Faith & Economics—Number 47/48—Spring/Fall 2006—Pages 1–24.

Agency and Incentives in International Development Partnerships

Jeremy Thornton
Assistant Professor of Economics, Samford University

Phil Thornton
Professor of Anthropology, Asbury College

Abstract: *This paper examines the issue of international development partnerships among NGOs in the context of a principle-agent framework. Specifically, we characterize the ability of shared religious values in development partnerships to mitigate agency problems. These advantages are weighed against practitioner reluctance to engage religious organizations in the development process or to fully utilize economic incentives. The paper is supported by survey responses from Christian ministry organizations involved in international partnerships. JEL Codes: O1, D8, D2.*

"All social organizations are in one way or another shaped by the set of social incentives that bring them into existence and sustain them over time. NGOs, whether based in the global north or south, are no different" (1999). Raymond C. Offenheiser, President, Oxfam America

Partnerships between North American non-governmental organizations (NNGOs) and indigenous non-governmental organizations based in the geographic South (SNGOs), have been a significant and growing trend in development practice since the 1970s (Brehm 2001). Christian organizations have mirrored this trend, finding a foundation for such action in a renewed theological emphasis on holistic ministry.[1] Similar to their secular counterparts, Christian development agencies in North America have sought out partnerships with like-minded institutions in the South. This action represents a noteworthy shift in the historical relationship between these entities.[2]

Partnerships bring both benefits and costs to their participants. They come in a dizzying variety of forms ranging from complete integration to arms-length transactions. Scholars, including Brinkerhoff (2002), have

Authors' Note: *We wish to thank Brian Fikkert and participants at the ACE session at the 2005 ASSA meeting for helpful comments. We offer special thanks to three anonymous referees and to the organizations and individuals who participated in the partnership survey. Jeremy Thornton is the contact author: Department of Economics, Samford University, Birmingham AL 35080 (jpthornt@samford.edu).*

cataloged the full spectrum of possible arrangements. Our purpose is more modest and twofold. This paper will offer an economic framework for thinking about the tradeoffs involved in choosing partnership forms. More important, the paper applies this economic framework to the specific case of Christian NGOs engaging in partnership agreements. To that end we comment on the potential role of religious affiliation in creating common objectives within institutional partnerships. While secular development organizations have examined the issue of partnership extensively, Christian development organizations have not given equal examination to partnership in their own, arguably unique, context. Our analysis is supported by a targeted survey conducted on a sample of Christian NNGOs that have participated in international partnerships. The survey explores their experiences in organizing, managing, and exiting international development partnerships.[3]

Considerable debate exists regarding the meaning and value of partnership.[4] To be consistent, we adopt a fairly utilitarian definition that will restrict its purview to those NNGOs which channel resources and technology to developing nations and monitor, on behalf of donors, the impact of those resources. That said, we are not advocating this role in a normative sense. Much of the current literature discourages financial transfers as a partnership activity (Brehm 2004). Practitioners and academics alike have questioned whether genuine partnership is viable in the presence of significant monetary transfers (Hoksbergen 2002). As a practical matter, though, financial transfers and monitoring characterize a sufficient portion of NNGO activity to warrant discussion. For good or evil, the demands of donors appear to be drifting toward contract and outcomes based measurement (Fowler 2000). In this context, partnership is defined as a mutually beneficial, voluntary, and formalized relationship between two entities sharing common objectives.

Consequently, NNGO and SNGO partnerships can be characterized as part of a longer chain of principle-agent relationships beginning with the preferences of the original donor and ending with the services rendered to beneficiaries. Approaching partnership from this angle ignores significant facets of many partnership arrangements, but it does allow for some analytical traction.[5]

I. Rationale for Partnership

The trend toward partnerships indicates that there are significant benefits to organizations. Naturally these will vary substantially from one organization to another. For secular organizations, lower cost and increased effectiveness account for the bulk of these benefits. For Christian organizations there is likely an additional theological rationale for, and gain from, partnership.

