

The reputation trap of NGO accountability

STEPHEN E. GENT¹, MARK J. C. CRESCENZI¹,
ELIZABETH J. MENNINGA² and LINDSAY REID¹

¹*Department of Political Science, University of North Carolina at Chapel Hill, NC, USA*

²*Department of Political Science, University of Iowa, IA, USA*

E-mail: gent@unc.edu

Can concerns for one's reputation cause non-governmental organizations (NGOs) to alter their behavior to the detriment of achieving their policy goals? To answer this question, we explore the relationship between NGOs and their donors. Our theoretical model reveals that reputation can be a key piece of information in the decision to fund an NGO's activities. Reputation can become so important to the NGO's survival that it interferes with the long-term policy goals of the organization. As such, reputations can become a double-edged sword, simultaneously providing the information donors seek while constraining NGOs from realizing policy goals. We apply this logic to the problem of NGO accountability, which has received increasing attention in recent years, and demonstrate that the tools used by donors to improve accountability can trigger unintended consequences. We illustrate this strategic dynamic with two types of NGO activity: water improvement and international crisis mediation.

Keywords: Non-governmental organizations; Reputation; Accountability; Principal-Agent Problems

Non-governmental organizations (NGOs) play an ever increasing role in addressing contemporary social, political, and economic challenges. NGOs have influenced peace processes, helped to ameliorate water crises and poverty, and improved the welfare of millions. As these accomplishments accrue, the ambitions and hopes of what can be accomplished have increased accordingly. Despite the growing efforts of NGOs, we often observe NGOs producing what appear to be small, temporary, and perhaps even counter-productive accomplishments. Environmental NGOs, for example, may organize multi-party talks that produce non-binding agreements with much fanfare, only to see the agreements unravel almost as quickly as they were produced. Similarly, water NGOs may find themselves spending precious funds on temporary solutions as they struggle to gather enough resources to tackle their long-term goals of sanitation, water quality, and access.

Short-term outcomes such as these often appear to be at odds with the long-term normative aspirations typically attributed to NGOs. Why do we observe these competent, altruistic organizations settling for non-durable outcomes?

Three explanations for this disconnect are plausible. First, conventional wisdom rests on the idea that NGOs and the people who run them are more concerned with ideals than competence.¹ These explanations, however, typically lack evidence and are unsatisfying because they do not account for why an idealistic organization would divert its attention away from long-term accomplishments. A second class of explanations involves structural constraints imposed by host governments. That is, NGOs can only accomplish what is allowed by the states within which they work. While this is an important line of reasoning, we proceed here with the assumption that such constraints are endogenized within the goals of the NGO.² Thus, one must still account for the incongruence between the goals and outcomes of NGOs. A third explanation, which we pursue here, focuses on the strategic behavior of NGOs and their donors. One might be tempted to dismiss strategic behavior when studying NGOs because of their altruistic nature, but the two qualities are not incompatible. NGOs are motivated by normative concerns, but these organizations are also driven by strategic interests (Finnemore and Sikkink 1998; Cooley and Ron 2002), and these strategic interests can have a significant influence on the behavior of NGOs (Sell and Prakash 2004; Bob 2005; Gugerty 2009; Kelley 2009; Reinhardt 2009). Here we examine how one such strategic motivation – the pursuit and maintenance of a reputation visible to donors – can help to explain the seemingly myopic behavior of the NGOs we describe above.

Our argument can be summarized as follows: NGOs need donors to survive, and donors need NGOs to implement shared policy goals. Donors want to enable NGO success, of course, but they are also concerned with the quality of their investments. Donors cannot, however, be certain of an NGO's quality. This uncertainty persists because NGOs can experience changes in quality over time; we refer to these changes as shake-ups. Shake-ups are often observed only within the NGO, so even the most observant donor may not have access to this information. As donors are often uncertain about the quality of individual NGOs, donors would like guarantees that their scarce resources are being distributed to competent

¹ The argument boils down to some variant of 'this is a mission, not a business.' The same argument often applies to the management of universities. We would argue that the model we develop here is relevant to managing academia as well.

² In future research, one could relax this assumption to study the problem of private information and uncertainty in the host state. We suspect that this will be a problem primarily for NGOs who are new to a host or new to their business.

and effective organizations. In search of investment confidence, donors target their funding to NGOs with a demonstrated ability to achieve tangible policy successes. Thus, to attract funding, NGOs have an incentive to focus their efforts on achieving immediate policy accomplishments that are easily attributable to the NGO.

Herein lies the dilemma. While rewarding NGOs that achieve policy successes can help donors make sure that they are funding competent organizations, this strategy potentially creates a new problem. In some policy arenas, the type of accomplishments that NGOs can achieve in the short term are consistent with their long-term goals, but oftentimes they are not. In the latter cases, a narrow focus on goals that are quickly and visibly accomplished can divert an NGO's attention away from its central mission. What appears from the outside as incompetence is actually the opposite. Acting rationally, high-quality NGOs find themselves in what we term a *reputation trap*. To survive financially, NGOs become frustratingly hobbled by their continuous need to produce tangible results in order to maintain their reputations.

Donors can find themselves similarly caught in the trap despite being aware of the problem and having no intention of constraining NGOs in this manner. By requiring NGOs to provide such signals of their quality, donors do not aim to impede durable policy successes. Rather, they simply wish to maximize the potency of their resources by only funding competent and effective organizations. Calls for transparency and accountability, long the hallmark of NGO reform, will not address the problem. Only by changing the structure of the NGO–donor relationship will these actors be able to escape the reputation trap and focus a greater proportion of their efforts on durable policy success. Reputation stability efforts can help, but ultimately donors and NGOs must find ways to ensure that the immediate demands placed on NGOs do not derail these agencies or their investors from achieving their policy goals.

We illustrate this strategic dynamic with a focus on two types of NGO activities: clean water access and international crisis mediation. Clean water access remains one of the most important and difficult tasks for development, receiving tremendous attention and funding over the last three decades. Many NGOs and donors focused on water improvement, however, have found themselves in a reputation trap. Given their need to report positive results to donors, water NGOs tend to pursue observable, attributable strategies that can be implemented within one funding cycle. In many cases, the need for attributable outcomes generates a focus on activities that do not lead to the durable improvement of water access.

Similarly, conflict mediation has emerged as a key priority in the post-Cold War era. The mediation efforts of the Centre for Humanitarian

Dialogue (HDC) in Aceh, Indonesia, illustrate the importance of reputation early in the existence of an NGO and the structural pressure on the NGO to produce and report tangible accomplishments. HDC's progress in mediating the conflict in Aceh was highly publicized; to this day, HDC's accomplishments in Aceh remain a prominent part of HDC's profile as a high-quality organization. In contrast to the water case, HDC and its donors avoid falling fully into the reputation trap because the immediate, tangible solutions (ceasefires) align with the long-term goal of conflict resolution. In both cases, however, the NGOs focus on attributable, immediate successes to secure continued funding, illustrating the importance of developing and maintaining a good reputation to these organizations.

Accountability and attribution: sources of strategic constraint

We begin our discussion with the assertion that NGOs have, and pursue, strategic interests. Some scholars have discussed the normative values, goals, and agendas pursued by NGOs.³ While we agree that NGOs often follow normative agendas and uphold certain 'moral character,' the organizations are not immune from strategic behavior. In particular, the continual need for funding forces NGOs to make decisions based upon donor expectations and demands (Cooley and Ron 2002; Ron *et al.* 2005; Mihr and Schmitz 2007; Bob 2010; Murdie and Bhasin 2011). This dependency allows donors to constrain NGO actions. For example, Kelley (2009) finds that donors place political constraints on NGO election monitors, encouraging the NGOs to be more lenient on countries that receive greater foreign aid. Büthe *et al.* (2012) find, however, that NGOs are sometimes able to overcome strategic constraints and respond to the humanitarian needs of their constituencies. The question, then, is when and why are NGOs constrained? In what follows, we review the works that focus on the strategic incentives of NGOs and place specific focus on the effects these incentives have on the behavior of NGOs.

While most NGOs are not profit-driven, they do face financial constraints that force NGOs to behave like their for-profit counterparts; NGOs must continuously secure funding in order to pursue their normative objectives. These instrumental concerns shape the emergence, objectives, and strategies of NGOs, rendering them very similar to businesses (Cooley and Ron 2002; Sell and Prakash 2004; Johnson and Prakash 2007). Sell and Prakash (2004, 144) go so far as to assert 'that the similarities between business and NGO "campaigns" far outweigh their differences.'

³ For work that focuses on normative perspectives of NGOs see, for example, Keck and Sikkink (1998).

Bush (2015) refers to the ‘survival instinct’ of NGOs, arguing that this instinct influences the actions of NGOs. Among other influences, this instinct encourages NGOs to adapt in order to continuously secure funding, resulting in NGOs operating like ‘normal’ organizations, ‘despite the field’s ideological origins and grand rhetoric’ (Bush 2015, 15). Thus, while NGOs maintain ideological goals, their need to secure funding from donors compels NGOs to operate strategically. Moreover, the reliance of NGOs on donors influences how the NGOs pursue their objectives.

Accountability in the NGO–donor relationship

The NGO–donor dynamic can be thought of as a classic principal–agent relationship (Cooley and Ron 2002). NGOs face constant pressure to please donors in order to maintain funding and continue to pursue their policy goals. Donors, on the other hand, must decide in which NGOs to invest. Donors can ill afford to waste their money on ineffective or low-quality NGOs (Ebrahim 2002, 2003, 2005; Jordan 2005; Wenar 2006; Rubenstein 2007; Boulding 2009; Gugerty 2009; Reinhardt 2009; Bush 2015). Critics of this principal–agent lens argue that the framework is inappropriate because the donor and the organization have the same preferences (Barnett and Finnemore 1999) or that NGOs exhibit behavior that is more consistent with sincere preferences than strategic behavior (Bütte *et al.* 2012). Even if we assume the donor and NGO have the same ideological preferences, donors are unable to determine if the organization they are supporting is capable of pursuing these goals effectively. This uncertainty is critical to understanding the motivations of donors and their push for accountability.

Grant and Keohane (2005, 36) claim that ‘reputational effects are involved in all issues of accountability.’ Actors strive to build a reputation in order to distinguish themselves from the crowd by establishing an identity or brand. Boulding (2009) reaffirms that donors desire to select high-quality NGOs and stresses the role that information asymmetries play in creating uncertainty for the donors. While an NGO has the necessary information about its abilities and objectives, the NGO faces the challenge of credibly revealing information about its capabilities to donors. NGOs have an incentive, then, to signal high capability through actions and outcomes rather than through (cheap) talk. Gugerty (2009) emphasizes that the information asymmetry between donors and NGOs creates distrust. As donors cannot readily distinguish between low-quality NGOs and high-quality NGOs, they become skeptical of all NGOs. To resolve the information asymmetry and ensure selection of high-quality NGOs, donors look for measurable signs of performance success. In a review and analysis of the

performance evaluation tools used by NGOs and donors, Agyemang *et al.* (2009) discuss 10 popular reporting techniques, only one of which (newsletters) do not necessarily include quantitative measures of NGO performance. As the preceding makes clear, not only are the objectives of the NGO important to donors, but also, donors care about their ability to observe and quantify the extent to which an NGO will achieve its goals.

