

## What Do Nongovernmental Organizations Do?

Eric Werker and Faisal Z. Ahmed

**A**top a cliff overlooking Lake Albert in western Uganda, nearly 20,000 refugees from Sudan and the Democratic Republic of the Congo inhabit the Kyangwali refugee settlement. Driven from their homeland by conflict and humanitarian crises, these refugees grow food, attend schools, raise livestock, and replenish trees inside the settlement and in the community beyond. Many of these refugees have been living in Uganda for over a decade (Aktion Afrika Hilfe, 2006).

While the property and local security are provided by the Ugandan government, the welfare of the refugees is the responsibility of the United Nations High Commissioner for Refugees, which in turn allocates approximately one-third of its \$1 billion budget to its “implementing partners,” a handful of nongovernmental organizations (NGOs) that conduct many of the day-to-day operations that interface directly with the refugees (United Nations, 2006). One of those implementing partners is Action Africa Health International, an NGO that specializes in “chronic disasters” with headquarters in Nairobi and a fund-raising entity in Munich. Action Africa Health International implements food distribution, agricultural extension, environmental management, HIV/AIDS awareness, and repatriation programs in Kyangwali and the surrounding district. Its funding comes from the United Nations High Commissioner for Refugees; the World Food Programme, another UN agency; and Bread for the World, a Washington, D.C.-based Christian organization. This scene is carried out with different donors and beneficiaries, and different acronyms, in thousands of places across the developing world.

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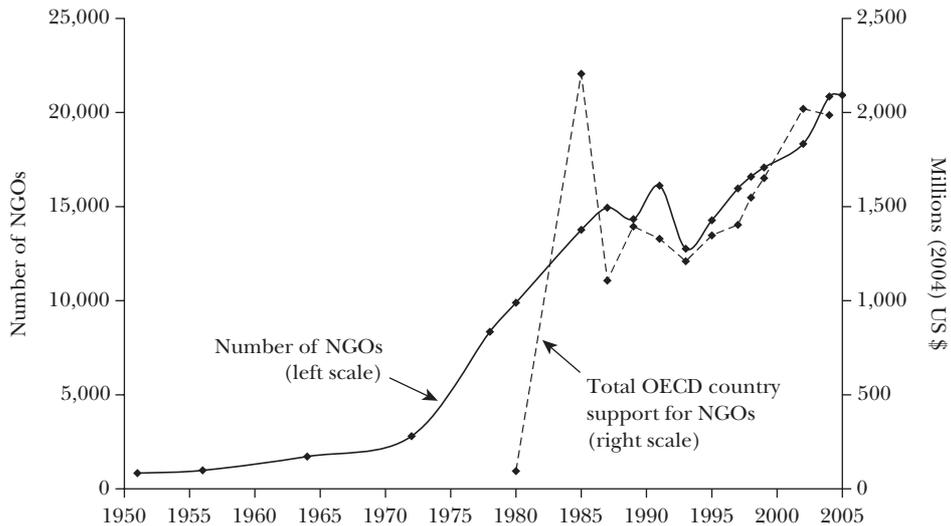
Taken literally, a “nongovernmental organization” could describe just about anything from social groups like Mensa to educational institutions like Harvard University to for-profit firms like Wal-Mart. Borrowing liberally from the World Bank’s necessarily vague Operational Directive 14.70, we define NGOs as private organizations “characterized primarily by humanitarian or cooperative, rather than commercial, objectives . . . that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development” in developing countries. NGOs, then, are the subset of the broader nonprofit sector that engage specifically in international development; our definition excludes many of the nonprofit actors in developed countries such as hospitals and universities. Some data collectors lump together “community-based organizations” with nongovernmental organizations. However, we keep these categories separate, because unlike nongovernmental organizations, community-based organizations exist to benefit their members directly.

Nongovernmental organizations are one group of players who are active in the efforts of international development and increasing the welfare of poor people in poor countries. NGOs work both independently and alongside bilateral aid agencies from developed countries, private-sector infrastructure operators, self-help associations, and local governments. They range in size from an individual to a complex organization with annual revenue of \$1 billion or more with headquarters anywhere from Okolo, Uganda, to Oklahoma City in the United States.

The steady rise of nongovernmental organizations has captivated the imagination of some policymakers, activists, and analysts (Fisher, 1997), leading some observers to claim that NGOs are in the midst of a “quiet” revolution (for example, Edwards and Hulme, 1996). From this perspective, NGOs are frequently idealized as organizations committed to “doing good,” while setting aside profit or politics (Zivetz, 1991; Fisher, 1993). In the realm of international development, NGOs have been characterized as the new “favored child” of official development agencies and proclaimed as a “magic bullet” to target and fix the problems that have befallen the development process (Edwards and Hulme, 1996, p. 3). They are seen as instrumental in changing mindsets and attitudes (Keck and Sikkink, 1998) in addition to being more efficient providers of goods and services (Edwards and Hulme, 1996). Indeed, to ignore NGOs, according to Harvard historian Akira Iriye, is to “misread the history of the twentieth-century world” (1999, p. 424).