Lower Costs

As the goal of international holistic ministry has taken shape, NNGOs have attempted a variety of channels for expansion. Historically, NNGOs have stationed staff overseas, a literal extension of their own organization (Winter 1981). This strategy offers several advantages. The NNGO has complete authority in regard to process, investments, and quality of the project. These factors are particularly important when investments are large or the reputation of the NNGO is highly valued. This strategy remains a primary ministry model for many international NNGOs. However, it is a relatively expensive approach.

An alternative strategy is to finance the existing activities of indigenous institutions or workers directly. There is a substantial population of Christian NNGOs that channel resources from donors to national ministries overseas. Ministry leaders in the field argue that they can support dozens of indigenous workers for the same cost as a single expatriate. Komendant (1996) describes a pool of willing and capable national workers awaiting financial support for mobilization. The extent of the overall trend is difficult to estimate, but roughly one-fifth of all international Christian NGOs listed in the *Mission Handbook* describe their primary mission as the direct support of indigenous workers and organizations (Welliver and Northcutt 2004). Yet this strategy bears its own risks. NNGOs place their own reputations in the hands of workers over whom they have little control.

Advocates of partnerships with indigenous ministries point first to cost advantages. The typical expatriate family sent overseas from the United States can cost $80,000 or more per year in support expenses (Paulson 2002). Local workers can typically be supported for a fraction of this cost. As an advocate for only sending money rather than personnel, Yohannan (1986) writes, “Today, it is outrageously extravagant to send North American missionaries overseas unless there are compelling reasons to do so. From a strictly financial standpoint, sending American missionaries overseas is one of the worst investments we can make…” Many Christian NGOs share at least some of Yohannan’s view.

Greater Impact

The primary rational for partnership most likely rests in the ability to leverage existing social networks to maximize the impact of programs. World Bank working papers indicate that high levels of social capital can facilitate the provision of development services in two distinct ways (Fafchamps and Minten 1998). First, social connections and emotional attachment may help facilitate public sector efficiency and the provision of public goods. Second, intimate knowledge of culture and historical patterns of behavior within a network can encourage low cost contracting among producers. In a modern market, payments and investments are negotiated under the umbrella of an effective regulatory system. In the absence of formalized property rights or a robust legal system, it is extremely difficult to conduct business outside of spot transactions. A complex web of trust and obligation based on kinship, community, or ethnicity can provide a workable proxy for a functioning legal structure. Social obligations, and the ability to socially punish deviant behavior, can prove to be an effective alternative for the enforcement of contracts (Morduch 1999).

When surveying agricultural traders in Madagascar, Fafchamps and Minten (1998) found that social connections with other traders played a dominant role in the long term viability of their businesses. In another broad and multi-country study, Knack and Keefer (1997) found that basic measures of trust and civic cooperation are strongly correlated with aggregate economic growth. The authors argue that some degree of trust is necessary for nearly every economic transaction. When trust is high, the cost of economic transactions is lowered. When trust is low, people engage in costly behaviors in order to protect themselves from fraud. As a consequence, trusting societies provide increased incentives for innovation and investment. The study concludes that interpersonal trust plays a significant role in economic development. This effect becomes more pronounced where substitutes, such as formalized institutions to enforce contracts, are weak.

These realities imply in many poor countries that, to be effective, economic development projects must be embedded in social networks. They rely on local knowledge and trust-based personal relationships. Therefore NNGOs—by definition, outsiders—must partner with SNGOs to have any chance of leveraging existing social institutions.

Theological Rational

The theological rational for partnership has been argued by numerous international voices. Pana Baba, president of the Evangelical Church of

West Africa, notes: “You know, partnership didn’t begin in the 20th century, nor the 19th century, nor the 18th century. It began in the first century, during the first launching of the cross-cultural global world mission. We know this because we have the documents, the Bible” (Rickett and Welliver 1997). Frampton Fox, lecturer at a Bible School in South Asia, states that partnership is first seen in the “divine partnership” where God the Father sends the Son and the Son sends the Holy Spirit, all with the mutual goal of a harvest (John 15). He goes on to add that, while God does not need man, He has chosen to “partner” with him to effect His goal of redemption and service in the world (2 Corinthians 6:1). Thus, the greatest scriptural precedent for formal partnership is God’s own model of how He has done ministry throughout biblical history (Fox 2001).