Underlying the logic of improving accountability and the overall efficiency and competitiveness of NGOs is the notion that there is an emerging marketplace of NGOs that will naturally improve their outputs. Cooley and Ron (2002), however, challenge the notion that a competitive supply of NGOs will unequivocally improve transparency. Instead, they argue that such competition can lead to increased problems of uncertainty and NGO insecurity. As Cooley and Ron (2002, 13–14) explain, ‘The more that nonprofit groups attempt to secure and maintain contracts under market-generated pressures, the more they will copy the structures, interests, and procedures of their for-profit counterparts.’ Wenar (2006, 7) asserts that for these NGOs the drive for accountability can influence their behavior by shifting focus to ‘satisfying certain bureaucratic requirements instead of pursuing its underlying mission.’ An emphasis on accountability discourages NGOs from taking on more difficult projects and hinders NGO effectiveness (Wenar 2006, 16–17). While accountability measures are used to ensure that NGOs are using donors’ contributions wisely, they often generate negative externalities as well, decreasing the effectiveness of the organizations (Agyemang *et al.* 2009).

NGOs face a difficult task in generating effective accountability procedures that satisfy donors. Donors also face a challenge in judging the performance of NGOs (Gutner and Thompson 2010). As donors cannot easily evaluate the performance of NGOs, donors must focus on outcome-based metrics to assess whether or not an NGO meets expectations. Gutner and Thompson point to ‘definable and measurable’ outcomes that are used by donors to assess NGO performance. Similarly, Bush (2015) argues that measurable programs are preferable to donors, particularly when donors are not able to directly observe the programs or are not equipped to evaluate the program’s effect on the long-term policy objectives of the organization. Ebrahim (2002) also notes the importance of easily quantifiable measures of success and failure; in order to keep NGOs accountable, donors conduct reviews that highlight short-term, measurable results while ignoring the NGOs’ contributions to more durable goals. These reviews help assuage donor concerns, but generate tension between donors and NGOs. Elaborating on these tensions, Ebrahim (2003, 817) states, ‘First, there are conflicts among NGOs and funders over whether they should be assessing processes such as “participation” and “empowerment” or

whether they should measure more tangible products such as numbers of schools built, trees planted, and land area irrigated. For the most part, donor appraisals tend to focus on products.’ Agyemang *et al.* (2009) cites interviews with NGO officers where officers express concern that the focus on quantitative measures of progress discourages less easily measured qualitative indicators of NGO activity and effectiveness. Therefore, the push for accountability tends to focus on immediate, tangible successes instead of the overall long-term program impact.

Two final observations are worth noting to help motivate our argument. First, the natural uncertainty that emerges from the principal–agent problem can cause NGOs to perceive their reputation as a worthy investment. The push for accountability shapes this reputation building, driving NGOs to behavior that is observable and attributable to the organization. Why this uncertainty persists over time, however, remains unclear. We still need an explanation of why rational, talented donors find themselves stuck focusing on metrics that may introduce friction in the pursuit of the policies that donors and NGOs want to achieve. Second, not all NGO goals are undone by these strategic constraints (Büthe *et al.* 2012). In other words, the question remains as to *when* NGOs are meaningfully hobbled by their relationship with donors.

In the theory that follows, we identify a specific path by which NGOs become strategically stuck, so to speak, constrained to prioritize attribution over other qualities in their policy actions. We then show how the context of an NGO’s activity affects policy durability, which can exacerbate the costs of pursuing attribution and trigger the reputation trap.

Modeling NGO reputation

Our theoretical analysis proceeds in two steps. First, we formally identify the conditions under which the desire to develop and maintain a reputation incentivizes NGOs to put effort into achieving immediate policy successes. Our model examines why NGOs remain focused on attribution even when they would hope to distribute funds elsewhere. By extension, we are also able to show why rational donors cannot fully overcome the issues of adverse selection that give them pause when making their investments. Second, we take a step back from the model to think about the empirical implications of such a reputation mechanism. In particular, we examine when and how the need to produce immediate policy successes can lead NGOs and donors into a reputation trap.

Our theoretical model simplifies reality to capture the essential characteristics of the strategic principal–agent relationship between donors and NGOs. We begin with the premise that an NGO has requested funds and a

donor chooses whether or not to fund the NGO to pursue a particular policy.⁴ If the NGO receives funding, it then expends these resources. In particular, the NGO must determine how much effort to put into achieving immediate policy successes versus pursuing other activities. By immediate policy successes, we refer to outcomes achieved in the current funding cycle that can be attributed to the efforts of the NGO. We focus our analysis on the production of immediate policy successes because they provide information to a donor about the quality of an NGO and its activities. Once the donor observes whether the NGO has produced a policy success in the current funding cycle, it must then decide whether to fund the NGO for another cycle. This process continues until the donor decides to stop funding the NGO, at which point the organization ceases its operations.⁵

Given the design of the model that we develop, our theory primarily applies to the interactions between service NGOs and their donors. Unlike advocacy NGOs, who are mainly concerned with promoting policy change, service NGOs focus on the production of goods (Murdie 2014, 14–15). Thus, the output of service NGOs more closely corresponds to the types of policy successes that the NGO works to produce in our model. In addition, service organizations primarily rely upon large donors, whose preferences and resources largely mirror the assumptions we make about the donor in our model. In contrast, advocacy NGOs often rely upon individual small donors, who may be less concerned with policy successes and have less ability to threaten the survival of an NGO by withholding funding.

NGOs

We assume that NGOs are first and foremost interested in survival, by which we mean the ability to pursue their goals. NGO survival requires resources, therefore the organizations want to maximize their ability to attract funding from donors. This does not imply that NGOs are money-driven enterprises. NGOs clearly have a strong desire to reach policy goals. Without funding, though, NGOs could not continue to operate and thus would not have a

⁴ We present the model as one in which NGO interacts with the same donor over time. However, because we assume that donors have a discount factor of zero, the game is also equivalent to one in which the NGO interacts (sequentially) with multiple donors over time.

⁵ For simplicity, we assume that the NGO does not survive if it does not receive funding in a given funding cycle. Of course, the failure to receive one payment from a donor may not lead to the demise of an NGO. However, our assumption captures the reality that NGOs rely upon donor funding to survive. Given this, one would expect similar strategic incentives to arise if one were to assume that an NGO would have to miss multiple payments before it folds. This assumption also reflects interview evidence that NGOs are constantly worried about the removal of donor funding. In particular, Agyemang *et al.* (2009) find in interviews that NGOs behave as though funds could be removed at any time.

chance to pursue any policy goals.⁶ By assuming that NGOs are primarily motivated by survival, we can theoretically isolate the effects of reputation from other potential motivating factors for NGO behavior. However, we should emphasize that one can indirectly incorporate NGO policy preferences into the model we develop below through the NGO's cost term. All else equal, the more that an NGO cares about a policy, the lower its marginal costs of effort will be. Thus, as long as one does not assume that altruism or policy salience leads NGOs to always pursue high effort in achieving immediate policy successes, our model can take into account both the monetary and policy interests that influence NGO decision making.

NGOs may share similar motivations, but they often vary in quality. Depending on the talent and expertise of their personnel, their organizational structures and procedures, as well as other characteristics, some organizations are more effective and efficient at pursuing policy goals than others. In our model, we assume that an NGO can be one of two types: high quality or low quality. High-quality NGOs have a better ability to produce successful policy outcomes than low-quality NGOs. For mathematical simplicity, our model assumes that only high-quality NGOs can achieve policy successes. However, similar strategic incentives hold if we allow low-quality NGOs to achieve policy successes, as long as the probability that a low-quality NGO can achieve policy successes is less than that of a high-quality NGO for a given level of effort.⁷

A central assumption of our model is that the quality of an NGO can change over time. For example, the director of an NGO may exit the organization, handing over the organization to new leadership who may be more or less skilled than her predecessor. On the opposite end of the NGO hierarchy, large turnover among staff could decrease the quality of the organization until new staff is properly trained. In addition, new technology could be discovered or acquired by the organization, improving productivity and efficiency. We call an event that can potentially alter an NGO's quality a 'shake-up.' Such shake-ups are always possible in an NGO, and they complicate a donor's task of targeting funds to high-quality organizations.

Donors

We assume that donors want to maximize the achievement of their policy goals through their investment in an NGO. Whereas the typical discussion

⁶ Survival is not meant literally, but rather in the standard use referring to the existence of the organization. The logic for this assumption is similar to that for the common assumption that political leaders care primarily about staying in office.

⁷ For a model of reputation of economic firms that allows all types to have a nonzero probability of achieving a good outcome, see Mailath and Samuelson (2001).

of investment centers around returns and profit, here the returns are policy outcomes. All else equal, the donor prefers to invest in NGOs that are more likely to succeed in obtaining favorable policy outcomes. In our model, we assume that donors focus on achieving policy success in the current funding cycle. This often means a fiscal year, but the model is designed to handle any length of time. We simply wish to reflect the reality that donors will evaluate an NGO's policy success before making the decision to fund again.

We expect that donors want to avoid funding low-quality NGOs. Given their uncertainty about NGO quality, donors will want to see what an NGO accomplishes in a given period before they consider whether to renew an NGO's funding. In addition, those who make funding decisions are themselves often accountable to others and need to demonstrate a positive return on their investment decisions to maintain their status. For example, the United States Agency for International Development is a major donor for development NGOs, but its lead administrator is appointed by the President, approved by the Senate, and advised by the Secretary of State (all of whom are agents themselves). For simplicity, we treat donors as principals in this analysis.⁸

A key characteristic of the donor–NGO relationship is the specter of donor uncertainty about the NGO. In our model, we incorporate three potential sources of uncertainty that donors can face. First, donors are often uncertain about the quality of an NGO. The ability of an NGO to achieve positive policy outcomes is partially a function of intangible factors that donors cannot readily observe. The donor's knowledge and understanding about an NGO's quality is complicated by the fact that an organization's quality can change over time through shake-ups. Second, when making funding decisions, donors do not know whether an NGO will suffer a shake-up in the upcoming period that will lead to a shift in the organization's quality. If such a shift occurs, the donor's belief about an NGO's quality when it makes a funding decision will not be an accurate estimate of the NGO's quality later in the funding cycle. Finally, while the donor can observe the immediate policy outcomes of the NGO's activities, given that the donor is not on the ground at all times, the donor often cannot observe the level of effort the NGO puts into achieving its goals. NGOs, like any other type of organization, must make decisions about how to allocate their resources. An NGO can implement programs to advance its policy aims or, for example, invest in administrative capacity, infrastructure, and marketing. While third parties have emerged to mitigate this particular

⁸ Someone could, and should, study the effects of additional layers of principal–agent structures on this model, but we first need to understand the lessons learned from the base model, which is what we present here.

information problem, they are not able to completely and immediately eliminate the privacy of this information.