This romantic view is too starry-eyed. For starters, development-oriented nongovernmental organizations are not new, but have existed for centuries. Groups that today would be labeled as NGOs helped organize the opposition that led Britain to abolish the slave trade in 1807, at which point these groups broadened their missions and worked to ameliorate the plight of slaves and abolish slavery elsewhere (Keck and Sikkink, 1998). The International Committee of the Red Cross was founded in 1863 in the aftermath of the Crimean war. During World War I and World War II, new NGOs devoted to humanitarian and development goals emerged, including Save the Children Fund in 1917, Oxford Committee for Famine Relief (now Oxfam) in 1942, and CARE in 1945. To be sure, NGOs have played a growing role in development since the

**Figure 1**  
**Growth of Nongovernmental Organizations, 1950–2005**



Sources: Union of International Associations and the OECD (2006).

end of World War II. The number of international NGOs rose from less than 200 in 1909 to nearly 1,000 in 1956 to over 20,000 currently, as depicted in Figure 1 (Union of International Associations, 2005).

The amount of discretionary funding that high-income countries have given to nongovernmental organizations to promote international development assistance has risen from a negligible amount before 1980 to nearly \$2 billion in 2004 (OECD, 2006a), as shown in Figure 1, with an early spike around the 1984–85 Ethiopian famine. This amount, though substantial, does not include additional billions of dollars that are channeled through NGOs to implement specific projects on behalf of the donor countries. One early estimate calculated the total resources disbursed for development projects through NGOs to have risen from \$0.9 billion in 1970 to \$6.3 billion in 1993, measured in 1970 dollars (Riddell and Robinson, 1995). In addition, NGOs have achieved increasing political influence: for example, the share of World Bank projects with some degree of “civil society” involvement (encompassing NGO participation) increased from 6 percent in the late 1980s to over 70 percent in 2006 (World Bank, 1995; 2006a). But again, the interrelationship between government development assistance and nongovernmental associations is not brand new. As early as 1964, over 6 percent of the U.S. government’s foreign aid budget was channeled through NGOs, or what it calls “private voluntary agencies.”<sup>1</sup> Early government involvement with NGOs was in the form of food aid

<sup>1</sup> This and other facts dealing with U.S. government involvement with nongovernmental organizations are from the official USAID *Report of Voluntary Agencies* for various years, unless otherwise noted.

Table 1

**Expenditures and Revenues for Selected Nongovernmental Organizations, Fiscal Year 2004**

| Nongovernmental organization           | Expenditures<br>(millions of \$) |                      | Share of total revenue     |                          |                                     |
|--|----------------------------------|----------------------|----------------------------|--------------------------|-------------------------------------|
|  | Total                            | Overseas<br>programs | U.S. government<br>support | Private<br>contributions | Private<br>in-kind<br>contributions |
| <i>Development</i>                     |                                  |                      |                            |                          |                                     |
| Feed the Children                      | 924                              | 621                  | 7%                         | 9%                       | 83%                                 |
| World Vision                           | 814                              | 643                  | 30%                        | 38%                      | 27%                                 |
| Food for the Poor                      | 623                              | 594                  | 16%                        | 10%                      | 73%                                 |
| Catholic Relief Services               | 573                              | 540                  | 69%                        | 23%                      | 2%                                  |
| CARE                                   | 562                              | 517                  | 52%                        | 16%                      | 0%                                  |
| <i>Environmental</i>                   |                                  |                      |                            |                          |                                     |
| Nature Conservancy                     | 524                              | 38                   | 4%                         | 50%                      | 1%                                  |
| World Wildlife Fund                    | 126                              | 94                   | 9%                         | 58%                      | 12%                                 |
| <i>Human rights</i>                    |                                  |                      |                            |                          |                                     |
| Amnesty International USA <sup>a</sup> | 39                               | n.a.                 | 0%                         | 88%                      | 4%                                  |
| Human Rights Watch <sup>b</sup>        | 23                               | 8                    | n.a.                       | 41%                      | n.a.                                |

Source: USAID's *Report of Voluntary Agencies*, 2006; Financial statements for Amnesty International and Human Rights Watch.

<sup>a</sup> Private contributions refer to cash contributions.

<sup>b</sup> Overseas expenditures is the sum of expenses on the following program services: Americas; Middle East and North Africa; Asia; Europe and Central Asia; and Africa. Private contributions refer to public support from contributions and grants.

and freight as part of the Food for Peace program. Voluntary agencies would take surplus food from the United States and distribute it to needy recipients in developing countries (Barrett, 2002, p. 34).

Despite talk of how nongovernmental organizations are spreading democratic institutions and liberal values, or saving the environment, the bulk of funds flowing through NGOs remains focused on basic humanitarian assistance and development: delivering goods and services in poor countries using resources from rich countries. An examination of the largest NGOs by their international expenditures reveals this focus. As depicted in Table 1, five U.S.-based NGOs had overseas expenditures greater than \$500 million in 2004: World Vision, Feed the Children, Food for the Poor, Catholic Relief Services (CRS), and CARE (USAID, 2006). All of these organizations specialize in relief and development programs. The only non-U.S. NGO whose size is on par with these five is the International Committee of the Red Cross, the Swiss-based global wing of the Red Cross and Red Crescent societies, whose 2004 expenditures were on the order of \$600 million (ICRC, 2005). In comparison, the two environmental NGOs with the highest international expenditures in 2004 were the World Wildlife Fund, at \$94 million, and the Nature Conservancy, at \$39 million. In comparison, the entire budget of two major

international human rights organizations, Amnesty International and Human Rights Watch, were \$39 million and \$23 million, respectively.

