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A Yale Economist Wants to Make You a Better Philanthropist

Dean Karlan's ImpactMatters hopes to help prospective donors give smarter, better and more often



When it comes to assessing what nonprofits do with donations, ignorance is rampant, argues Dean Karlan.

PHOTO: GETTY IMAGES

By DEAN KARLAN

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COMPARE YOUR LAST PHONE purchase with your last charitable donation. I bet you knew lots about the phone—its weight, screen resolution, battery life—but little about what the charity accomplished with your money. In the U.S. alone, we donate more than \$300 billion a year to nonprofits. But when it comes to what those nonprofits actually do, donor ignorance is rampant. The result is donations to ineffective organizations, and a suppression of generosity. Think how much more we might give if we understood exactly how our dollars saved lives or effected change.

A remedy is coming. Impact audits, modeled after the financial audits that transformed capitalism and finance in the mid-20th century, will alleviate donor ignorance and assess a nonprofit's efficacy by measuring four key components: transparency, cost-effectiveness, cooperation with other charities (sharing what does and doesn't work) and "theory of change," which refers to whether an organization's means accomplish its mission. For instance, an antipoverty foundation might offer microloans to boost a household's income. But does that really work? And is it more effective than job training?

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This month, I launched ImpactMatters, an organization that will conduct impact audits, share successful charities with donors, help nonprofits improve and set standards for the industry. (The first impact audits are available on the website impactm.org on Dec. 11th, 2015.) Other certification programs can weed out likely fraudulent charities, and that is helpful, but we found this really only eliminates about 2% of charities overall. ImpactMatters will evaluate the remaining 98%, guiding donors toward effective nonprofits and guiding nonprofits toward effective interventions.

I see a bright future for the nonprofits, the people they serve and the donors. The nonprofits will have access to high-quality evidence to guide their work, and more programs will generate better outcomes for people in need. And for you, the individual, the result is simple: greater good for each dollar you give. Which, I hope, inspires you to give more confidently and more often.



Dean Karlan

Dean Karlan is a Yale economist who launched ImpactMatters, an organization that will conduct impact audits of charities.

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