To be clear, donors are aware of this information problem and often take steps to mitigate its effects. For example, one donor firm, Good Ventures, has led the creation of the Open Philanthropy Project to improve donor effectiveness and cultivate a community of open information for donors to share. This project represents one of the most novel and purposive efforts to reduce donors' uncertainty about the quality of their investments. Even so, the project's architects state plainly that 'all else equal, we prefer to do good quickly because helping people empowers them to help themselves and others.'⁹ One of these architects, philanthropist Cari Tuna states, 'a well-placed donation can transform someone's life, but a poorly placed donation can have no impact or even do harm. ... But it's not at all obvious from charities' marketing which are the best buys' (Cha 2014). When donors decide where to invest, they face a multidimensional challenge; NGO quality is one of many issues. The scope of information needed ranges from identifying the most pressing problems currently facing the world to understanding how the political environment will affect the success of the investment. Donors can choose to spend time and money on solving the NGO quality issue, but this creates opportunity costs. Since resources are finite, donors would in turn have less time to devote to researching other dimensions of their overall due diligence and fewer funds available to invest in the policy problem itself. Our model is most appropriate for situations where donors have not fully overcome the information problem with respect to NGO quality.

Uncertainty can inhibit the ability of the donor to maximize the policy returns from its investment in an NGO. If the donor is uncertain about the quality of NGOs, it cannot easily direct its resources to the highest quality organizations. A donor may end up funding an NGO that does not have the ability to produce successful policy outcomes. Known as adverse selection, this problem emerges when a principal is not able to select the type of agent that it would choose if it had complete information. Since the donor cannot always observe the behavior of the NGO, the donor is not able to condition its funding on the NGO's actions. There is a chance that the NGO will put less effort into achieving the donor's goals than the donor would ideally prefer. This problem, which is known as moral hazard, results from the inability of a principal to perfectly monitor its agent. These classic principal-agent problems are the underlying motivation for the push for greater accountability from NGOs.

⁹ <http://www.openphilanthropy.org> (accessed March 13).

We argue that reputation is a mechanism that emerges to address the principal–agent problems between donors and NGOs. We conceptualize reputation as the donor’s belief that an NGO is of high quality. Since the donor cannot fully observe the NGO’s ability to succeed before providing funding, the donor must be concerned with the reputation of the NGO. As donors prefer to fund organizations with good reputations, NGOs have an incentive to invest their time and energy into establishing and maintaining such a reputation. In the model developed below, an NGO’s reputation is largely a function of its record of policy success. Since high-quality NGOs are better able to achieve successful policy outcomes, such achievements provide signals that bolster the reputation of the NGO in the eyes of the donor. Given this, donors steer funding to organizations that have demonstrated the ability to produce positive outcomes. This provides NGOs with an incentive to put effort into activities that will lead to observable, attributable policy successes in the immediate term. While such an incentive structure can help donors overcome problems of adverse selection and moral hazard, it can potentially create a new problem. As we explore below, when the types of accomplishments achievable by an NGO in the short term are not durable, NGOs and donors can find themselves in a reputation trap.

Shake-ups, reputations, and the consequences of persistent donor uncertainty

Our theoretical model includes two players, a donor (the principal) and an NGO (the agent). The NGO can be one of two types (τ): high quality (H) or low quality (L). High-quality NGOs have the ability to pursue successful policies, while low-quality NGOs do not. At the beginning of the game, Nature chooses the type of the NGO. The NGO is high quality with probability $\theta \in (0, 1)$ and low quality with probability $1 - \theta$. Similar to many game-theoretic models of firm reputation, we assume that the principal is uncertain about the type and actions of the agent (Fudenberg and Levine 1992; Mailath and Samuelson 2001).¹⁰ Thus, while the NGO learns its type, the donor does not.

In each period, the donor decides whether to fund the NGO. If the donor chooses not to fund, the NGO ceases to exist and the game ends. If the donor funds, it transfers a lump sum, f , to the organization. A high-quality NGO then decides the level of effort to put into achieving a successful policy

¹⁰ In particular, our model assumes an information structure, including the possibility of shake-ups, similar to principal–agent models of firm reputation developed by Mailath and Samuelson (1998, 2001).

outcome in that period. In particular, it can expend a high level of effort (h) at a cost $e > 0$ or a low (l) level of effort at no cost.¹¹ To allow for the possibility that the NGO would be willing to exert high effort, we assume that the cost of high effort does not exceed the per-period funding available from the donor (i.e., $e \leq f$). Formally, we assume that a low-quality NGO can only expend a low level of effort, which is equivalent to assuming that the probability of policy success for a low-quality NGO is equal to the probability of success for a high-quality NGO exerting a low level of effort. The donor does not observe the amount of effort expended by the NGO.

After the NGO chooses the level of effort, Nature then determines the policy outcome for the period, which can be either successful or unsuccessful. If the NGO chooses a high level of effort, there is a successful outcome in the current period with probability π and an unsuccessful outcome with probability $1 - \pi$. For simplicity, we assume that low effort always results in an unsuccessful outcome.¹² The policy outcome is observed by all players. We assume that donors receive a payoff of 1 for a successful outcome and 0 for an unsuccessful outcome. NGOs do not receive any direct payoff for the policy outcome.

Play continues until the donor decides not to fund the NGO. In all subsequent periods after the first, we assume that there is the possibility of an exogenous shake-up in the NGO after the donor's funding decision with probability λ . For example, there could be a change in personnel of the NGO or a technological change. In the event of a shake-up, Nature re-determines the NGO's type. In particular, after a shake-up, the NGO is high quality with probability θ and low quality with probability $1 - \theta$. We assume that the donor knows the probability that a shake-up will occur in a given period but that the donor does not observe the shake-up. Finally, since we assume that the donor is focused on the achievement of policy successes in the current period, it has a discount factor of 0. We expect that donors will be interested in getting a return on their investment in a given period before they consider whether to renew an NGO's funding. On the other hand, since the NGO is concerned with survival, it discounts future payoffs with a discount factor $\delta \in (0, 1)$.

Given that we assume that the donor has a discount factor of 0, we limit our analysis to Markov strategies, which only depend upon payoff-relevant

¹¹ Throughout the discussion, whenever we refer to 'high' or 'low' effort, we only refer to the level of effort the NGO puts into achieving policy successes in the current funding cycle, not its overall level of effort in all activities.

¹² Though the analysis would be more complex, we expect that one would obtain similar substantive results in a model in which success is possible after low effort, as long as the probability of success is higher after high effort than after low effort.

histories. Let μ be the donor's belief that the NGO is high quality, and let $\sigma(\mu)$ be the probability that a high-quality NGO will exert high effort given that belief. Then the donor expects to receive a successful policy outcome in a given period with probability $P(\mu) = \mu\sigma\pi$. Since the utility of a successful outcome is 1, the donor will choose to fund if $P(\mu) \geq f$.

Consider a situation in which high-quality NGOs always exert high effort into achieving immediate policy successes. In this case, policy outcomes can provide information about the NGO's quality. The donor's posterior belief that the NGO is high quality in a given period is a function of its prior belief, the policy outcome in the previous period, and the probability of a shake-up. After a successful policy outcome, the posterior belief is:

$$\mu_s = 1 - \lambda(1 - \theta). \tag{1}$$

Since only high-quality NGOs can be successful, a successful outcome in the previous period indicates that the NGO was high quality in the previous period. However, there is some probability, $\lambda(1 - \theta)$, that a shake-up in the current period will result in the the NGO being low quality. Thus, if $\lambda > 0$, the donor can never know with certainty whether the NGO is high quality in the current period. On the other hand, the donor's posterior belief that the NGO is high quality after an unsuccessful outcome is:

$$\mu_u = (1 - \lambda) \left[\frac{(1 - \pi)\mu}{(1 - \pi)\mu + 1 - \mu} \right] + \lambda\theta = (1 - \lambda) \left[\frac{(1 - \pi)\mu}{1 - \pi\mu} \right] + \lambda\theta. \tag{2}$$

If $0 < \mu < 1$, $\mu_s > \mu_u$. Thus, as long as there is uncertainty about the NGO's quality, the donor's belief that the NGO is high quality is higher after a successful policy outcome than after an unsuccessful outcome. In addition, it can be shown that the donor's belief that the NGO is high quality decreases after an unsuccessful outcome. If we let $\hat{\mu}$ be the fixed point at which $\mu_u = \mu$ (such that $0 < \hat{\mu} < 1$), it follows that the $\hat{\mu}$ is the lowest possible belief about the NGO's quality that the donor can have.

If there is no possibility of a shake-up (i.e., $\lambda = 0$), a high-quality NGO will never choose to exert high effort into immediate policy successes. To see why this is the case, consider the situation in which the donor believes the NGO to be high quality ($\mu = 1$). In this case, $\mu_s = \mu_u = 1$. As the donor assumes that any unsuccessful outcome is due to bad luck, rather than low effort, it will believe the NGO to be high quality regardless of the policy outcome. Thus, the NGO has no incentive to put effort into short-term policy successes since it would be funded in any case. In addition, there cannot be an equilibrium in which the high-quality NGO chooses low effort when $\mu = 1$ but chooses high effort at other values of μ . In such an equilibrium, the donor would not fund if $\mu = 1$. Since $\mu_s = 1$, the NGO knows

that it will not be funded in the next period if there is a successful outcome. Given this, the NGO would have no incentive to pay the cost of high effort because it would cease to exist after a successful policy outcome. Thus, similar to the findings of Mailath and Samuelson (1998, 2001) in a model of firm reputation, separation between ‘competent’ and ‘inept’ firms can only occur if there is perpetual uncertainty about the firm’s type. In our model, this implies that high effort by high-quality NGOs can only occur in equilibrium if $\lambda > 0$. The next proposition identifies the conditions under which there will be high effort.

Proposition 1: If the cost of effort is sufficiently small, $\lambda > 0$, and $f > \hat{\mu}\pi$, there exists a Markov perfect equilibrium in which a high-quality NGO always chooses to put high effort into achieving immediate policy successes in the current period.

The formal proof of the proposition can be found in the Appendix. The intuition is as follows. If high-quality NGOs exert high effort, the donor will be more willing to fund high-quality NGOs than low-quality NGOs. Thus, the donor’s equilibrium strategy will depend upon its belief that the NGO is high quality. In particular, there will be a cutpoint, μ^* , such that the donor will fund if $\mu \geq \mu^*$ and not fund otherwise. Owing to the possibility of a shake-up in each period, the donor can never know the NGO’s type with certainty. Since successful outcomes are only possible with high-quality NGOs, the donor’s belief that the NGO is high quality is higher after a successful outcome than after an unsuccessful outcome. As the NGO would prefer to maintain its funding, it has an incentive to prevent the donor’s belief from falling below μ^* . Since, in expectation, higher effort will produce a higher belief than lower effort, the NGO will pursue a high level of effort if the cost is sufficiently low.

Reputation dynamics

The theoretical model provides insight into the role that reputation can play in the relationship between donors and NGOs. One can consider the parameter μ , the donor’s belief that the NGO is high quality, to be the NGO’s reputation. As donors cannot directly observe the quality of an NGO, they must make their funding decisions based upon an NGO’s reputation. In particular, donors are only willing to fund NGOs with good reputations ($\mu \geq \mu^*$). If an NGO’s reputation falls too low, a donor will no longer provide it funding.