The collective phenomenon of thousands of motivated, well-intentioned nongovernmental organizations providing public goods is a compelling proposition. This paper argues that both the strengths of NGOs and their weaknesses easily fit into the economists' conceptualization of not-for-profit contractors. As with many nonprofits, it is easy to conjure up a glowing vision of how these efforts could focus on problem solving without getting bogged down in corruption or bureaucracy. Yet the strengths of the NGO model also produce corresponding weaknesses in agenda setting, decision making, and resource allocation. In addition, the paper will argue that the increased presence of NGOs in the last few decades can be explained by three factors: a trend towards more outsourcing of government services; new ventures by would-be not-for-profit "entrepreneurs"; and the increasing professionalization of existing NGOs.

## **Nongovernmental Organizations as Not-For-Profit Contractors**

Nongovernmental organizations are largely staffed by altruistic employees and volunteers working towards ideological, rather than financial, ends. Their founders are often intense, creative individuals who sometimes come up with a new product to deliver or a better way to deliver existing goods and services. They are funded by donors, many of them poor or anonymous. Yet these attributes should not be unfamiliar to economists. Development NGOs, like domestic nonprofits, can be understood in the framework of not-for-profit contracting.

Hansmann's (1980) seminal work on the nonprofit sector argues that the key characteristic separating nonprofits from for-profits is the "nondistribution constraint" that prevents or limits officers or directors from distributing the net earnings amongst themselves. Of course, nonprofits do have the ability to distribute their "profits" to employees in the form of perquisites such as higher wages, shorter hours, or better offices. Nonetheless, because not-for-profit entrepreneurs have weaker incentives to maximize their profits, they may be able to obtain a competitive advantage in a number of areas (Glaeser and Shleifer, 2001). In particular, nonprofits should be advantaged in providing goods and services where quality is difficult to verify and where the temptation for a for-profit provider to shirk on quality may be especially high. Identity can matter here as well: ideologically driven entrepreneurs face higher private costs to delivering low-quality products. In addition, people may prefer to donate to nonprofits in order to improve the quality of the organization's product, an outcome that would be unlikely to occur with a similar donation to a for-profit. This model of the not-for-profit entrepreneur fits the development NGO sector quite nicely.

### **Nonverifiable Quality**

Nongovernmental organizations deliver goods and services to a population that provides little feedback on the range or quality of product delivered.

Compared to usual market or political settings, beneficiaries have a weakened ability to use market forces to penalize and reward NGOs. Citizens can vote out an incumbent from office and consumers can choose not to purchase a product from a for-profit provider, but villagers may be hostage to the particular development scheme that happens to be funded by the designated local NGO.

One consequence is that nongovernmental organizations face more direct incentives to manage donor satisfaction than beneficiary welfare. Indeed, donations are the only “market force” in NGO-sector industry, where donors can be viewed as desiring to improve the quantity and quality of the product of the NGO without having their donation expropriated. Thus, looking at the donor and funding base of NGOs will reveal the primary set of interests that a NGO is forced to manage.

### **Donors’ Influence**

The largest single financial contributor to a nongovernmental organization is often a national government. In 2004, official aid from governments totaled \$87.7 billion worldwide (World Bank, 2006b), with \$19.7 billion from the United States (OECD, 2006). A substantial portion of that aid flowed through NGOs: in the United States, for example, nearly 15 percent of official economic aid was channeled through NGOs (USAID, 2006). Another 18 percent of U.S. official aid flowed through intergovernmental organizations such as the World Bank and the United Nations (OECD, 2006); these, in turn, routed yet more through NGOs. This governmental funding amounted to 25 percent of the total budget of NGOs that registered with USAID (2006).

What about the three-quarters of the funding that nongovernmental organizations receive that comes from essentially private sources? Surprisingly, corporations are not major players. Exxon Mobil, for example, a global company with more than \$36 billion in profits in 2005, donated just \$52 million to international causes; Citigroup, less than \$28 million (Foundation Center, 2006). Nor are philanthropic foundations in the league of rich-country governments. In 2005, the three foundations with the highest grant expenditures were the Gates, Ford, and W.K. Kellogg foundations with outlays of \$1.35 billion, \$572 million, and \$181 million respectively; their international outlays were much lower at \$188 million, \$162 million, and \$45 million (Foundation Center, 2006). Since the magnitude of their donations is dwarfed by official aid flows, foundations can usually make the biggest difference by funding new ideas rather than scaling up old ones.

Individual donors make up the rest of the funding. Some donations from the very wealthy are well known: Ted Turner pledged \$1 billion to the United Nations; Warren Buffett promised the foundation of fellow billionaire Bill Gates 10 million of his class B shares of Berkshire-Hathaway stock, valued in June 2005 at over \$31 billion. But much of the funding comes from large numbers of smaller donors. For example, Food for the Poor, a Christian NGO, relies on a donor base of three

million individuals for much of its revenue.<sup>2</sup> Managing a donor base of this scale is essentially an exercise in public relations—including direct contact, media relations, and the use of intermediaries like churches and schools—to communicate that the donations are being spent wisely. How NGOs interact with their donors should affect the mix of products they deliver to their beneficiaries.

### **Employee Perquisites**

To what extent do nongovernmental organizations distribute some of their “profits” to their employees in the form of perquisites like higher pay, shorter hours, or nicer working conditions?