Some have argued that the strongest theological basis for partnership among Christian organizations is found in the “covenant” relationship first established between God and Abraham in Genesis 12:1–3, a cooperative covenant which was constantly renewed with subsequent generations (e.g., Isaac and Jacob in Gen. 26 and Moses in Exodus 3 and 19) (Fox 2001). Louis Bush, international director of the A.D. 2000 and Beyond movement, posits the theological foundation for partnership in the New Testament book of Philippians by focusing on the Greek (original language of the N.T.) word *koinonia*, meaning fellowship. He argues that this concept refers to the sharing together of tangible and intangible resources held in common by the church (Bush and Lutz 1990). Paul McKaughan, executive director of the Evangelical Foreign Missions Association, states that the ministry of Christians must always flow in the context of relationship, thus demonstrating to the world the church’s love for God (McKaughan 1994). Phil Butler, who has written widely on partnership, argues that God made human beings to dwell in relationship (2 Corinthians 5) (Butler 1994), while Van Engen, professor of theology at Fuller Theological Seminary, draws upon St. Paul’s thought in Ephesians 4 and 5 to establish his theological groundwork for partnership (Van Engen 2001). But perhaps Louis Bush summed it up best when he said: “Partnership is no longer an option. The Scriptures underscore the value of Christian partnership in advancing the gospel around the world. A changing world requires it. The Christian community increasingly demands it” (Bush n.d., 3).

Most international Christian ministry organizations would place effectiveness and low cost high among the benefits of partnership agreements. This was evidenced in some of the responses to our survey among Christian NNGOs. Yet, even with these advantages, practitioner writings have demonstrated a hesitance to adopt a strategic reliance on

SNGOs. North American directors have commented that it is difficult to predict or evaluate the effectiveness of indigenous workers, and that the population of SNGOs can contain "fortune hunters" seeking only the personal financial gain that often accompanies partnership agreements (Hedlund 1990). Apart from instances of blatant fraud, Christian NGOs recognize the potential for opportunistic behavior in partnership arrangements. Problems typically arise in selecting partners with goals consistent with that of the other partner. Even when a suitable partner can be found, keeping behavior within the confines of the original agreement is a continual struggle (Rickett and Welliver 1997). These issues are particularly salient when competence and effort are difficult to evaluate.

To help mitigate this problem, practitioners have recommended formal agreements that outline expectations on both sides (Rickett 2000). Whether their purpose is spiritual ministry or economic development, partnership arrangements typically require complex contracts (explicit or implicit) to negotiate financial transfers and monitor outcomes.[6] Economists have long recognized that writing production contracts in the presence of information asymmetries is a non-trivial task (Coase 1937). This is certainly the environment where most NGOs operate. We propose that the concept of agency offers some useful insights into the ongoing challenges of partnership.

II. Agency Problems in International Partnerships

In any partnership arrangement, there is a distinct sequence of stakeholders. Donors, with presumably altruistic preferences, have little expertise in selecting and monitoring viable programs overseas. Instead, donors offer funds to NNGOs which most closely match their own preferences. Donors have an implicit expectation that their donation will be used in pursuit of the stated objective of the NNGO and that reasonable efforts will be made to ensure that those donations are used efficiently. Acting as an agent for donors, NNGOs reallocate resources to various overseas organizations. Finally, these SNGOs transform resources into contextually appropriate goods or services.[7] At each stage in the process, a downstream actor has the potential for pursuing objectives other than those agreed upon by the upstream actor.

Our surveys indicate that the potential for fraudulent behavior, while rare, has precipitated an investment in a variety of evaluation mechanisms including written reports, site visits, or third party evaluations. Paradoxically, the advantages promoted by indigenous ministries (i.e., knowledge of local culture, language ability, strong social networks), also create significant hurdles to effective monitoring and accountability. Christian development practitioners have only recently begun to seriously question how these relationships should be organized. Many of the difficulties described by ministry organizations are not unique to their particular circumstances. On the contrary, similar problems are faced by any government or multilateral funding agencies which wish to finance development projects through indigenous SNGOs.