In the model, an NGO’s reputation is based upon its record of policy successes. As donors cannot directly observe all of the actions of an NGO, they do not know the precise effort level that the NGO puts into particular

activities. However, they can observe whether the NGO's efforts lead to policy successes. For example, a donor might not know how much effort an NGO put into mediating a civil war, but it can observe whether the mediation led to a peace agreement. Since high-quality NGOs are better able to produce policy successes, the nature of an NGO's policy outcomes provides valuable information to donors. For this reason, a donor will update its belief about the quality of an NGO after each policy success or failure. If an NGO achieves a policy success, the donor recognizes that the organization is high quality and updates its belief positively, and the NGO gains a good reputation. On the other hand, a series of policy failures would gradually erode the NGO's reputation. After a sufficient number of failures in a row, the donor will begin to believe that the NGO is low quality and will move to cut off the NGO's funding.

Reputation dynamics in turn influence the behavior of NGOs. Since a donor's belief about an NGO's quality is a function of the NGO's history of policy successes, an NGO's achievements in a given period will influence its reputation in the eyes of the donor in all future periods. To maintain its funding from donors, an NGO needs to build and maintain a good reputation. Thus, it has an incentive to put effort into achieving policy successes in the current funding cycle that can be attributed to the organization. By doing so, the NGO will be able to signal its quality to the donor before it makes its next funding decision. If the NGO were instead to pursue activities that do not produce any positive results in the current funding cycle or that only produce results that could not be attributed to the NGO, the donor would downgrade its belief about the NGO's quality and would be less willing to continue funding in the future.

The reputation process can provide a useful accountability mechanism for donors and allow them to make more informed funding decisions. Given the information asymmetries inherent in donor-NGO relations, donors aim to avoid problems of adverse selection, in which they fund low-quality NGOs, and moral hazard, in which NGOs fail to put sufficient effort into the donor's policy goals. The NGO's incentive to develop a reputation can reduce some of the donor's uncertainty. If the donor knows with certainty that an NGO is high quality, there is nothing for the NGO to prove, as there is no outcome that would decrease the donor's belief that the NGO is high quality. If there is always a possibility for a shake-up in the organization – due to staff turnover or new challenges in the international policy arena – the donor can never know with certainty the quality of the NGO. This gives the NGO an incentive to put effort into achieving attributable policy successes to maintain a good reputation. When no such uncertainty exists, there is no need for NGOs or donors to worry about reputation.

The reputation trap

The formal analysis indicates that when donors make funding decisions based upon NGO reputation, NGOs have incentives to put effort into achieving immediate policy successes. In this section, we examine the empirical applications of such a reputation mechanism. In particular, we consider the effects of such an incentive structure on the policy impact of NGO activities. To do so, we focus on two dimensions of NGO policy: the ability of donors to attribute policy outcomes to NGOs and the durability of the policy impact of these outcomes.

First, we recognize that the ease with which donors can identify the source of policy successes varies. Attributable policy successes are outcomes that a donor can clearly connect to the activities of an NGO. For example, an NGO focusing on health care in a developing country might cite the number of medical procedures performed as an attributable policy success. In contrast, non-attributable policy successes cannot be directly connected to a particular NGO's activities, at least in the current funding cycle. Such non-attributable successes include macro-level political, economic, and social outcomes that are the product of many different causal factors, as well as other effects of NGO activities that can only be observed in the long-term. For the hypothetical health care NGO, such non-attributable success might include aggregate measures of health in the target country – such as life expectancy, infant mortality, and infection rates – that are not solely a function of the efforts of the NGO.

Second, we consider the durability of the policy impact of an NGO's activities. A donor's desire to fund quality NGOs is driven primarily by the fact that such organizations are best equipped to achieve its policy goals. Actually reaching these policy goals also requires that any policy achievements reached by an NGO have a lasting positive impact. Therefore, donors (and NGOs) also care about the durability of policy outcomes. While the reputation mechanism can help resolve donor uncertainty and address problems such as adverse selection and moral hazard, it does not guarantee that policy successes will be durable.

The reputation mechanism incentivizes NGOs to focus on the attributability rather than the durability of their policy successes. As noted above, attributable policy successes provide signals of an NGO's quality and thus reduce donor uncertainty. Since donors reward NGOs that produce attributable outcomes with continued funding, NGOs will focus their efforts on achieving such outcomes. Investment into the production of non-attributable successes would do nothing to bolster an NGO's reputation, and it would threaten the NGO's survival by taking time away from any efforts to produce attributable successes. When the reputation mechanism

Table 1. The reputation trap

	Less durable policy impact	More durable policy impact
Attributable policy success	Reputation trap	Reputation mechanism (no trap)
Non-attributable policy success	Donor uncertainty	Donor uncertainty

is in place, we expect NGOs to focus on producing outcomes in the top row of Table 1.

If an NGO is able to put its effort into achieving attributable policy successes that have a durable impact (the upper right hand cell of Table 1), then the incentive structure created by the reputation mechanism will lead to beneficial outcomes. Donors will be able to fund the highest quality NGOs, who will in turn create long-lasting policy benefits. However, there may not always be a correspondence between the attributability and the durability of the policy successes that NGOs could realistically produce. Suppose that the only attributable policy successes that an NGO can readily achieve have less durable impacts, while the only policy successes that could have more durable impacts would not be attributable to the NGO. When faced with a choice between focusing its efforts on attributable outcomes that may have a less durable policy impact (the upper left hand cell of Table 1) and the production of more durable but non-attributable policy outcomes (the lower right hand cell of Table 1), an NGO that needs to secure funding from an uncertain donor would opt for the former.

Sometimes, as we will see in our discussion of HDC's mediation of the Aceh conflict, immediate successes can pave the way for long-term success. Short-term and long-term goals need not be incompatible and, in the case of HDC, they align. When there is a disconnect between projects that would produce attributable successes and those that would produce more durable solutions, however, NGOs will be incentivized to prioritize attributability over durability. We call the situation where NGOs pursue activities aimed at producing less durable attributable policy successes in lieu of more durable non-attributable policy successes a 'reputation trap.' To address information asymmetries about donor abilities and avoid funding low-quality NGOs, donors reward organizations that can produce attributable policy successes. This can lead NGOs to focus on achieving such outcomes, even if their positive effects are short lived. Such a suboptimal outcome is not the result of incompetence (or naiveté) on the part of the donors or the NGOs. Instead, these parties are acting perfectly rationally given the circumstances. If NGOs were to shift their focus to durable but non-attributable policy outcomes, they would risk their funding and thus their

survival. If donors were to stop rewarding the attributable policy successes, they would limit their ability to identify high-quality NGOs and avoid problems of adverse selection.

When will reputation traps emerge?

NGOs and donors can find themselves in a reputation trap, but that is not to say that such traps are ubiquitous. For a trap to emerge, two conditions must be met. First, donors must have an incentive to use an NGO's reputation as the basis for its funding decisions. This condition is easily met and widely present in donor-NGO relations. Though, we expect that reputation concerns will be particularly salient when donors and NGOs establish new partnerships and when NGOs are young, beginning work in a new geographical area, or tackling a new type of problem. Second, once established, this reputation mechanism must incentivize NGOs to pursue less durable policy successes. This second condition is not always present and not always under the control of either party. The former condition is largely a function of the donor's level of uncertainty, while the latter is likely to vary based upon the issue area being addressed.

We recognize that even if donors base their funding decisions on NGO reputation and NGOs focus their activities on reputation maintenance, this will not lead to a reputation trap if NGOs can pursue durable policy successes. However, one would expect that many potential NGO activities do not lead to immediate policy successes that can be attributed to the NGO. The overall objectives of international NGOs are often ambitious, and achievement of these long-term goals is not arrived at quickly. Moreover, it is often difficult to attribute macro-level social, economic, and political outcomes – such as life expectancy, infant mortality, economic development, and democratization – to the activities of an individual NGO. In some situations, the immediate policy success that NGOs can achieve may not have such long-term benefits. In these cases, attributable policy outcomes tend to be less durable than those that are not attributable to the actions of an NGO.

It is reasonable to question the extent to which NGOs and donors have control over this overlap between attribution and durability. The reputation trap is most pernicious when there is little or no overlap and NGOs find themselves compelled to pick attribution at the expense of lasting policy success. We expect that the extent of the overlap between attribution and durability varies by issue area. In some issue areas, short-term successes may not effectively help NGOs reach long-term goals. In these cases, donors and NGOs find themselves in a reputation trap (as seen in our discussion of water NGOs). In issue areas where there is considerable overlap between

attribution and durability, however, organizations may be able to tailor their policy outputs to be recognizable without abandoning durability (as seen in HDC's actions in Aceh).

Recognizing vs. avoiding traps

By now the reader might be wondering why donors cannot simply recognize that their emphasis on accountability can trigger the reputation trap and take steps to mitigate the problem. After all, donors should be aware of the potential durability of the policies pursued by NGOs, and therefore, donors should know when their accountability policies are leading NGOs into the reputation trap. One solution would be to provide long-term (multi-period) funds to the NGO in order to free the NGO from the constraints of immediate attribution. Long-term funding would relieve the pressure to prioritize attribution over durability, but it would also exacerbate the moral hazard problems that caused donors to focus on accountability in the first place. As shake-ups can occur at any time, the donor is always concerned that a high-quality NGO suffers an unexpected quality shift which leads to a squandering of precious funds.

Alternatively one might turn to organizational structure as a way to overcome the reputation trap. One solution could be to absorb the NGO into the donor's organization in a sort of vertical integration. However, this will not necessarily solve the principal-agent problem, nor would it stop the push for accountability. Perhaps a more promising solution to mitigating the reputation trap would be for the NGO to develop a dualist structure, in which one part of the organization focuses on signaling quality to donors through immediate successes while the other part of the organization focuses on achieving more durable (but less attributable) outcomes. Such a dualist strategy has been effective for many intergovernmental organizations (Hawkins and Jacoby 2006), and it may be a viable option for some large NGOs. However, many of the younger and smaller NGOs that are most likely to face reputation traps will often not have the capacity to build such a dual structure, especially when they are initially building their reputations. Moreover, such a solution does not completely eliminate the reputation trap, as NGOs would still need to spend significant effort on achieving less durable policy outcomes.

We do not know of a silver bullet solution to the reputation trap problem, but we suspect that donors struggle with the decision of how much of their resources to devote to solving the problem of uncertainty. When there is little uncertainty on the part of the donor about the quality or actions of an NGO, there is less need for a reputation mechanism. In those cases, donors may be able to create alternative incentive structures that are primarily

aimed at producing durable outcomes. Reducing uncertainty is costly, however, and spending too much on achieving a reduction in uncertainty can place important constraints on donor budgets.

With this conundrum in mind, the next step is to illustrate when and why the reputation trap is sprung on donors and NGOs. In the next section, we provide two empirical illustrations of the reputation mechanism focusing on the tradeoff between attribution and durability. In one case, the need for attributable outcomes produces a reputation trap in which short-term achievements do not have a durable policy impact. In the second case, while the NGO seeks to build and protect a reputation through short-term tangible successes, the short-term pursuits of the NGO are compatible with the NGOs long-term policy goals; this case highlights the importance of reputation to NGOs (and their donors), even though the reputation trap is not triggered. Finally, we conclude with a brief discussion as to how NGOs and donors can alleviate the trap.