Salaries in the nongovernmental organization sector are broadly competitive with the public sector. For Masters in Public Policy graduates from the Harvard University’s Kennedy School of Government in 2004, the average starting salary of those working in the NGO sector was just over \$48,000 per year, compared to over \$72,000 per year in the private sector and just over \$40,000 per year in the public sector. (In this comparison, government salaries were artificially low due to the popularity of a low-paying fellowship program in the federal government.) But even with these salaries, the NGO sector is an employer’s market and even top graduates are fortunate to get one good offer in the industry.<sup>3</sup>

At the executive level, the top five salaries across the five largest nongovernmental organizations average just over \$180,000 per year. This amount is basically in line with government salaries of U.S. government cabinet officers and other top federal executives. For comparison, executives at private firms with revenues comparable to those at the five NGOs earn well over three times the salary (and are more likely to sit on the boards of for-profit enterprises).<sup>4</sup> A career in the NGO sector, therefore, entails a substantial reduction in expected lifetime earnings compared to a career in the private sector. Anecdotally, NGO work often involves personal sacrifices and long hours (McMullen and Schellenberg, 2003). It appears, then, that the main “perks” of working for an NGO are . . . working for an NGO. The industry seems to enjoy a cost advantage over its for-profit competitors derived from the altruism of its employees (Francois, 2003).

### **Where is the Competitive Advantage?**

Private-sector firms also undertake development activities, sometimes supported by the profits generated from their activity—for example, many small loans in the microfinance sector are self-sustaining—and sometimes supported by a

<sup>2</sup> Interview with Angel Aloma, Food for the Poor, October 25, 2006.

<sup>3</sup> Interview with Kennedy School career services counselor Judith Coquillette, October 18, 2006.

<sup>4</sup> We averaged the five highest-compensated executives at World Vision, Feed the Children, Food for the Poor, Catholic Relief Services, and CARE and 10 comparably sized (by total expenditure) for-profit companies. These private firms were Six Flags Inc, Tektromix, Imperial Sugar Company, Energen Corporation, Shoe Carnival, Inc, Integrated Device, Hutchinson Technology, Insituform, Bright Horizons Family Solutions, and Panera Bread. All calculations are based on figures from each organization’s 2005 financial statement (or the most recent year available).

contract payment from a high-income country government or a foundation. Some of these private-sector firms provide a range of services: infrastructure firms, consulting houses, and logistics operators. Other for-profit firms focus almost entirely on the business of carrying out foreign aid contracts stipulated by donor nations. In the United States, these private-sector firms focused on development include the “Beltway Bandits”—agencies like Chemonics and Development Alternatives, many of which are headquartered near Washington, D.C.

It is not uncommon for nongovernmental organizations and private-sector development firms to bid on the same “requests for proposals” stipulated by bilateral aid agencies such as USAID.<sup>5</sup> Requests for proposals may consist of a contract to build a rural road, deliver a quantity of grain, or even build and operate a feeding center or primary school. More often, however, the NGOs and the for-profit firms tend to bid on projects in separate spheres. According to Michael Rewald, CARE’s vice president for international operations, private-sector development agencies have an advantage on projects involving heavy infrastructure, while the NGOs have better connections and presence at the grassroots level. Our best efforts to tabulate the USAID (2001) *Yellowbook*, a description of USAID contracts with outside actors, reveal that of nearly \$20 billion in open USAID contracts, \$10 billion had been awarded to private-sector actors (of which at least \$5 billion went to firms located near Washington, D.C., who receive most of their revenue from this business) and \$7 billion to NGOs, with the remainder to an assortment of governmental and other nonprofit actors. Certainly, some of these disbursements may have been redistributed to nonprofit or for-profit subcontractors; obtaining an accurate amount of *final* spending by ownership structure would be a challenge.

In the United Kingdom, a similar system exists, where the bilateral aid agency called the Department for International Development contracts out to a number of for-profit and nonprofit development organizations in an open-bid system. Huysentruyt (2006) analyzed these bids, finding that just over 30 percent of the auctions involved both nonprofit and for-profit actors bidding on the same proposal; in less than 20 percent, the bidding was between nonprofit firms; while in the remainder, bidding was between for-profit firms. (Aid agencies distribute grants to NGOs, as well as allow them to enter competitive bids on requests for proposals.) NGOs typically competed for aid projects with a strong public goods component, as one would expect from the theory of how nonprofits operate. Interestingly, nonprofit bids adhered less to the projects’ terms of reference than did the for-profit bids, and for-profit firms were more likely to request additional funds to complete their projects (due to cost overruns and the like) after the contract had been signed.

In theory, national governments are also subject to the nondistribution constraint. Since its inception, foreign aid has engaged directly with governments in the recipient country as an instrument of promoting development. Even today, much of foreign aid is direct “budgetary support” to national governments in

<sup>5</sup> Interviews with Michael Rewald, CARE, October 26, 2006, and David Leege, Catholic Relief Services, November 3, 2006.

recipient nations (Tarp, 2000). Yet the same logic remains: in many countries, bilateral aid agencies are worried that the residual claimant on government activities is not the taxpayer, but rather corrupt politicians. In many instances, they prefer to contract to a “trustworthy” Western aid agency to bypass the potential misuse of development assistance. In particular, NGOs are frequently the preferred method of aid delivery in weak states, where the scruples of government can be weak (Fisher, 1997, p. 444).

## **Growth of Nongovernmental Organizations**

The remarkable growth in nongovernmental organizations over the last several decades is the result of interactions between secular trends, ideas, and technology. Governments have been outsourcing more of their development aid delivery to NGOs, following a trend amongst all organizations to outsource non-core functions (for example, Mullin, 1996), and also specifically due to a “perceived failure of governmental development assistance” (Barr and Fafchamps, forthcoming). At the same time, a reduction in communication costs has made it easier and cheaper for entrepreneurs in the NGOs to organize. This combination has provided the fodder and catalyst for NGOs to take off with a momentum of their own. To illustrate this in more detail, we examine the revenue patterns among U.S.-based NGOs.