Consider partnership as a contractual relationship between a donor NNGO (the principle) and an indigenous organization (the agent). This contract may take the form of an explicit document or perhaps only an implicit agreement between the two parties. The contract outlines parameters for transfers from the NNGO in conjunction with subsequent performance expectations from the SNGO.[8] Specification of the contract brings about several problems from the perspective of the NNGO. It is generally understood that anytime that an agent acts on behalf of the principle, there is the possibility for the agent to pursue goals inconsistent with those in the contract. This problem is especially acute when effort and performance are particularly costly to monitor, or if outcomes contain a high degree of randomness (Salanie 2005).

In this context, the partnership agreement can be viewed as incomplete because important aspects of the contract are difficult to observe and are not verifiable by any independent authority. Agency problems in incomplete contracts typically come in two forms, adverse selection and moral hazard. In the following section we will discuss each of these two components prior to discussing the tools available to NGOs to deal with them.

Adverse Selection in Partnership

The potential for adverse selection arises when the agent has some private (or hidden) knowledge about an important characteristic material to the contract. In our case, an indigenous organization may have private information about its own ability to carry out a complex development project or the relevant costs involved. This information is both valuable and costly for the NNGO to obtain.

Consider a NNGO searching among several indigenous SNGOs to set up a small business training project. The NNGO recognizes the value of operating the service through a local group. Yet not every agent will likely be equally effective in carrying out the objectives, given available resources. It is difficult to evaluate the effectiveness of competing SNGOs prior to making substantial investments in the project. The relative efficiency of any indigenous organization can vary because of many factors. The strength and breadth of their social network, the capacity of leadership, or their individual productivity can all affect the ultimate outcome of the project. If the NNGO cannot easily detect these variations, then the indigenous organization may have an incentive to portray their abilities inaccurately. Furthermore, because partnerships typically imply additional resources available to the SNGO, potential partners have an incentive to represent their objectives as consistent with those of the NNGO, even when they are not. Indeed, it is not hard to conceive of situations where low quality SNGOs will be the ones most likely to seek funding partners. Because it is particularly difficult for NNGOs to evaluate capacity or effectiveness prior to significant investments, a classic selection problem develops.

It is reasonable to ask if using expatriate staff would be any improvement over international partnerships with regard to adverse selection. The answer may be, in part, that expatriates offer a credible signal that they are committed to the NNGO's cause. Workers choosing to move from relatively wealthy countries and engage in international ministry bear substantial personal costs for their decision. While salaries from NNGOs range widely, they are uniformly lower than other opportunities available in the donor country. This is particularly true for specialized workers such as engineers, educators, or business professionals who often give up well paying occupations to serve overseas.

Additional costs borne by these workers may include rustic living conditions and the effort of relocating family. In this sense, the choice to move overseas serves as a credible signal of their commitment to the NNGO's objective. The differential in wages and lifestyle between what the worker has given up and what they are likely to face in a developing country represents the value of the commitment to the NNGO's cause. Because of the voluntary sacrifice made by those workers, their commitment to the stated objective of the organization is rarely questioned.

In contrast, employment opportunities offered by NNGOs to overseas workers often represent some of the best jobs available. Wages, benefits, and working conditions frequently exceed other available options. Because employment with foreign NNGOs would be an optimal choice regardless of their ideological commitments, the choice of employment will contain little informational value regarding the personal objective of the worker. The indigenous worker may profess great commitment to the objectives of the NNGO, but the worker has no incentive to say otherwise. In this sense, the employment choice of the worker will not contain any credible signal that may predict their future commitment to the objectives of the NNGO.

Moral Hazard in Partnership

Moral hazard (hidden action) occurs when the SNGO takes some action inconsistent with the objectives of the contract that is neither observable nor verifiable to an independent authority. A common example arises when an NNGO agrees to financially support a program operated by an overseas partner. Financial transfers are typically highly fungible. The SNGO has an ongoing incentive to cross-subsidize other programs or apply resources toward their own consumption. Without comparable benchmarks, there is often little way for the NNGO to know (much less prove) management integrity by the SNGO.