Illustrating the reputation trap

To investigate the implications of our theoretical model, we compare two policy arenas in which we observe NGOs pursuing reputations in order to secure donor funding. We first examine the practice of drilling boreholes, a short-term technique that is often used to improve water access. Our second case focuses on conflict mediation, where we highlight NGOs' ability to generate mediation outcomes that are in line with longer-term goals of conflict resolution. In the first case, we demonstrate that the pressure to convey credible signals of quality to the donor influences the decisions NGOs make with respect to the pursuit of attributable but fragile policy outcomes. The water case thus illustrates the reputation trap. In the latter case, we show that while reputation is a driving force for the NGO's behavior, the reputation trap is not inevitable. The mediation case thus illustrates how NGOs avoid the reputation trap when their pursuit of attributable actions aligns with durable policy outcomes.

While these cases at first glance are quite different, one focusing on the provision of water and the other conflict resolution, our model and its findings are not limited to certain policy areas. As long as the organization is reliant upon donor funding and there is information asymmetry between the donor and the NGO, our model shows that reputation dynamics should influence NGO behavior, regardless of policy arena. Both the water and conflict resolution NGOs discussed rely upon donor funding to operate. They demonstrate NGOs' concern with maintaining donor funding and conveying their quality to donors through successful policy outcomes. The

cases thus show how NGOs invest in reputation in order to achieve their goals. Their desire to establish a reputation influences their strategies and actions on the ground.¹³

Water NGOs and boreholes

There are 748 million people who struggle to find safe drinking water each day, while close to 2.5 billion people do not have adequate access to proper sanitation (UNICEF 2014). Without access to clean water and proper sanitation, populations become susceptible to diarrhea, intestinal infections, and, more broadly, malnutrition. Given the challenges and risks posed by unsafe water and inadequate sanitation, a number of NGOs have arisen to increase access to safe and clean water. In what follows, we illustrate how water NGOs have suffered from a constant reliance on short-term solutions to water shortages and how this reliance is motivated, at least in part, by the need to signal attributable successes to their donors.

Boreholes are the most widely used technique in solving water access problems. In the following case, we explain that boreholes are easy and relatively cheap to implement; moreover, they produce results that NGOs can show to their donors. Despite these advantages, however, boreholes have known and documented failures that hinder the long-term development of sustainable clean water access (see, e.g., Harvey 2004, 339). More durable solutions, such as research and extensive local training, require greater resources and more time to implement. More importantly, the improved outcomes from such solutions are less attributable to the NGOs. While effective at combating unsafe water in the long term, more durable solutions, such as research or local training, require the active engagement of many actors. Thus, these complex projects send noisy signals to donors about NGOs' effectiveness and quality. Noisy signals do little to alleviate donor concerns about their funding being used effectively by water NGOs and thus do not serve as sufficient accountability mechanisms. The water case illustrates that high-quality water NGOs continue to dig new boreholes at the expense of devoting scarce resources to maintenance, infrastructure, and training. Instead, they focus on immediate, attributable results in order to signal their reputation, and thus their worthiness for continued funding.

¹³ For the water NGOs, the actions we discuss are the choice of technology used to provide clean water. The decision to use boreholes over other possible strategies is influenced by a desire to build and maintain a reputation. For the conflict resolution NGO, the decision to pursue a ceasefire over more holistic agreements was intentional and strategic. In both cases the NGOs have multiple avenues they can pursue. In both cases, the choice of avenue is influenced by the need to signal success to the donor and to do so in an attributable manner.

Many areas suffering from limited clean water access have groundwater reserves that, if accessed, could fulfill communities' needs, reduce poverty, and improve people's welfare (Foster *et al.* 2008). The question, then, for NGOs such as WaterAid, World Vision International (WVI), and Water for People, is how to facilitate access to this water. NGOs have relied upon boreholes as an inexpensive way to access clean, uncontaminated groundwater (MacDonald *et al.* 2009). Boreholes – small-diameter wells – provide a quick, low-cost means to increase the number of water access points in a region by taking advantage of pre-existing groundwater reserves. New boreholes have several immediate advantages. They create more proximate access to water for populations, which in turn decreases the burden of attaining water by reducing the number of hours spent walking to an access point. Proximity to water can improve both access and individual security as well as help improve health outcomes, especially for children (Carter *et al.* 1999).

While boreholes can bring benefits to the populations they serve, a large literature cites their weaknesses. According to one study of Ghana, 'many of the boreholes drilled were dry whilst other nominally successful boreholes showed a progressive decline in yield to fail after two to three years of use' (Cobbing and Davies 2004, 111). Cobbing and Davies list a 40% failure rate for boreholes built by various NGOs in the Afram Plains region.¹⁴ A study of Mali offers similar pessimism of the effectiveness of boreholes, finding a 41% success rate when success was defined as the boreholes being in use by the community, and a 10% success rate if success was defined as reaching World Health Organization (WHO) minimum acceptable flow rates (Gleitsmann *et al.* 2007). Gleitsmann, Kroma, and Steenhuis conclude that boreholes are not a sustainable way to improve rural water supply management.

More specifically, several problems with boreholes have been identified that destabilize their ability to produce a durable impact on communities. According to Malians with access to boreholes, the borehole pumps are unreliable and frequently break down, the flow from the pumps is prohibitively slow, access fees to pumps are too high, the boreholes are generally difficult to use, and/or the pumps are located too far from home (Gleitsmann *et al.* 2007). In addition, as boreholes break down, locals often do not have the knowledge or resources for repairs (Easterly 2014). Boreholes, then, often fall into disrepair. Even when the boreholes do produce sufficient amounts of water, they are not always associated with

¹⁴ This number is in stark contrast to WVI's 2003 study in which they claim close to 87% of the wells built since 1995 in the Afram Plains region of Ghana were still providing 'an adequate supply of safe water' (World Vision International 2012).

improvement in clean water at the point-of-use. Gundry *et al.* (2006, 7) evaluate water contamination in South Africa and Zimbabwe, finding that ‘although sources generally deliver “safe” water at the point-of-supply, 12% of samples from such sources were contaminated with *E. coli* and as such were “unsafe.”’ They confirm other reports that find that the quality of water from improved sources deteriorates significantly after collection, citing studies by Wright *et al.* (2004), Trevett *et al.* (2005), and Clasen and Bastable (2003). Of the households using water from improved sources, 40% of them were using ‘unsafe’ water at point-of-use.

Other studies cite groundwater drought as a reason for borehole failure. Periods of low rainfall, overuse, or other causes of inadequate groundwater replenishment result in boreholes running dry because there is simply not enough water to pump. Importantly, locations that are at greatest risk of groundwater drought are predictable and additional research before borehole drilling could help prevent drilling in locations where groundwater drought is likely (Calow *et al.* 1997). While the hazard for groundwater drought is predictable, NGOs rarely take the steps necessary to investigate the best locations or structure for boreholes for reasons discussed later in this section.

Importantly, while many of these studies focus on particular sites or regions, a WHO document published in 2002 acknowledges that ‘many boreholes worldwide are no longer working’ (Howard *et al.* 2002, 23). This indicates that the problem is not limited to a few areas that had unfortunate experiences with boreholes but is a broader problem throughout the developing world. Additional studies have looked at specific pieces of the borehole, in particular the pumps used to bring water from the ground to the surface. Arguing that wells or boreholes equipped with handpumps have become the ‘principal technology’ for improving clean water access, Harvey and Reed (2004) cite a number of studies that find these handpumps lacking in durability. They point their readers to a Diwi Consult and Bureau d’Ingénierie pour le Développement Rural report which finds that in 1994 40–50% of handpumps in Sub-Saharan Africa were no longer operational. In addition, they cite data from DWD (2002) and Hazelton (2000), which find that less than half of the handpumps in Uganda and South Africa were operational. Writing a decade after these reports were published, Harvey and Reed (2004, 6) conclude that ‘Despite these low levels of sustainability, handpumps are likely to remain a major method of delivery of rural water supplies.’

NGOs, while still proponents of boreholes, realize their shortcomings at providing a durable solution to clean water access. As such, NGOs have begun to think about new or more durable solutions to unsafe drinking water. According to Gleitsmann *et al.* (2007), interviews with regional

directors and field agents of World Vision demonstrated a clear divergence between the official views of the organization and the views of the agents based on their local, hands-on experience. While on an official level, NGOs such as World Vision advocate for boreholes, its field agents recognize the need for alternative water sources designed to better fit local population's needs (Gleitsmann *et al.* 2007, 148). NGOs have signaled that for water supplies to be sustainable, local populations must be included, local decisions should reflect community choices, and extensive local training should accompany the creation of water access points (Carter *et al.* 1999; Gleitsmann *et al.* 2007). Moreover, WaterAid and Water for People advocate research and long-term maintenance plans to improve their water access points. Water for People has data available on their global water-related activities on their website.¹⁵ This data includes the location of Water for Aid water projects, as well as the current status of the site (is it operational) and how many people are utilizing the site. While such data is a positive step toward accountability and longer-term sustainability, Water for People, like many other organizations, remains caught in a trap where they focus on immediate policy solutions above all else.

Regardless of the known and documented failures of boreholes using handpumps (failures resulting from the borehole as well as the pump used to draw water), borehole and handpump construction remains common. If this strategy is not durable and NGOs know this, then why do NGOs continue to use boreholes as a way to increase access to clean water? Water NGOs, while recognizing their short-lived success, continue to use boreholes as a primary tool (UNICEF and the World Health Organization 2012). NGOs' continued construction of boreholes is not caused by ignorance; rather, the focus on boreholes is a result of the reputation trap. Water NGOs, as our model suggests, feel pressure to employ strategies that are attributable to the organization. While research and training, for example, may contribute to more durable solutions to water access problems, the externalities of such strategies are not directly attributable to NGOs. Instead, credit for durable impacts would be shared among NGOs, governments, community leaders, and local groups. This means such programs are less able to send signals to donors that the NGOs are using the donor's money as effectively as possible. Research and training projects provide less immediate, attributable benefits to the provision of clean water access.

Water NGOs, knowing that donors are concerned with the quality of the NGOs they fund, are aware of the need to pursue attributable policies that

¹⁵ The Water for People data is available at <http://watermapmonitordev.appspot.com/> (accessed January 14).

they can report to their donors. In interviews with NGO officers in Accra, Agyemang *et al.* (2009) documented the pressures felt by those carrying out these programs. One officer discussed the tension between producing attributable successes the donor wants to see and pursuing longer-term, more locally appropriate projects:

The accountability reports to the donors require the NGO to report on their use of their specified technology ... rather than report on the overall impact of the aid: 'For example if the solution to the water problem in a community is ... a small community pipe system, but the donor says I want to see x boreholes or x number of hand-dug wells, definitely such a community will lose out on that' (NGO 3, an officer at Accra head office) (Agyemang *et al.* 2009, 21).