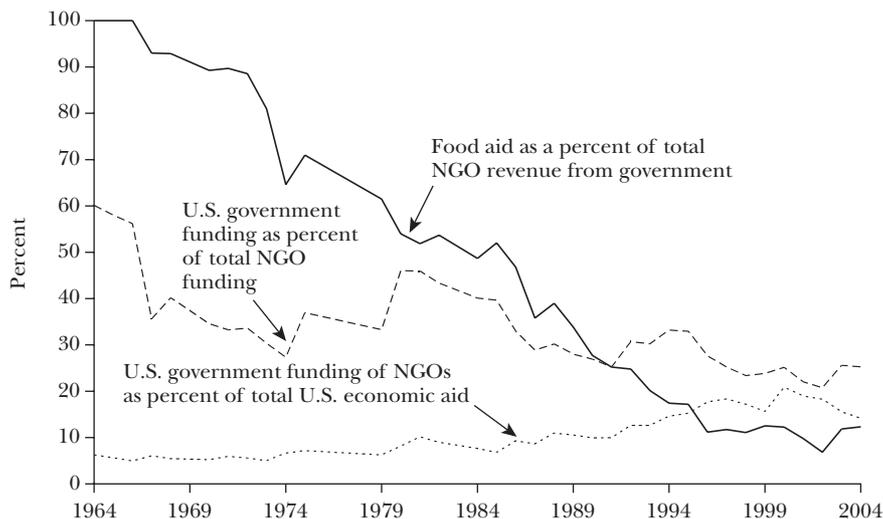
### **A Rise in Government Contracting**

When nongovernmental organizations were first brought into the fold by the U.S. government to distribute surplus food, the fraction of total economic assistance channeled through these organizations rarely approached 10 percent. Only in 1988 did the percentage of U.S. economic aid channeled through NGOs go into the double digits, where it remains.<sup>6</sup> This change is part of a larger trend of governments contracting out service delivery. For example, in 1985 New York City disbursed over \$1 billion in social service contracts to nongovernmental entities (Smith and Lipsky, 1993, pp. 4–5). Even national security is being subcontracted: in 2003, countries spent an estimated \$25 billion globally on private military services (Kurlantzick, 2003).

Despite the increasing amount of government money channeled through nongovernmental organizations, the fraction of the funding for U.S.-based NGOs that comes from the U.S. government has actually fallen over time. Figure 2 depicts three trends: a move away from food surplus as the sole vehicle of government support to NGOs; the government’s increasing use of NGOs to channel economic assistance; and the increasing self-sufficiency of NGOs from government. Government-registered NGOs have gone from relying on the government for three-fifths of their revenue in 1964 to just one-quarter in 2004. Thus, the concurrent rise in

<sup>6</sup> Data for total U.S. economic assistance and assistance for nongovernmental organizations is from the USAID annual *Report of Voluntary Agencies* for years 1964 to 2004.

Figure 2

**Government Financing of U.S. Nongovernmental Organizations, 1964–2004**

Source: USAID's *Report of Voluntary Agencies*, various years.

government reliance on NGOs (against a backdrop of increasing aid disbursements) and decrease in the dependence of NGOs on governments for their funding describe a NGO sector that is growing under its own steam. A rise in government contracting can explain some of the recent growth in the NGO sector, but far from all of it.

### More Entrepreneurs

The growth rate in the number of international nongovernmental organizations, according to the Union of International Associations data, was over 6 percent per year over the last half-century. Similarly, the number of U.S.-based NGOs registered with USAID grew from a total of 57 in 1961 to 531 in 2004, for an average annual growth rate of 7 percent. (NGOs register with USAID to become eligible for funding and cooperation.) Most of the registered NGOs in the early 1960s were religiously affiliated, like Catholic Relief Services or Lutheran World Relief, or targeted at specific countries, like the Near East Foundation or Romanian Welfare. Since then, the scope, reach, and mission of NGOs has expanded considerably. The bulk of the new NGOs are small, especially in relation to the long-established ones such as CARE and World Vision.

The activities of the smaller nongovernmental organizations are varied. Their names range from Aid to Artisans to Water Missions International, with missions varying accordingly. Table 2 provides a typology of U.S.-based nongovernmental organizations working in international development from a more comprehensive dataset (which excludes the smallest organizations with less than \$25,000 in reve-

*Table 2*  
**Typology of U.S. Nonprofit Organizations Engaged In  
 International Development and Assistance, Circa 2003**

| <i>Types of organization</i>                | <i>Percent (of total)</i> |
|---|---------------------------|
| General development and assistance          | 21%                       |
| Agricultural development                    | 2%                        |
| Economic development                        | 5%                        |
| International relief                        | 29%                       |
| Education development                       | 12%                       |
| Health development                          | 18%                       |
| Science and technology development          | 1%                        |
| Democracy and civil society development     | 2%                        |
| Environment, population, and sustainability | 5%                        |
| Human rights, migration, and refugee issues | 5%                        |
| <b>Total number of organizations</b>        | <b>4125</b>               |

*Source:* Reid and Kerlin (2006, table 8). Authors calculations based on data from the National Center for Charitable Statistics/GuideStar National Nonprofit database.

nue). More than half of these NGOs focused primarily on international relief, health, or education, and about one-fifth (the “general development and assistance” organizations) provided assistance in multiple areas.

