do the good practices, how come they are doing them? Where does that impetus come from? And where do they get their information from? How did they find out, or figure out, what to do? Is there something different about donors who 'behave well' from those who 'behave badly'? Clearly this research involves qualitative interviews with a range of donors. This might provide clues about how to influence other donors to also adopt good practices.

¹⁸ A note on method. These data probably shouldn't be gathered through a conventional survey because (a) respondents may be unrepresentative, and (b) their responses may be inaccurate. It may be better to instead / as well, for a researcher to look at their websites / rules, and maybe call them up cold, to ask, for example, whether they will only give one grant per organisation at once.

Selecting a focus

15. How feasible and expensive is it to influence a donor's selection of focus *before they have chosen*? What about getting them to *change* a selection they have already made? Under what conditions does that new selection 'stick' vs. does the donor retreat to their previous selection? How does all this vary between types of donor?
16. Is there risk in trying to influence cause selection, in terms of confusing people (e.g., by creating discomfort by forcing them to think slowly) or offending them by implying that their beloved cause is 'wrong' or unimportant?
 - e. A major interest here is whether the cost of influencing cause selection is money well spent: would it achieve more (say, more QALYs) if spent on influencing the charity that the donor selects, or spent on raising additional funds, or simply on delivering some programme known to be effective (e.g., dishing out anti malarial bednets)?

Selecting a charity**Priority question:**

17. What can most rapidly guide donors to the most cost-effective charities?
 - o For example, one could investigate the effect of Charity Navigator showing to a visitor looking at a 2- or 3-star rated charity on its website a banner saying, roughly, 'there's one like this but better'.
 - o Is this a matter of 'educating' donors, or is it more effective to guide them, e.g., by presenting groups of charities to enable comparison?
18. Does information / guidance about a charity's performance influence donor behaviours? Which ways of disseminating and presenting that information influence donors (of particular types and in particular circumstances)?
 - o For individual donors, it would be useful to replicate the two studies mentioned in different countries, contexts, and using different communication channels (beyond direct mail) and different causes.
 - o Whether / when / how their behaviour is affected by independent assessments of the quality of the programme or organisation.
 - o Does / how does / when does giving behaviour change with the rigour of the evidence? One could run an RCT by sending applications to GMTs containing evidence of varying degrees of robustness and monitor the response and success rate.
 - o It might be useful to ascertain whether (and which) major donors, foundations and government commissioners know that some types of evidence are more reliable than others.
 - o Send fundraising solicitations to prospective donors (of any type) with information about several charities.
19. Do donors give more or differently when charities are more transparent?
 - o There is time-series analysis showing that charities' incomes change somewhat when their ratings on Charity Navigator change. That analysis is from 2008 when Charity Navigator looked solely at financial criteria. It would be interesting to see whether the correlation is any different now that criteria around accountability and transparency have been added.

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20. Do the various ways of getting people to give more actually increase the total giving, or does it simply reallocate a fixed pie? i.e., what's the counterfactual: are fundraising costs simply necessary for maintenance?
 - a. This of course involves tracking the total giving of a particular donor, i.e., not just the single gift prompted by a particular ask to see whether that gift simply replaces others.
 21. Again, what are the costs of getting people to switch the charity that they support? Are there risks in trying to influence charity selection, in terms of confusing people, dampening their overall giving, or deterring them from giving altogether?

Tracking charities' performance

22. How can charities be encouraged / educated / incentivised to use the tracking methods which most cost-effectively inform practice?

Tracking the donors' performance

23. How can donors be encouraged / educated / incentivised to use the tracking methods which most cost-effectively inform their own practice? (This relates to the earlier question of establishing what currently influences their selection of method.)

Choice architecture for major donors

Priority question:

24. How can we guide donors away from practices which are patently unhelpful, such as soliciting applications they don't need or providing funding so late that it creates costs? One way might be to calculate or estimate a funders' 'net grant' and give them that information: it is possible to calculate / estimate that figure without the funder's involvement, e.g., by surveying charities?