For water NGOs, this discourages investment in durable options, opting instead to construct boreholes that temporarily improve water access and signal that they are able to produce outcomes desirable to the donors. Agyemang *et al.* (2009, 20–21) assert that part of this disconnect between donors and NGOs comes from donors' often limited knowledge about local conditions and how these local conditions will impact the efficacy of the programs. Thus, the desire to signal successes to donors by producing reports that clearly indicate the attributable progress made and the people helped by the NGO encourages programs that are not as effective in the long term as they could be.

While NGOs can, and certainly do, use their knowledge to maximize the efficacy of each borehole dug, energy spent surveying community members about their needs or testing groundwater reserves to identify ideal locations lengthens the process of implementing a borehole, reduces the total number built, and takes multiple funding cycles to demonstrate the long-term pay-off, and thus the value, of this approach. Thus, these improvements might make boreholes more durable, but the NGOs' impact is not as easy to illustrate to donors as total number built. In WVI reports, for example, 'borehole drilling "success rates" were emphasized. A borehole was judged a success if "wet" at the completion of drilling' (Cobbing and Davies 2004, 117). This very immediate definition of success signals to donors that World Vision is producing attributable outcomes on the ground. It fails, however, to address concerns about durability.

Metrics would have to change and donors would have to become more patient for NGOs to feel comfortable investing in more durable solutions. Agyemang *et al.* (2009, 20) cite interviews with field officers that express a widespread fear that donor funding could end at any time. This constant concern increases their focus on immediate, attributable results that they can report to donors in order to stay in their donors' good graces.

Calow *et al.* (1997) also write that NGOs place little emphasis on borehole alternatives because they encounter difficulties in quantifying the benefits or pinpointing verifiable (attributable) indicators of success with other activities. This makes it more difficult for NGOs to show donors how accountability constraints are trapping them in a cycle of short-term solutions. Moreover, donors have been pushing shorter funding periods and have shown 'a preference for dealing with immediately tangible problems which produce short-term results (e.g., borehole drilling programmes and the installation of handpumps)' (Calow *et al.* 1997, 255). Donors such as the Gates Foundation emphasize an 'outcome investing' approach to grant making in which donors and NGO's identify the results to be achieved and the data needed to measure those results.¹⁶ These donors are not ignorant, nor are they unaware of the limitations of solutions like borehole drilling. However, they face real concerns about the quality of their investment and wanting to ensure their money is not being wasted or mismanaged. This generates real tension for the donors. Reports and performance reviews ensure progress and allow the donor to see how their money is being spent. These reports, however, inherently generate deadlines for the projects. Thus, the same report that increases donor trust in NGOs can also constrain the projects these NGOs undertake (Agyemang *et al.* 2009, 27).

These pressures will continue to lead organizations like World Vision to signal its quality by advertising that it constructed 809 new wells in 2011¹⁷ and celebrating its one-thousandth borehole built in Mali since 2003.¹⁸ Such organizations will continue to measure their success in terms of new boreholes dug instead of long-term effects on access.¹⁹ Water NGOs find themselves in the reputation trap; they desire to sustainably improve clean water access throughout the world, but the need of donors to see attributable results from NGOs pushes water NGOs to pursue non-durable, but attributable, outcomes.

Avoiding the reputation trap in crisis mediation: evidence from HDC

The HDC is a humanitarian-focused NGO that began its operations in August of 1999. Headquartered in Geneva, Switzerland, HDC works

¹⁶ <http://www.gatesfoundation.org/How-We-Work> (accessed April 16).

¹⁷ <http://www.wvi.org/water-sanitation-hygiene/water-facts> (accessed April 13).

¹⁸ <http://www.worldvision.org/news-stories-videos/1000-clean-water-wells-mali> (accessed April 13).

¹⁹ It should be noted that these boreholes were all built after widespread publicity of the limitations of boreholes. Several of the studies cited above, for example, are published in 1997 or earlier, indicating that the failures of boreholes were known and yet NGOs continue to advertise and celebrate their use.

across the globe to achieve the following goals: ‘to develop and strengthen a universal, intercultural and multidisciplinary dialog in which all players concerned by humanitarian issues can exchange their experiences; and to devise and promote sustainable solutions to humanitarian problems’ (Barakat *et al.* 2002, 6). Under the broad goal of finding solutions to humanitarian problems, HDC is involved in international crisis mediation. The organization has also proven susceptible to the reputational dynamics created by the donor–NGO relationship. In particular, HDC intentionally selects the crises in which it gets involved as well as the strategies used to manage those crises, seeking to maximize both its impact and its attributability. HDC demonstrates, however, that not all NGOs fall victim to the reputation trap; while HDC’s selection of Aceh was driven by a need to establish and strengthen its reputation, the organization’s facilitation of two agreements in Aceh proved to be in line with its longer-term goals of conflict resolution.

From its inception, HDC found itself conscious of reputational pressures. Put frankly, HDC needed to establish a reputation that proved its quality to donors in order to secure funding so that it could continue to pursue its humanitarian goals. In 1999, HDC selected its first conflict in which to intervene as a mediator. In line with our model, reputation drove HDC’s decision to mediate the Aceh conflict in Indonesia. Originally, HDC planned to focus its efforts on the conflict in East Timor, however, ‘the density of aid agencies already present in East Timor following its independence led the HDC to seek a different venue’ (Leary 2004, 315). If HDC mediated in East Timor, any successes would not have been attributable to HDC specifically, given the crowd of mediators already present. Moreover, the war in Aceh was a salient and challenging conflict to mediate; if this particular conflict could be successfully mediated, then the reputational results for HDC would be great. HDC, in order to establish its reputation as a quality (and thus funding-worthy) NGO, needed to set its focus on outcomes that would be attributable to the organization and that would capture the attention of donors. Aceh served as a perfect opportunity to build this reputation. As the only mediator present at the time, all mediation successes would thus be attributable to the efforts of the organization.²⁰

The Indonesian region of Aceh experienced intermittent conflict since the middle of the twentieth century. Social cleavages led to a major rebellion between 1953 and 1962 known as Darul Islam; the rebellion sought

²⁰ The Aceh conflict was later mediated by CMI, an organization which facilitated an end to the conflict. According to the Civil Wars Mediation data set (DeRouen *et al.* 2011) and UCDP’s Peace Agreement Dataset (Harbom *et al.* 2006), HDC was the only mediator present from 1999 to 2002. Norway intervened later in the conflict.

Acehnese regional autonomy over education, religion, and traditional laws. Although the central government granted autonomous status to the region in 1959, autonomy did not become a reality in practice. Thus, in 1976, the Free Aceh Movement (GAM) rose to prominence and declared Acehnese independence (Huber 2004). After being brutally repressed by the Indonesian military, GAM fled abroad to regain strength, returning to Indonesia in the late-1980s to re-launch their insurrection. Violence continued throughout the region and intensified in 1998. By 2000, the Acehnese conflict had attracted the attention of HDC (Huber 2004).

Because of the complexities of the conflict in Aceh, HDC faced a challenging first-stab at mediation. As aforementioned, however, HDC hoped its solo efforts in Aceh would bring attribution to the organization, establish and strengthen its reputation as a quality NGO, and therefore garner support from donors. Upon entering Aceh in early 2000, HDC was able to achieve two immediate and attributable successes. First, HDC negotiated a 'humanitarian pause' in May of 2000 that held sporadically until January of 2001. Then, in December of 2002, HDC facilitated what was considered a major breakthrough for the Acehnese conflict, the Cessation of Hostilities Agreement (COHA) (Huber 2004). Both of these outcomes served as immediate signals of success that were attributable to HDC; the humanitarian pause and COHA strengthened the reputation of HDC as a quality NGO able to produce positive policy impacts.

Notably, mediators make decisions about what types of agreements to pursue as well as how to pursue those agreements. These decisions are often constrained by the conflict environment and the interests or priorities of the disputants (much like water NGOs are constrained by local conditions, groundwater availability, etc.). The first agreement HDC negotiated was a ceasefire. Ceasefires are short-term solutions to civil wars that can produce positive impacts by decreasing violence and improving security in the area. They do not, however, resolve underlying grievances or generate long-term protocols for navigating a more complete transition to peace. Ceasefires are known to be relatively short-lived agreements (Gartner and Bercovitch 2006). The humanitarian pause was no different. While it produced a noticeable decline in violence, it was also plagued by continued clashes between GAM and the government with violence escalating seriously in late August (Aspinall and Crouch 2003).

While ceasefires can be positive progress in civil war resolution, reputational pressures were evident when HDC decided to pursue the ceasefire. HDC intentionally decided to focus on producing a humanitarian pause over other possible types of diplomatic intervention because of their concerns about donor interest and attributability. Citing interviews and personal correspondence with HDC officials, Huber (2004, 41) asserts that

two potential strategies for involvement were considered by HDC: strengthening civil society and direct mediation. While possible to pursue both strategies, HDC decided to focus on the humanitarian pause as pursuing both would strain its limited resources. As Huber (2004, 21) notes, 'This approach was also thought of as "sexier"—more likely to attract media and donor interest if successful.' The choice to invest in direct talks to generate a humanitarian pause over other strategies of intervention was influenced by concerns about donor perception and HDC's interest in securing donor attention and funding.

Despite the limited goals of the humanitarian pause in the short-term, HDC did not fall into a reputation trap. While producing this agreement quickly was important to securing continued support and developing HDC's reputation, the agreement was also a step toward HDC's long-term goals. The humanitarian pause served as a stepping-stone toward a more comprehensive agreement, the COHA. COHA was hailed as a major breakthrough, incorporating provisions for demilitarization, all-inclusive dialogs regarding autonomy, and provincial elections in Aceh (Huber 2004, vii).²¹ Although the agreement ultimately failed, it again provided important progress toward durable conflict resolution. Therefore, not only were the two agreements attributable to HDC and a signal of HDC's ability to achieve successful outcomes, but they were also compatible with the longer-term goals of conflict resolution in Aceh.

Evidence from donor behavior in the HDC case also supports the claim that donors were concerned with the NGO's reputation. HDC, aware of its need to establish a reputation, selected a case where its actions would be attributable because the conflict was receiving little attention from other mediators. In addition, HDC decided to pursue a ceasefire over other possible intervention strategies because it believed a ceasefire would attract more donor attention. HDC advertised its immediate successes in Aceh to signal to donors that it was indeed a high-quality NGO capable of brokering ceasefires and agreements, even in the very challenging cases. The humanitarian pause, for example, was an initial success because it signaled that HDC had been able to organize face-to-face dialog between belligerent groups and generate cooperation, however fleeting. Donors, viewing the ceasefire as a tangible form of success, credited HDC as a competent

²¹ It should be noted that not all ceasefires produce more comprehensive agreements. While ceasefires can be in line with the long-term objective of generating a stable peace, they need not be. Scholars of conflict resolution are often concerned about the effect of ceasefires reached before the belligerents are serious about reaching peace. While the effect of a premature ceasefire is difficult to identify, the short-lived nature of so many ceasefires indicates that perhaps not all ceasefires are signed by sincere parties interested in pursuing more comprehensive negotiations.

mediator that was worthy of continued funding.²² COHA also represented a positive and attributable result that bolstered HDC's reputation as a high-quality mediator. HDC's funding from donors has risen every year with few exceptions, showing recognition of the NGO's high quality.