The size of a nongovernmental organization is most commonly measured according to the total revenues the organization receives in a given year. Most of the development NGOs from Table 2 are small, with 75 percent earning revenues less than \$500,000 (Reid and Kerlin, 2006) and only 11 percent generating revenues over \$2 million per year. In fact, these 11 percent of the NGOs from the dataset generate 94 percent of the total revenue in the sector.<sup>7</sup> While the small NGOs at the fringes do not generate a lot of revenue, they may be generating ideas that—if successful—could be scaled up. One example is Paul Farmer’s now famous Partners in Health. Partners in Health started in 1987 and set about to provide community-based medicine in Haiti. Along the way, it picked up a lot of accolades for innovative, cost-effective approaches to treating communicable diseases such as HIV/AIDS and multi-drug-resistant tuberculosis (Kidder, 2003; Moeller, 2005). Today, Partners in Health brings in \$32.6 million in revenue and competes with other major NGOs for government or Gates Foundation grants. However, for every Partners in Health, dozens of other NGOs remain marginal players.

### **Increasing Professionalization**

The destinations of Harvard University’s Kennedy School of Government graduates illustrate the increasing professionalization of nongovernmental organizations. In 1980, 8 percent of the Masters in Public Policy graduates took jobs in the

<sup>7</sup> We thank Janelle Kerlin for providing us with this statistic.

NGO sector (Kennedy School of Government, 1998). By 2004, that number had risen to over 31 percent (Kennedy School of Government, 2004). NGOs are better run today than they once were, and one aspect of that improved management is having a growing and more secure revenue source.

Since 1989 (the first year for which we have disaggregated private fundraising sources available), the total revenue of USAID-registered nongovernmental organizations has grown at an average annual rate of 8 percent, adjusted for inflation. In turn, government funding of these NGOs has grown at only 6 percent per year. Does this mean that individual donors are becoming more generous? No, private contributions grew at under 4 percent per year. Instead, NGOs have become more creative in their fundraising from sources outside traditional donors, like the government and wealthy individuals. They have experienced astonishing growth in in-kind donations (14 percent per year) and in revenues generated by charging for NGO products and services (10 percent per year). In 1989, private-actor support for nongovernmental organizations registered with USAID amounted to \$4.6 billion (in 2004 dollars), relying heavily (61 percent) on private contributions and supported by revenues (24 percent) from the sales of published materials or fees for services, for example. The remaining 15 percent was in the form of in-kind contributions such as food, clothing, and medicines, which are typically valued by the donor at the prevailing market price. By 2004, private-actor support had more than tripled to \$15 billion and the three sources were essentially balanced.

### **Entrepreneurs in the Developing World**

Nongovernmental organizations based in developing countries are proliferating, too. While time series data are unavailable, there are a couple of cross-sectional surveys of NGO activity in the developing world. Barr, Fafchamps, and Owens (2005) surveyed the Ugandan NGO sector in depth. They carry out a representative survey of 199 of the 3159 registered NGOs. The vast majority of NGOs have very little revenue. Four large, international NGOs from the 199 account for well over half of the revenue; while the average revenue per NGO is \$274,000, the median is only \$22,000. Most funding from outside sources (international NGOs and bilateral donors) is allocated to these large NGOs, while small NGOs depend more heavily—over 50 percent—on membership fees, local fundraising, and income derived from another business.

The nongovernmental organization sector can differ dramatically from one recipient country to another. In a similarly designed survey of NGOs in Bangladesh, Gauri and Galef (2005) conclude that the sector is “highly organized and relatively homogeneous” (p. 2046). They count 6590 registered NGOs, or almost one NGO per village, in Bangladesh. The homogeneity appears to be driven by the success—and emulation—of the Grameen Bank microfinance model. Both large and small NGOs in Bangladesh employ a branch and headquarter structure, focus on credit services, and derive more of their income from fees for services than from grants.

*Table 3*  
**Nongovernmental Organizations in Uganda and Bangladesh,  
 Selected Activities**

| <i>Activities</i>                 | <i>Percent of sample reporting</i> |                   |
|-----------------------------------|------------------------------------|-------------------|
|                                   | <i>Uganda</i>                      | <i>Bangladesh</i> |
| Raising awareness                 | 97                                 | 92                |
| Advocacy and lobbying             | 60                                 | 31                |
| Education and training            | 57                                 | 47                |
| Credit and finance                | 33                                 | 92                |
| Support to farming                | 32                                 | 35                |
| HIV/AIDS awareness and prevention | 21                                 | 40                |
| Health care                       | 16                                 | 55                |
| Water and sanitation              | 11                                 | 51                |
| Employment facilitation           | 8                                  | 47                |

*Sources:* Barr, Fafchamps, and Owens (2005) and Gauri and Galef (2005).

*Notes:* Gauri and Galef report results for a sample of 117 large NGOs and 193 small nongovernmental organizations in Bangladesh. We use this information to calculate a representative estimate for NGOs in Bangladesh. Education and training in Bangladesh refers to children's education services. Health care in Uganda refers to curative health services.

Without money or staff, what can the underfunded NGOs in the developing countries do? Not much, as it turns out. Most Ugandan NGOs describe their functions in general terms like "raising awareness" and "advocacy" as Table 3 illustrates. The small budgets may be sufficient to achieve this goal, especially if the NGO leaders believe that ignorance is a major cause of poverty, as Barr, Fafchamps, and Owens (2005) point out. Or their limited budgets may force these NGOs to concentrate on "talking" as opposed to the delivery of physical goods or services" (p. 664).