Conclusion

It's clear that donor behaviour vastly affects the outcomes that their gifts enable. Hence it is important to guide donors to the most effective behaviours.

But giving currently comes out badly on both Thaler's mantras: evidence about what makes for good giving is patchy; and it's currently not easy for a donor to find that evidence nor to find high-performing charities to support. Hence there is much to do, and many important and interesting questions to answer if giving is to fulfil its potential.

We invite you to get involved.

Appendix A: Author

Giving Evidence is a consultancy and campaign working for charitable *giving* to be based on sound *evidence*. It was founded by Caroline Fiennes, one of the few people whose work has appeared in both *The Lancet* and *OK! Magazine*. A former award-winning charity CEO herself, Caroline has worked for effective philanthropy for over twelve years. Giving Evidence was founded in response to demand following the publication in 2012 of Caroline's book about how donors can give well: [It Ain't What You Give, It's the Way That You Give It](#) is dedicated to all those who miss out because donors make the wrong call. It was described in the press as "*indispensable... relentlessly logical... engaging, informative, irreverent ... long overdue... Thank goodness somebody's finally written this book... a tour de force*".

Giving Evidence has worked with donors in the UK, continental Europe, Australia, the Gulf, the US and Canada; and has team members in many countries. It works extensively on improving the quality, clarity, findability and usefulness of research about charities' effectiveness, and often learns from medicine, which has similar issues around needing evidence-based decisions but where the 'evidence system' is perhaps 50 years ahead of that in charities and philanthropy. For example, at the time of writing, Giving Evidence is doing what seems to be the first ever study of publication bias in charities' reports of their effectiveness, producing a systematic review commissioned by a funder to inform their giving, and creating a system for the public to give well by leveraging the analysis of professional donors.

Caroline has worked with dozens of donors including some of the world's largest: family foundations, corporates, government programmes with charities in several countries, endowed foundations, new, old, ambitious, not particularly ambitious and with a wide range of skills, structures and interests. She was recently listed by Spears Wealth Management magazine as one of the world's best philanthropy advisors^{xc}. She serves on boards of: Charity Navigator (the world's largest charity ratings agency); The Cochrane Collaboration (leading global research house at the center of evidence-based medicine); The Life You Can Save; and the Center for Effective Philanthropy (US-based philanthropy think-tank & research house), and was formerly a trustee of the Center for Global Development. She works with Innovations for Poverty Action and formerly with J-PAL at MIT. Caroline frequently [speaks](#) and [writes](#) publicly about the need for and barriers to effective giving, e.g., in the Financial Times, Forbes, The Economist, BBC Radio 4, Freakonomics, the Daily Mail, the philanthropy sector press.

Caroline has taught about effective giving at Oxford, Cambridge and Yale Universities. She holds a surprisingly useful degree in physics and philosophy.

'Caroline Fiennes is a great source of advice about charitable giving. She helped Eurostar become effective very rapidly'

- Eurostar CEO Richard Brown

'Caroline Fiennes provided excellent advice to the ERM Foundation ...She has a strong understanding of philanthropy and how it is best done in a corporate context.'

- Robin Bidwell, President of ERM, global environmental consultancy

Appendix B: Method

This paper pulls together structures, data, experiences and insights from over a decade of working, researching and networking in the field of effective philanthropy. The document's organising structure (the flow-chart identifying the decisions which donors make, in Figure 3, was co-developed by Caroline Fiennes in 2005^{xi}). The data and examples come from three main sources. First, material we have encountered in our work, including broad awareness of the literature and activity in this field. This has been over many years and was not scientifically logged. Giving Evidence ran a 'focus group' in September 2014 in London with a diverse set of grant-making foundations (variously family, corporate and fund-raising foundations, well-known, anonymous, young, generations old etc.) to understand the evidence they use in their decisions. Second, searches of publications by peer organisations, including both independent non-profits such as the Center for Effective Philanthropy and academic institutions such as the Center for High Impact Philanthropy (part of the University of Pennsylvania). Third, Giving Evidence and the University of Chicago Booth School of Business solicited material for this paper from our peers (operating NGOs, foundations, think-tanks and academics) through blog posts, social media, Giving Evidence's newsletter, the University of Chicago Booth School of Business Social Enterprise Initiative's network etc.