A brief examination of Norway as HDC's principal donor provides insights into the dynamics of donors' decision making and their response to attributable outcomes from NGOs. As HDC was a nascent organization when it first started mediating the Acehese conflict, the organization had to establish a reputation in order to secure continued funding. Norway offered limited funding to HDC beginning in 1999, primarily because of personal rapport between HDC's director and Norway's deputy foreign minister. Following the humanitarian pause in 2000, the first success attributable to HDC, Norway began to provide additional funding for the NGO. By 2002, as HDC was on the cusp of their breakthrough with COHA, Norway became the preeminent donor for HDC (Huber 2004, 21). When Norway was uncertain about the quality of HDC, the country gave only limited funding because it was cautious to dedicate too much to an unknown organization. As HDC established its reputation as a capable and high-quality NGO through its attributable successes in Aceh, Norway's hesitance disappeared. This highlights the concern donors have about protecting the quality of their investments and how developing a reputation as a quality NGO can decrease donor concerns and build trust.

The case of HDC's mediation efforts in Aceh illustrates the pressures created by the donor-NGO relationship. Donors require attributability from NGOs in order to gain knowledge of the NGOs' type. When uncertain about the quality of the NGO, donors are hesitant and unwilling to fund NGOs. NGOs, knowing this, choose to pursue actions that will be both immediate and attributable in order to signal their type to donors. Along these lines, HDC was strongly influenced by the need to develop a reputation for being a high-quality organization. HDC selected into the Acehese case specifically because of reputational dynamics, as it knew it had to choose a location in which its actions would be attributable. HDC's actions in Aceh, however, did not produce a reputation trap. The immediate actions taken by HDC supported the long-term goal of conflict resolution. When juxtaposed to boreholes which are known to have minimal impacts on long-term water access, ceasefires can sow the seeds of peace and are thus compatible with long-term goals shared by both donors and NGOs. HDC, in taking steps toward a lasting peace, established its reputation as a

²² HDC's Annual Report from 2001 indicates that donors reacted positively to the 'successful' signal created by the humanitarian pause. Funding jumped from CHF 4,624,300 in 2000 to CHF 5,756,000 in 2001.

high-quality NGO through its attributable actions in Aceh. The organization used its reputation to gain continued support from donors and to pursue subsequent mediation efforts in additional crises, such as Nepal and Burma (HDC 2012).

Conclusion

The policy implications that emerge from our discussion are at once frustrating and promising. One interesting implication is the rational explanation of what may appear to be wasteful or short-sighted behavior on the part of NGOs. These organizations are routinely criticized for working on what appear to be small, temporary, and perhaps even counterproductive accomplishments. These behaviors, however, may simply be an effort by NGOs to communicate meaningful signals of quality to their donors. The harder donors push for accountability in order to evaluate competence, the more pressure NGOs feel to prioritize observable progress even if it is at the expense of the long-term mission.

Notably, the reputation mechanism identified here does not define *all* donor–NGO relationships. Our argument merely indicates that the creation of such an incentive structure is possible in situations where donors are uncertain about the quality and behavior of NGOs. In situations where donors do not face such information asymmetries, or attribution and durability overlap, the trap can be avoided or mitigated. For example, in some mature NGOs, there may be a negligible chance that a shake-up will lead to a change in its quality. In addition, some donors and NGOs may be able to develop different institutional structures to resolve informational asymmetries that do not rely upon a reputation mechanism. Alternatively, some NGOs may be able to reduce their dependence on donor support, allowing them to focus on downward accountability to beneficiaries rather than upward accountability to donors. In fact, some NGOs such as the Bangladesh Rural Advancement Committee (BRAC) have developed businesses that align with their organizational objectives while also generating revenues that can be used to fund their development projects (Viravaidya and Hayssen 2001). While initially completely reliant on donor funding, today only 27% of BRAC's finances come from external sources. The remaining resources are 'financed internally by BRAC from the surplus of its enterprises and the dividend from its investments.'²³ This reduces the organization's reliance upon donors, giving the organization more flexibility to pursue whichever projects the organization believes will best produce positive, durable outcomes.

²³ <http://enterprises.brac.net> (accessed April 15).

Overcoming this trap cannot be accomplished strictly through improvements in transparency and accountability (the two most common calls for NGO reform), but it would be a mistake to conclude that this structural problem cannot be solved. One possible solution could be to try to convince donors that the NGO's quality is established and impervious to change. Reputation stability, if possible, would relieve the NGO's need to re-demonstrate its quality to donors. This condition may be most likely achieved by changing the duration of funding agreements. Longer funding cycles give NGOs more time to accomplish their goals without focusing on survival. Just as a US senator has more freedom to take political risks and focus on long-term problems than her counterparts in the House of Representatives, NGOs with a multi-year funding guarantee have more leeway than those who face yearly renewals. Such a solution, of course, introduces potential accountability problems, but this tradeoff needs to become a part of the policy discussion. Finally, a myopic focus is not always incompatible with the long-term policy goals of NGOs and donors. To the extent that donors can tailor reporting requests such that within cycle behavior is consistent with long-term goals, both donors and NGOs can work together to mitigate the constraints of the reputation trap.

Acknowledgments

The authors would like to thank Scott Hiers and Will Walker for helpful research assistance. Colleagues at UNC and Duke and attendees at the 2012 University of Illinois Political Science Alumni Conference, the Lee/Bankard Seminar in Global Politics at the University of Virginia, and the Bose Speaker Series at the University of Iowa provided valuable feedback on earlier drafts. Elizabeth Menninga would like to thank the Royster Society of Fellows, and Lindsay Reid would like to thank the Thomas M. Uhlman Graduate Fund for financial support while working on this project.

References

- Agyemang, Gloria, Mariama Awumbila, Jeffrey Unerman, and Brendan O'Dwyer. 2009. *NGO Accountability and Aid Delivery*. London: The Association of Chartered Certified Accountants.
- Aspinall, Edward, and Harold Crouch. 2003. *The Aceh Peace Process: Why it Failed*. Washington, DC: East-West Center.
- Barakat, Sultan, David Connolly, and Judith Large. 2002. "Winning and Losing in Aceh: Five Key Dilemmas in Third-Party Intervention." *Civil Wars* 5(4):1–29.
- Barnett, Michael N., and Martha Finnemore. 1999. "The Politics, Power, and Pathologies of International Organizations." *International Organization* 53(4):699–732.
- Bob, Clifford. 2005. *The Marketing of Rebellion: Insurgents, Media, and International Activism*. New York: Cambridge University Press.

- . 2010. "The Market for Human Rights." In *Advocacy Organizations and Collective Action*, edited by Aseem Prakash, and Mary Kay Gugerty, 133–54. Cambridge: Cambridge University Press.
- Boulding, Carew. 2009. "Accountability in Foreign Aid Delivery: Links between Donors and NGOs." Presented at the Annual Meeting of the American Political Science Association, Toronto.
- Bush, Sarah. 2015. *The Taming of Democracy Assistance: Why Democracy Promotion Does Not Confront Dictators*. Cambridge: Cambridge University Press.
- Büthe, Tim, Solomon Major, and André De Mello e Souza. 2012. "The Politics of Private Foreign Aid: Humanitarian Principles, Economic Development Objectives, and Organizational Interests in NGO Private Aid Allocation." *International Organization* 66(4):571–607.
- Calow, R.C., N.S. Robins, A.M. MacDonald, D.M.J. MacDonald, B.R. Gibbs, W.R.G. Orpen, P. Mtembezeka, A.J. Andrews, and S.O. Appiah. 1997. "Groundwater Management in Drought-Prone Areas of Africa." *Journal of Water Resources Development* 13(2): 241–62.
- Carter, Richard C., Sean F. Tyrrel, and Peter Howsam. 1999. "Impact and Sustainability of Community Water Supply and Sanitation Programmes in Developing Countries." *Journal of the Chartered Institution of Water and Environmental Management* 13(4):292–96.
- Cha, Ariana Eunjung. 2014. "Cari Tuna and Dustin Moskovitz: Young Silicon Valley Billionaires Pioneer New Approach to Philanthropy." *Washington Post*, December 26.
- Clasen, Thomas F., and Andrew Bastable. 2003. "Faecal Contamination of Drinking Water During Collection and Household Storage: The Need to Extend Protection to the Point of Use." *Journal of Water and Health* 1(3):109–15.
- Cobbing, A.J.E., and J. Davies. 2004. "Understanding Problems of Low Recharge and Low Yield in Boreholes: An Example from Ghana." In *Water Resources of Arid Areas*, edited by D. Stephenson, E.M. Shemang, and T.R. Chaoka, 109–21. London: Taylor & Francis.
- Cooley, Alexander, and James Ron. 2002. "The NGO Scramble: Organizational Insecurity and the Political Economy of Transnational Action." *International Security* 27(1):5–39.
- DeRouen, Karl, Jacob Bercovitch, and Paulina Pospieszna. 2011. "Introducing the Civil Wars Mediation (CWM) dataset." *Journal of Peace Research* 48(5):663–72.
- DWD. 2002. *Issue Paper 1: Overview of the Water Sector, Reform, SWAP and Financial Issues*. The Republic of Uganda: Directorate of Water Development, Ministry of Water, Lands and Environment.
- Easterly, William. 2014. "The Aid Debate is Over: The Failure of Jeffrey Sachs' Millenium Villages." *Reason* 45(8):66–7.
- Ebrahim, Alnoor. 2002. "Information Struggles: The Role of Information in the Reproduction of NGO-Funder Relationships." *Nonprofit and Voluntary Sector Quarterly* 31(1):84–114.
- . 2003. "Accountability in Practice: Mechanisms for NGOs." *World Development* 31(5):813–29.
- . 2005. "Accountability Myopia: Losing Sight of Organizational Learning." *Nonprofit and Voluntary Sector Quarterly* 34(1):56–87.
- Finnemore, Martha, and Katherine Sikkink. 1998. "International Norm Dynamics and Political Change." *International Organization* 52(4):887–917.
- Foster, S.S.D., A. Tuinhof, and H. Garduño. 2008. "Groundwater in Sub-Saharan Africa – A Strategic Overview of Developmental Issues." In *Applied Groundwater Studies in Africa: IAH Selected Papers on Hydrogeology*, edited by Segun Adelana, and Alan MacDonald, 9–21. London: Taylor & Francis.
- Fudenberg, Drew, and David K. Levine. 1992. "Maintaining a Reputation when Strategies are Imperfectly Observed." *Review of Economic Studies* 59(3):561–79.