Nongovernmental organization leaders in Uganda report that raising awareness is achieved primarily via meetings and workshops, with the typical NGO claiming to reach 400 individuals per year. HIV/AIDS was the most cited topic. Some 80 percent of Ugandan NGOs have some kind of membership system: typically 100 or more members constitute the main beneficiaries of the NGO's activities (these organizations fit more closely our definition of a community-based organization). Membership fees are typically low and, in general, commensurate with the wealth level of the population.

In contrast, nongovernmental organizations in Bangladesh are more involved in the actual provision of services, with over 90 percent providing micro loans and more than half providing health care services. A typical Bangladeshi NGO serves about 4,300 households. With the exception of microfinance and children's education services (where all consumers pay for the service), most of the time the provision of other services (like health care and sanitation) are free; but it is not

uncommon for NGOs to have beneficiaries pay part of the cost (Gauri and Galef, 2005).

### **New Transnational Actors?**

In addition to delivering aid services, many development nongovernmental organizations are also concerned with changing policies at the national and international levels. Coalitions of nongovernmental actors play a prominent role in transnational advocacy. Keck and Sikkink (1998) cite contemporary advocacy networks in human rights, the environment, and violence against women, noting such networks have existed for over two centuries, including the women's suffrage and antislavery movements in the nineteenth century. However, assessing the effects of these advocacy networks is an arduous endeavor. As Spar and Dail (2002) argue more broadly, it is inherently difficult to assess the performance of many NGOs if their outputs, like promoting democracy, are difficult to observe.

### **Impact**

Quantitative evaluations of the nongovernmental organizations sector in general are nonexistent. However, a number of academic studies have estimated the effect of individual projects. For example, several randomized evaluations of local NGOs projects in Kenya and India found that they improved educational outcomes (Banerjee, Cole, Duflo, and Linden, 2007; Kremer, 2003). Kremer, Moulin, and Namunyu (2002) describe a program in which the NGO International Christelijk Steunfonds provided uniforms, textbooks, and classroom construction to seven randomly selected schools from a pool of 14 poorly performing candidates. This program raised school enrollment and after five years, pupils in the treatment schools had completed about 15 percent more schooling. Not all randomized evaluations of NGOs programs, however, find positive outcomes; some evaluations find no difference (Duflo and Kremer, 2003).

A small critical literature has emerged questioning the effectiveness of nongovernmental organizations in improving the lives of their intended beneficiaries. For example, Mendelson and Glenn (2002) scrutinize democracy-building NGOs in Eastern Europe and argue that foreign NGOs may have created domestic offshoots that were well-funded but weak in grassroots support. Stiles (2002) has argued that the growth and sophistication of Bangladesh's NGO sector may cause some of these organizations to seek a greater presence in the public arena (by getting involved in politics) and to pursue for-profit-type activities that may have some "unintended and negative" consequences for the lives of the poor (p. 835). Relatedly, Gauri and Galef (2005) note that the adoption of microfinance activities by Bangladeshi NGOs seems to have created incentives for managers of these organizations to maximize the size of their portfolios by targeting wealthier villages. While this may be efficient in a strictly economic sense, it can also mean that activities of NGOs might not reach the poorest individuals. NGOs in both Bang-

ladesh and Uganda do not appear to locate in the most needy communities (Fruttero and Guari, 2005; Barr and Fafchamps, forthcoming).

Even though evaluation is commonly espoused as a tenet of good nongovernmental organization work, the collective body of industry evaluations reveals very little about actual impacts (Edwards and Hulme, 1996, p. 4). According to an OECD (1997) survey of such assessments, “there is still a lack of firm and reliable evidence on the impact of NGO development projects and programmes.” Most publicly available program evaluations by NGOs—like case studies on a website—are descriptive, rarely contain rigorous statistical analysis, and almost never report strong negative outcomes. A more scientific and transparent approach to these studies might present a clearer appraisal of NGO programs. There are isolated examples of such evaluations. For example, World Vision Haiti recently partnered up with the International Food Policy Research Institute, Cornell University, and the Food and Nutrition Technical Assistance in a five-year comparative study in Haiti to determine whether preventive health and nutrition interventions (where all children receive benefits) are more effective than a recuperative approach (where malnourished children are targeted).

Moreover, assuming one could measure the impact of individual projects, it might be difficult to calculate a net impact across nongovernmental organization efforts. After all, NGO projects might be substitutes for government services or for-profit activity; program recipients may have a limited amount of time to participate in development outreach; and the opportunity cost of the capital and labor going into the NGO sector is hard to measure. NGOs spend money and hire local labor in poor communities, and this economic stimulus might be a significant spillover benefit.

However, the paucity of clear, objective evaluations should not be particularly surprising. It is in neither the interests of the NGOs, nor the official donor agency (complicit as a funder), to publicize less-than-stellar results (Riddell and Robinson, 1995). In addition, public opinion of NGOs is generally very high in rich countries and poor countries alike, so the demand for rigorous evaluation is correspondingly low (PEW Research Center, 2002; Barr and Fafchamps, forthcoming).

## **Too Much of a Good Thing?**

Nongovernmental organizations seem to represent the best of private citizens responding to global inequities. But behind the characteristics inherent to an NGO model of development are lurking several challenges: too many actors, too many chiefs, and too much mission.

### **Too Many Actors**

One of the few bargaining chips of nongovernmental organizations delivering humanitarian assistance to areas controlled by unsavory warlords is a threat to pull out. But should, say, Médecins Sans Frontières make a noisy withdrawal from a

certain area, in a world with many NGO actors, it is likely to be replaced by another organization. This makes the threat of withdrawal far less powerful. Perhaps for this reason, the United Nations, USAID, and the European Community's humanitarian arm attempt to coordinate aid in conflict and disaster situations, but it is an uphill battle (Stoddard, Harmer, and Haver, 2006). More generally, the NGO sector's involvement in foreign aid delivery makes the incentive tool of "support conditional on good behavior" harder to put into practice.