One of the problems in the charity and philanthropy world is that research is often hard to discover. Beyond academia, the literature is 'grey', i.e., not in journals or centralised repositories: organisations have few publication channels available beyond their own websites and newsletters; and there is no organised meta-data tagging system to ease finding it online. Giving Evidence is in fact working on this problem, starting with research into the effectiveness of interventions around criminal justice used by UK charities, though it pertains across the charity world. [See Appendix D.] The problem affected this paper. We did not systematically or comprehensively review the academic literature. Nor did we systematically or comprehensively review the non-academic literature, not least as this would have been hugely time-consuming. Instead, we looked where experience suggested we were most likely to find relevant material.

If we have missed any gems, please let us know: admin@giving-evidence.com

Appendix C: Distribution of non-profits and donors by size

A. Non-profits

- Perhaps the most striking feature of the charity world is the small size of most charities, and the plethora of them.
- The US has over a million charities. England and Wales have over 160,000 charities, only 16% of which have revenue above £100,000, enough to employ about three or four people^{xcii}. In the UK, 1475 NGOs work in criminal justice alone.

Figure 7 - Distribution of Incomes of Charities, England and Wales, 2007/8

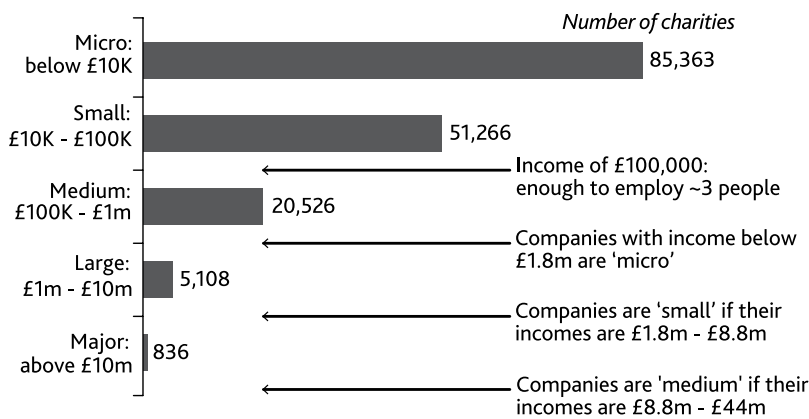
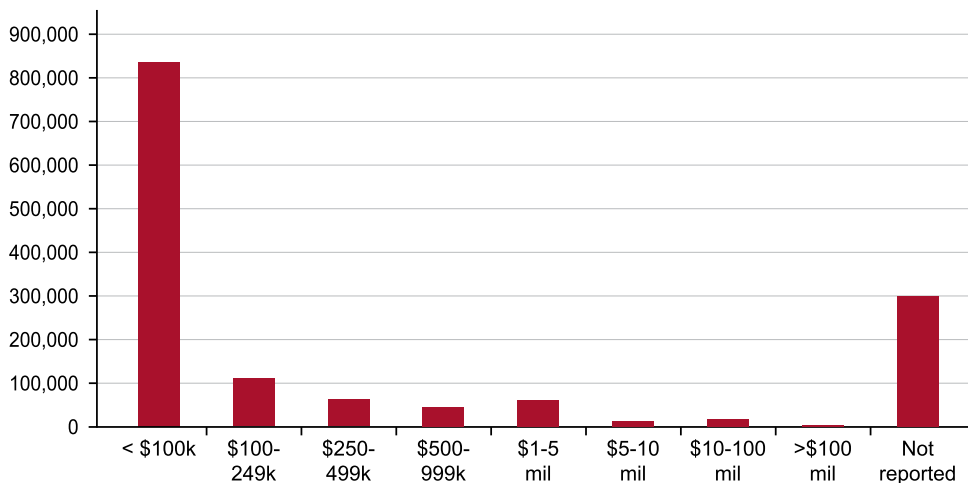