In one example, an indigenous church organization was given funds and equipment to provide vocational training within a local community. Over time equipment use shifted from training to being offered as a reward for service to the church. Project managers had difficulty separating funds used for a micro-lending program from operating expenses of the church. At one point a valuable brick-making machine was being used as the church communion table. An argument, perhaps, could be made that the church was putting those assets to their highest valued use. Yet this does not relieve the NNGO of their responsibility to their donors who gave money explicitly for economic development.

In summary, contracts cannot be perfectly designed because the nature and actions of the SNGO cannot be effectively monitored or verified. Monitoring difficulties arise because of strong information asymmetries between the NNGO and the local entity. The factors which make partnership particularly beneficial (embedded social capital, wage differentials, geographic proximity) necessarily make any contract incomplete. Unfortunately for the NNGO, monitoring problems are costly to overcome. As NNGOs rely more heavily on social capital, a commensurate increase in monitoring efforts will be required to reliably observe performance. This is a persistent problem. The qualities that make partnership appealing (efficiency, effectiveness through social capital, immediate feedback) also make opportunistic behavior particularly difficult to detect. Opportunistic behaviors may occur *ex-ante*, as in the case of adverse selection, or *ex-post*, as in the case of hidden action.

Mitigating Agency Problems

Economists have developed a range of theoretical mechanisms to mitigate agency problems. However, applying these mechanisms in a practical manner remains difficult.

There are at least two solutions to the selection problem. The first depends on action by the NNGO to develop a menu of contracts with carefully conceived incentives to induce the SNGO to accurately reveal their type.[9] In the abstract, it is conceivable that a NNGO could offer increased financial rewards for more lofty performance requirements. However, we can find no instances in the literature where this option has been successfully applied. Contracts are typically too complex and information asymmetries too great for this strategy to be successful.

An alternative economic solution is for the SNGO to take the initiative to signal their objectives to the NNGO. That expatriate workers are able to do this has already been discussed. Additionally NNGOs themselves have developed mechanisms to signal donors as to their objectives and transparency. The Evangelical Council for Financial Accountability (ECFA) is a voluntary organization that certifies costly accounting and management procedures so that donors have reasonable expectations about financial transparency of the organizations which carry the ECFA seal.[10] The purpose of the organization is to provide a credible signal to potential donors about the financial reporting quality. Finding circumstances where SNGOs are able to generate credible signals to potential partners is more difficult. Potential signals include successful partnerships with other reputable NNGOs, or successful independent projects. Examining signals by SNGO and their impact on partnership relationships would be a fruitful avenue of future research.

The problem of moral hazard (hidden action) is likely to be the more serious issue facing NNGOs. It is also the one that has seen the most successful interventions. The classical approach to mitigating moral hazard is to link compensation of the worker to the product of their effort (Salanie, 2005). There are a few examples of this in the practitioner literature. Holtman (2001) mentions several large microfinance institutions that have experimented with financial incentive schemes to promote efficiency among their loan officers.[11]

By making formal linkages between a loan officer's compensation and objective measures of individual performance, Holtman reports that incentive schemes have resulted in productivity increases in the range of thirty percent to one hundred percent among lending agents. In a more systematic study, McKim (2004) analyzed how variation in incentive power impacted various productivity measures among microfinance institutions. He found that increasing the correlation between compensation and performance (i.e., strengthening the power of the incentive) resulted in significant performance increases. However, those increases were not uniform across lending institutions. But micro lending is a special case when constructing incentive schemes. The output of microfinance institutions is relatively easy to define and productivity is relatively easy to measure. These conditions make financial incentives a viable mechanism. The practical lesson to be drawn from these studies may be that contractual incentives matter, even in development. There are likely significant productivity enhancements unexploited across most types of development programs. They remain unexploited only because productivity is difficult to measure.