- Gartner, Scott Sigmund, and Jacob Bercovitch. 2006. "Overcoming Obstacles to Peace: The Contribution of Mediation to Short-Lived Conflict Settlements." *International Studies Quarterly* 50(4):819–40.
- Gleitsmann, Brett A., Margaret M. Kroma, and Tammo Steenhuis. 2007. "Analysis of a Rural Water Supply Project in Three Communities in Mali: Participation and Sustainability." *Natural Resources Forum* 31(2):142–50.
- Grant, Ruth, and Robert Keohane. 2005. "Accountability and Abuses of Power in World Politics." *American Political Science Review* 99(1):29–43.
- Gugerty, Mary Kay. 2009. "Signaling Virtue: Voluntary Accountability Programs among Nonprofit Organizations." *Policy Sciences* 42(3):243–73.
- Gundry, James A., James A. Wright, Ronan Conroy, Martella Du Preez, Bettina Genhe, Sibonginkosi Moyo, Charles Mutisi, Jerikias Ndamba, and Natasha Potgieter. 2006. "Contamination of Drinking Water Between Source and Point-of-Use in Rural Households of South Africa and Zimbabwe: Implications for Monitoring the Millenium Development Goal for Water." *Water Practice & Technology* 1(2):1–9.
- Gutner, Tamar, and Alexander Thompson. 2010. "The Politics of IO Performance: A Framework." *Review of International Organizations* 5(3):227–48.
- Harbom, Lotta, Stina Högbladb, and Peter Wallensteen. 2006. "Armed Conflict and Peace Agreements." *Journal of Peace Research* 43(5):617–31.
- Harvey, Peter A. 2004. "Borehole Sustainability in Rural Africa: An Analysis of Routine Field Data." Proceedings of the 30th WEDC Conference, Vientiane, Lao PDR, 339–346.
- Harvey, Peter, and Bob Reed. 2004. *Rural Water Supply in Africa: Building Blocks for Hand-pump Sustainability*. Loughborough, UK: Water Engineering and Development Centre.
- Hawkins, Darren G., and Wade Jacoby. 2006. "How Agents Matter." In *Delegation and Agency in International Organizations*, edited by Darren G. Hawkins, David A. Lake, Daniel L. Nielson, and Michael J. Tierney, 199–228. Cambridge: Cambridge University Press.
- Hazelton, Derek G. 2000. "The Development of Community Water Supply Systems using Deep and Shallow Well Handpumps." WRC Report No. TT132/00, Water Research Centre, South Africa.
- HDC. 2012. "Annual Report 2011." Accessed April 17, http://www.hdcentre.org/uploads/tx_news/16AnnualReport2011.pdf.
- Howard, Guy, Claus Bogh, Greg Goldstein, Joy Morgan, Annette Pruss, Rod Shaw, and Joanna Teuton. 2002. *Healthy Villages: A Guide for Communities and Community Health Workers*. Geneva: World Health Organization.
- Huber, Konrad. 2004. *The HDC in Aceh: Promises and Pitfalls of NGO Mediation and Implementation*. Washington, DC: East-West Center.
- Johnson, Erica, and Aseem Prakash. 2007. "NGO Research Program: A Collective Action Perspective." *Policy Sciences* 40(3):221–40.
- Jordan, Lisa. 2005. "Mechanisms for NGO Accountability." GPPi Research Paper Series No. 3, Global Public Policy Institute, Berlin.
- Keck, Margaret E., and Katherine Sikkink. 1998. *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca, NY: Cornell University Press.
- Kelley, Judith. 2009. "D-Minus Elections: The Politics and Norms of International Election Observation." *International Organization* 63(4):765–87.
- Leary, Kimberlyn. 2004. "Critical Moments as Relational Moments: The Centre for Humanitarian Dialogue and the Conflict in Aceh, Indonesia." *Negotiation Journal* 20(2):311–38.
- MacDonald, Alan M., Roger C. Calow, David M.J. Macdonald, W. George Darling, and Brighid É.Ó. Dochartaigh. 2009. "What Impact Will Climate Change Have on Rural Ground-water Supplies in Africa?" *Hydrological Sciences Journal* 54(4):690–703.

- Mailath, George J., and Larry Samuelson. 1998. "Your Reputation is Who You're Not, Not Who You'd Like to Be." CARESS Working Paper No. 98-11, Philadelphia, University of Pennsylvania.
- . 2001. "Who Wants a Good Reputation?" *Review of Economic Studies* 68(2):415–41.
- Mihr, Anja, and Hans Peter Schmitz. 2007. "Human Rights Education (HRE) and Transnational Activism." *Human Rights Quarterly* 29(4):973–93.
- Murdie, Amanda. 2014. *Help Or Harm: The Human Security Effects of International NGOs*. Stanford: Stanford University Press.
- Murdie, Amanda, and Tavishi Bhasin. 2011. "Aiding and Abetting: Human Rights INGOs and Domestic Protest." *Journal of Conflict Resolution* 55(2):163–91.
- Reinhardt, Gina Yannitell. 2009. "Matching Donors and Nonprofits: The Importance of Signaling in Funding Awards." *Journal of Theoretical Politics* 21(3):283–309.
- Ron, James, Howard Ramos, and Kathleen Rodgers. 2005. "Transnational Information Politics: NGO Human Rights Reporting, 1986–2000." *International Studies Quarterly* 49(3):557–87.
- Rubenstein, Jennifer. 2007. "Accountability in an Unequal World." *Journal of Politics* 69(3):616–32.
- Sell, Susan K., and Aseem Prakash. 2004. "Using Ideas Strategically: The Contest Between Business and NGO Networks in Intellectual Property Rights." *International Studies Quarterly* 48(1):143–75.
- Trevett, Andrew Francis, Richard C. Carter, and Sean F. Tyrrel. 2005. "The Importance of Domestic Water Quality Management in the Context of Faecal-Oral Disease Transmission." *Journal of Water and Health* 3(3):221–28.
- UNICEF. 2014. "Water, Sanitation and Hygiene Annual Report 2013." Accessed April 17, http://www.unicef.org/wash/files/WASH_Annual_Report_Final_7_2_Low_Res.pdf.
- UNICEF and the World Health Organization. 2012. "Progress on Drinking Water Sanitation: 2012 Update." Accessed April 17, http://www.who.int/water_sanitation_health/publications/2012/jmp_report/en/.
- Viravaidya, Mechai, and Jonathan Hayssen. 2001. "Strategies to Strengthen NGO Capacity in Resource Mobilization through Business Activities." PDA and UNAIDS Joint Publication. Accessed July 27, http://data.unaids.org.libproxy.lib.unc.edu/publications/irc-pub06/jc579-strategies_ngo_en.pdf.
- Wenar, Leif. 2006. "Accountability in International Development Aid." *Ethics and International Affairs* 20(1):1–23.
- World Vision International. 2012. "Water, Sanitation, and Hygiene (WASH) World Vision Fact Sheet." Accessed April 17, <http://www.wvi.org/water-sanitation-hygiene/publication/world-vision-wash-programs>.
- Wright, James A., Stephen W. Gundry, and Ronan Conroy. 2004. "Household Drinking Water in Developing Countries: A Systematic Review of Microbiological Contamination Between Source and Point-of-Use." *Tropical Medicine and International Health* 9(1):106–17.

Appendix

Proof.

Proof of Proposition 1: Assume that $\lambda > 0$ and $f/\pi > \hat{\mu}$. Consider the case where the high-quality NGO always chooses high effort. In a Markov

perfect equilibrium, strategies are only dependent upon payoff-relevant histories, so they will be a function of the donor's belief about the NGO's quality (μ). The donor will prefer to fund if $P(\mu) = \mu\pi \geq f$. Thus, the donor will fund in a given period if $\mu \geq f/\pi \equiv \mu^*$ and not fund otherwise. In any period in which the donor's belief is $< \mu^*$, the NGO will not be funded and will cease to exist. Since $f/\pi > \hat{\mu}$, there exist potential beliefs at which the donor would fund after a successful outcome and not fund after an unsuccessful outcome. Let k_j be a state in which after j consecutive unsuccessful outcomes, the donor will not fund the NGO, and let K_j be the set of all k_j for a given j . (e.g., if the current state is k_1 , then $\mu \geq \mu^*$ and $\mu_u < \mu^*$.) Let k_5 be a state in which there was a successful outcome in the previous period. Then, $\{K_0, K_1, K_2, \dots, K_5\}$ is a partition of the true state space, the interval of possible values of μ : $[\hat{\mu}, 1 - \lambda(1 - \theta)]$. Given the donor's strategy, a Markov strategy for the NGO can be defined as a function $\sigma: \{k_0, k_1, k_2, \dots, k_5\} \rightarrow [0, 1]$.

Consider k_0 . Given the high-quality NGO's strategy, the continuation values are:

$$V_H(k_1) = -e + \delta[1 - \lambda(1 - \theta)]\pi V_H(k_s) + \delta\lambda(1 - \theta)\pi V_L(k_s), \tag{3}$$

$$V_L(k_1) = 0. \tag{4}$$

For k_1 , the continuation values are:

$$V_H(k_1) = f - e + \delta[1 - \lambda(1 - \theta)]\pi V_H(k_s) + \delta\lambda(1 - \theta)\pi V_L(k_s), \tag{5}$$

$$V_L(k_1) = f. \tag{6}$$

For $j > 1$, the continuation values are:

$$V_H(k_j) = f - e + \delta[1 - \lambda(1 - \theta)][\pi V_H(k_s) + (1 - \pi)V_H(k_{j-1})] + \delta\lambda(1 - \theta)[\pi V_L(k_s) + (1 - \pi)V_L(k_{j-1})], \tag{7}$$

$$V_L(k_j) = f + \delta(1 - \lambda\theta)V_L(k_{j-1}) + \delta\lambda\theta V_H(k_{j-1}). \tag{8}$$

For $j > 1$, given k_j , NGOs will receive funding with certainty in the next period regardless of the policy outcome. Thus, $V_\tau(k_j) > V_\tau(k_1)$ for $j > 1$ and $\tau \in \{H, L\}$. Since $V_\tau(k_2) > V_\tau(k_1)$, it follows that $V_\tau(k_3) > V_\tau(k_2)$. By this same logic, one can show that $V_\tau(k_j) > V_\tau(k_{j-1})$ for $j \leq s$.

Now consider the high-quality NGO's strategy. For k_0 and k_1 , its value for deviating in a given period and choosing low effort is $V_H(k_0|L) = 0$ and $V_H(k_1|L) = f$, respectively. Thus, in both cases, the high-quality NGO will choose high effort if $V_H(k_j) \geq V_H(k_j|L)$, or

$$e \leq \delta[1 - \lambda(1 - \theta)]\pi V_H(k_s) + \delta\lambda(1 - \theta)\pi V_L(k_s). \tag{9}$$

For $j > 1$,

$$V_H(k_j) = f + \delta[1 - \lambda(1 - \theta)]V_H(k_{j-1}) + \delta\lambda(1 - \theta)V_L(k_{j-1}). \tag{10}$$

Thus, the high-quality NGO will choose high effort if

$$e \leq \delta[1-\lambda(1-\theta)]\pi[V_H(k_s)-V_H(k_{j-1})] + \delta\lambda(1-\theta)\pi[V_L(k_s)-V_L(k_{j-1})]. \quad (11)$$

Since $V_\tau(k_j) > V_\tau(k_{j-1})$ for $j \leq s$ and $\tau \in \{H, L\}$, the right hand side of (11) is always positive and decreasing in j . Thus, if the high-quality NGO will prefer to choose high effort in k_s , it will choose high effort in all other states. Thus, the high-quality NGO will choose high effort if $e \leq e^*$, where

$$e^* = \delta[1-\lambda(1-\theta)]\pi[V_H(k_s)-V_H(k_{s-1})] + \delta\lambda(1-\theta)\pi[V_L(k_s)-V_L(k_{s-1})] > 0. \quad (12)$$