Figure 8 - Distribution of income of US nonprofits, 2014



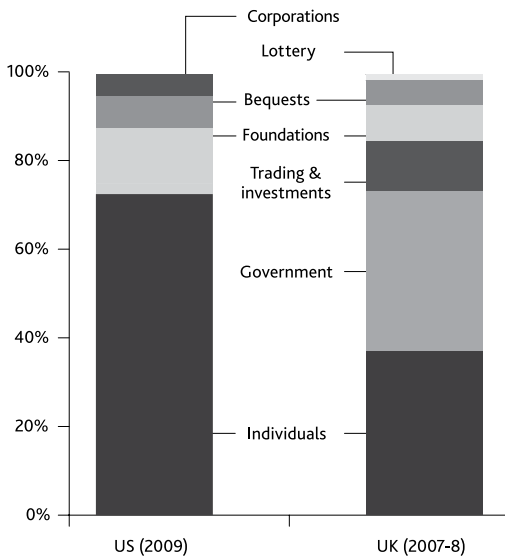
B. Donors

Breakdown of giving by donor type in various countries

In many countries, charities income is dominated by donations from the public – many of whom give <\$100 each year and in small donations, though their legacies can be significant. Other major sources are ‘institutional donors’, such as endowed foundations, family foundations, corporate foundations, and corporations themselves. Many charities generate revenue from trading (e.g., charity shops), and receive grants and/or fees for service from government.

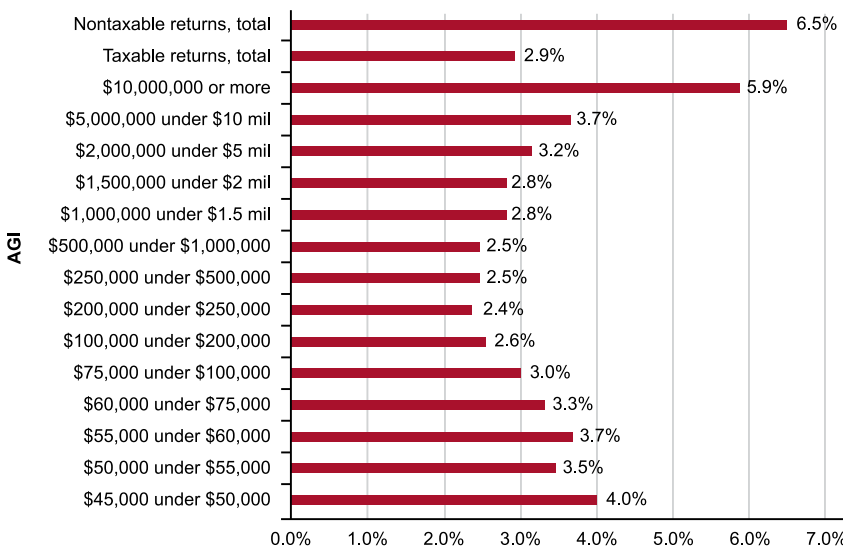
Two notes of caution on these data. First, the categories vary between countries and over time (e.g., a private individual who happens to do her giving through a modest-sized foundation may sometimes appear as an individual and other times as a foundation.) And second, these data normally only capture revenue to *registered charities*. Not only do their definitions vary between countries, but plenty of giving is to entities outside this, e.g., to the church or political campaigning organisations (Amnesty International, for example, is barred from charitable registration in the UK).

Figure 9 – Sources of charitable income



The pattern is very different in China, where 70% of total donations in 2013 were from corporations^{xciiv}.

Figure 10 - Proportion of income given by US households according to household income (adjusted gross income, AGI)



Individuals: Why do they give?

It varies. A review of 550 articles about factors affecting philanthropic giving (such as age, gender, family, education and religion) found that only tentative conclusions are possible beyond a finding that women are more likely to give. *However, one of the most important predictors of whether someone will give is simply whether they're asked.*^{xcv}

Appendix D: Research infrastructure: Making research by charities clearer and easier to find

Clearly if donors are to make decisions informed by the evidence – about the (cost-)effectiveness of interventions, about the quality of charities, and about the various ways of giving – they need to be able to find that evidence and to understand it. This is currently sometimes hard.