The greater concern is that Christian NNGOs, with a few exceptions, rarely consider productivity improvements or financial incentives a priority.[12] Our survey indicates that many organizations find the notion of financial incentives unworkable, counterproductive, or possibly offensive. There may be several reasons for this. Christian NNGOs engaged in partnerships typically have more diverse and complex objectives. Faith-based SNGOs pursue objectives that are both economic and non-economic in nature. For Christian institutions in particular, credit expansion may be combined with discipleship, business development with evangelism, and income generation with public service. Many of their objectives are not easily quantifiable, much less contractible, so tying financial incentives to them may not be feasible for the supporting NNGO.

Some of our survey results suggest that there are strong cultural norms against linking financial incentives to ministry. For example, one responder wrote that he "very much dislike[s] our American usage of business corporate terminology when discussing the Church." He added: "Evaluations are an offensive idea and basing support on 'performance' flies in the face of God." It is not immediately clear why this is the case, since there are straightforward Biblical examples of rewards for productive work, the strongest being the story of the parable of the talents in Matthew 25 (also see Proverbs 14:23; Ecclesiastes 9:10). Perhaps performance incentives appear to presume dishonesty within the relationship. Likewise, the use of financial incentives could be perceived as too "North American." A final possibility is that the use of financial incentives by Christian NGOs has simply never been considered. Ministry practitioners may have training and backgrounds where this tool was not commonly used. Whatever the reason, within partnership arrangements, it appears that carefully crafted financial incentives are underutilized tools among Christian NGOs.

The key issue in assessing agency problems is defining and then enforcing common objectives between contract participants. Economists have typically focused on extrinsic incentives, where the principle uses financial incentives to mitigate opportunistic behavior. However, the information asymmetries imbedded in typical partnerships limit the usefulness of those mechanisms. Indeed, given the obstacles to creating meaningful contracts, a more reasonable question may be why any successful partnerships exist at all. Financial incentives and monitoring systems do not appear capable of constraining opportunistic behavior. Fortunately, non-economic incentives may provide adequate constraints. Writing on behalf of development practitioners Brinkerhoff (2002) makes the distinction between financial incentives and internal motivations based on social norms. She notes that cultural mechanisms are a powerful and typically undervalued source of influence. Unlike economic incentives, however, determining which social norms will dominate the partnership is difficult *ex-ante*.

This may be a particular advantage for Christian NNGOs who typically develop partnerships with SNGOs of like religious commitment. Religious affiliation could provide valuable information about the embedded norms brought to the partnership. To the extent that commonly held religious and moral norms constrain opportunistic behavior, these values may help overcome some of the agency problems inherent in the funding relationship. These constraints are examined in more detail in the next section.

III. Religious Norms in Partnership

Unlike other social sciences, classical economic theory has typically limited its attention to extrinsic, rather than intrinsic, incentives. This is beginning to change. Kreps (1997) examines how classical economic incentives are often insufficient to explain commonly observed behaviors in the workplace. He notes anecdotal evidence that increased economic incentives can actually lead to decreases in effort by workers. In this context, he questions whether intrinsic non-economic motivations may serve as a substitute for classical extrinsic economic incentives. In this vein, we draw from anthropology and sociology to examine how identifying observable norms embedded in religious affiliation may help facilitate successful partnerships.

The theme of our analysis thus far has been that, to the extent that common objectives can be agreed upon and mutually enforced, partnerships will be more successful. The role that religion plays in influencing behavior has been a serious subject of study for most social sciences, but not economics. Sociologists, dating back to Emile Durkiem in the early 20th century, have proposed that a primary function of religion is to enforce common values and norms (Roberts 1984). In the context of international partnerships, norms may be defined broadly. If both organizations are explicitly Christian, then they share many common codified values relating to honesty, authority, and eternal purpose. Finer gradations of religious affiliation, such as Roman Catholic or Southern Baptist, may specify more precise norms on specific issues such as reproduction, education, or gender roles. Roberts (1984) offers two primary avenues by which religion influences social patterns: social identity and social conformity.[13]

Identity

Partnership based on common religious values provide clear membership identity and discernable distribution of social contacts through which to channel development programs. The objective of the project can be tailored to the specific needs/desires of the community to be served. This network of relationships within the community facilitates a ready-made infrastructure for assessing community demand for services. By maintaining a network of pre-established relationships, religious groups provide an existing system of authority and accountability which facilitates trust and lowers transaction costs within development projects.[14]