Anecdotally, mergers and acquisitions do occur in the NGO industry (for example, McCarter, 2002), though these tend to be responses to growth strategies and market conditions rather than efforts to solve coordination problems.

### **Too Many Chiefs**

Just as governments and businesses are focusing on their core competencies while outsourcing other functions, so too are nongovernmental organizations. As a result, many northern nongovernmental organizations are essentially becoming fundraising institutions, which then either partner with, or subcontract to, nongovernmental organizations or community-based organizations in the recipient country. In effect, northern NGOs begin to play the same role that foundations and bilateral aid agencies have traditionally played. Allocating resources or outsourcing development work to local NGOs and community-based organizations has advantages. The local organizations may have better relationships with the target communities. They may be cheaper, since they can pay the lower local wage rates. As a bridge from the high-wage donor countries to the low-wage recipient countries and a means to harness "appropriate technology," allocating resources to local subcontracting nonprofits makes a lot of sense.

But in a field with limited regulation and a reduced ability of beneficiaries to reveal their approval or disapproval of development projects, this method of allocation of resources can get expensive very quickly. With administrative and fundraising costs on the order of (at least) 10 percent of total costs, and monitoring and evaluation at 5 percent, a round of resource allocation can easily tax 15 percent of the proposed redistribution. Remember, international development giving may go through multiple channels of resource allocation: from the taxpayer to a bilateral aid agency, to an intergovernmental organization, to an international NGO, and finally to a local NGO before being finally spent on goods or services. How many dollars from the initial transfer actually reach the final beneficiary is anybody's guess.

### **Too Much Mission**

Every nongovernmental organization has a mission statement. For example, the Tibetan Poverty Alleviation Fund states that its mission is to give "priority to projects able to strengthen the capacities of Tibetans to secure employment and compete effectively in Tibet's modern sector." Implicit in most mission statements is the notion that the NGOs know in a detailed manner what service is best for their beneficiaries. Yet a less paternalistic—and less expensive—mission could, in many

cases, be a far more efficient *modus operandi*. One such alternative to the donor-knows-best approach is vouchers.

A voucher given directly to beneficiaries—who could be individuals, households, and/or communities—could allow them to purchase goods and services. As Easterly (2002) notes, the poor could purchase development services from national, international, nongovernmental, and private development agencies. An agency could then turn in the vouchers to a central voucher fund, who would give the corresponding agency an increase in its budget. In theory, the vouchers would develop a secondary market where the voucher's price reflects the success of the aid effort in that particular region. Beyond putting the decision-making power in the hands of the intended beneficiaries, the market price would serve to create, over time, the desired set of services.

Voucher schemes have been implemented on a small scale (United Nations, 2003; Catholic Relief Services, 2006), but primarily in response to humanitarian disasters where “a strong body of evidence is starting to emerge that providing people with cash or vouchers works” (Harvey, 2007). Certainly vouchers would not work well for some nongovernmental organization tasks, such as advocacy, when NGOs arise in the first place to solve a collective action problem. Yet as we have documented, most of the nitty-gritty of NGO spending is on goods and services that go to individuals. To harness the power of NGOs more fully, vouchers should be implemented on a larger scale.

## **Not Development as Usual**

Nongovernmental organizations play an important and increasing role in international development. Funds are being allocated through them, both from individual donors in wealthy countries and from bilateral aid agencies. Their trucks, or the trucks they have contracted, are delivering supplies to poor communities in the most remote regions of the world. Their managers, and the managers of local organizations with whom they partner, are making decisions on how to allocate scarce development resources.

We cannot yet say whether nongovernmental organizations collectively are any better at development than public- or private-sector institutions. Evaluations that allow for causal inference are few and far between. Moreover, NGOs vary substantially in quality and effectiveness.

Nongovernmental organizations harness the altruistic (and sometimes nonaltruistic) energies of many individuals. However, this model of development is not without challenges. Not only is the delivery of goods and services contracted to private actors, but agenda setting may likewise be delegated. Decentralized and multilayered decision making can create inefficiencies. As NGOs increasingly produce their own funding and develop their own professionalized class, it seems appropriate to expose them to greater market forces beyond donor preferences. Aid vouchers may offer one way to give beneficiaries that market power. After all,

poor people in developing countries are often *already* paying for “development” through the fee-based funding structures of successful local NGOs. We can surely learn something from that.

■ *We wish to thank Angel Aloma, Judith Coquillette, Dan Irvine, Larry Jones, David Leege, Michael Rewald, Patrick Shields, and seminar participants at Harvard Business School for extremely informative discussions; Abigail Barr, Marcel Fafchamps, and Trudy Owens for the use of their Uganda data; Mimi Bilzor at Johns Hopkins for the use of Global Civil Society data; Janelle Kerlin for statistics from the NCCS/Guidestar data; Rawi Abdelal, Laura Alfaro, Niall Ferguson, Langdon Greenhalgh, James Hines, David Leege, Michael Rewald, Andrei Shleifer, Jeremy Stein, Alka Tandon, Timothy Taylor, and Rebecca Thornton for extremely helpful comments; and Jennifer Cervone and Kate Lawrence for excellent research assistance. The views expressed here are entirely our own, as are any errors that remain following the diverse and diligent input of all those listed above.*

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