On *findability*, most charities have few publication channels available beyond their own websites and newsletters. They do not publish in journals (because that isn't how their incentives work), and in many parts of the charitable world, there are no centralised repositories. There is no organised meta-data tagging system to ease finding it online. Beyond Google, a donor has few options for finding research by or about charities. And hence a donor is unlikely to find information by a charity they haven't heard of, or to find all the information available about all the charities which work on (say) preventing teenage pregnancy in order to make an informed comparative decision. (The data and examples in this paper, for example, are very dispersed and would be hard to discover for a donor starting from scratch.)

On *clarity*, where a charity is reporting research about its effectiveness, or a research group analysing ways of giving, the reader wants to know 'what did you do, and what did you find?' From experience, many research reports do not answer these questions clearly.

Giving Evidence has been working on improving the findability and clarity of research by charities, starting in the UK criminal justice sector. We recently consulted on two notions: (a) a little checklist of items to include in any reports about research into effectiveness (what the intervention was; the research question; the research method; the results) and (b) a meta-data tagging system to improve findability. The response to both was very positive^{xvii}, and we will now pilot both – in UK criminal justice - though there is already interest in replicating it (if successful) in other areas. The checklist is somewhat analogous to a miniature version of [CONSORT](#) for medical trials (the Consolidated Standards of Reporting Trials). Details of the consultation and plans for the pilot are at: www.giving-evidence.com/info-infrastructure

Appendix E: Reliability of charities' evaluations

The quality of evaluations by charities seems to be low. We've never seen (despite much looking) a proper meta-evaluation, but all the anecdotes we've seen point the same way. First, a review by a UK foundation of the quality of research reports it received from grantees. Despite using a pretty generous ranking scale (much softer than, say the Maryland Scale¹⁹), it found that only about 30% was 'good' and found "some, though relatively few, instances of outcomes being reported with little or no evidence to back this up"^{xcvii}. Second, the UK government's What Works Centre on Crime Reduction recently collated every relevant systematic review it could find (it found 337) and told Giving Evidence that the contribution of research by charities to those systematic reviews was tiny^{xcviii}. Third, the Arts Alliance is a coalition of arts organisations working in the UK criminal justice system, whose 'evidence library' contains evaluations of arts-based practice. In 2013, it had 86 evaluations, only four of which met the quality criteria for inclusion in a government 'rapid evidence assessment'^{xcix}. Fourth, the Center for Education Innovations is assessing the quality of research by education NGOs in international development, and found that essentially they're all Level 1 on the Maryland Scale.

A survey found that most US foundations formally evaluate fewer than half their grants, and spending on evaluation was only 2% of the grantmaking budget. That is easily enough for much reliable research. But it doesn't seem to help: though US foundation CEOs generally accepted the importance of evaluation and said it had helped their foundation, 65% reported that generating meaningful insights from an evaluation was 'a challenge.'^c

Again, some monitoring and evaluation (and reporting) may reduce outcome intensity simply by pulling resources away from 'real work'. This is particularly acute when donors have bespoke requirements. As we've seen, sometimes donors' application and reporting processes can consume an entire grant, or more.

A wonderful study suggests that letting charities choose what to evaluate leads to major bias even in the questions which get investigated: questions likely to produce flattering answers are more likely to be investigated than those which aren't. In an RCT, researchers contacted 1,419 micro-finance institutions making a (genuine) offer to rigorously evaluate their work. Half of the invitations referenced a (real) study by prominent researchers indicating that microcredit is effective. The other half of the invitations referenced another real study, by the same researchers using a similar design, which indicated that microcredit has no effect. The letters suggesting that microfinance works got twice as many positive responses as those which suggested that it doesn't work.^{ci}

19 The Maryland Scale is a measure of internal validity of scientific methods. It has five levels: a score of one represents the weakest design (correlation between an interventions and an outcome at one point in time) and a score of five is for a well-run RCT.

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