A common identity promotes trust that lowers the cost of creating and enforcing contracts. Breach of any explicit or implicit agreement risks exclusion from the group. At the same time, being a part of a network tends naturally to exclude outsiders. Such an "in crowd vs. out crowd" system will have both positive and negative effects on economic development. Positively, social identity serves a practical function by setting natural boundaries of mutual trust and association. Members can more easily identify the probability of opportunistic behavior within the network simply because they share common values and identity. Negatively, it is not unusual to find that when religious networks are used as the agent for dispensing services, those services are rationed to group members. Characteristics that make "in-crowd" monitoring less costly also make "out-crowd" servicing appear relatively unattractive. Experience has demonstrated that promoting microenterpise development projects outside of the local religious networks remains a significant challenge for partnership arrangements.

Social Coercion

A primary function of religion is to promote conformity and behavioral norms (Roberts 1984). Within a religious network, values and codes of behavior are explicitly defined. Internal controls rely upon deterrents such as fear of supernatural punishment, social ostracism from the group, or guilt for breaking rules of conduct. Even when it is difficult for the group to determine when opportunistic behavior is taking place, the individual "expects" to be punished (Haviland 1974). As a general rule, when people learn new norms (especially those learned within the framework of religion), they are, at the same time, internalizing the moral obligation to obey them. Thus, internal controls instilled in the indoctrination process shape and influence behavior even in the absence of explicit external restraints (Ferraro *et al*. 1994).

When internal controls are not wholly sufficient in a social context, even when implanted by religious belief, social networks develop more explicit social sanctions to promote conformity. These mechanisms may either be positive or negative in their reinforcement (Radcliffe-Brown 1952). Positive sanctions can be a highly formalized hierarchy of rewards such as ceremonies or social recognition. They may also include informal rewards such as hugs, pats on the back, or compliments passed in church services by the pastor. Negative sanctions may involve everything from gossip, scorn, and frowns from fellow church members to discipline (e.g., withholding the elements of communion) and potentially expulsion from the group (Haviland 1974; Mayers 1976).

Using social conformity to constrain behavior is not new among development workers. Group lending practices used by many micro lending programs rely on social pressure in lieu of physical collateral. The greater the degree of social cohesion, the more effective these types of practices become. To the extent that members fear sanction from their peers, or the supernatural, they will resist opportunities for pursuit of sub-goals even when the appropriate economic incentives cannot be applied (Crapo 1993). It is our experience that, if chosen wisely, the moral conformity present within religious institutions may provide a tangible layer of protection for financial transactions in the absence of enforceable economic incentives. Shared values combined with a strong pressure to conform allow for a degree of trust among partners not shared by secular counterparts.

Tradeoffs

Despite above mentioned advantages, there remains a persistent criticism among development practitioners who engage explicitly religious organizations in the task of economic development. Bryant Myers (1999) writes

> Too often Christian development professionals see the church as a distraction, or worse, an impediment to transformation. "They have separated themselves from the rest of the community." "They don't

> believe development is something the church should be doing." "The church is not professional enough; they don't know what they are doing." "The church has been validating the current political and economic system; they are part of the problem" (p. 126).

The primary critique of local church involvement in development is that it is inherently unwieldy and unfocused in it commitment to development. Indeed, religious networks are extraordinarily complex organizations, pursuing a myriad of disparate objectives. It is possible that the frustration with utilizing religiously affiliated SNGOs for development flows from a lack of appreciation for this complexity. If funding agencies can gain a better understanding of the underlying incentives guiding faith-based SNGOs (and churches in particular), then appropriate and beneficial relationships can more easily be forged. Balancing the positive aspects of religious constraints with the precarious nature of the economic incentives guiding behavior implies that great care needs to be taken in understanding the nature of religious institutions involved in development.

Perhaps the greatest single barrier to efficient partnerships is that most faith-based NGOs pursue a variety of objectives beyond development, including economic, social, and spiritual activities.[15] While economic development activities (i.e., microlending, agriculture, or infrastructure) may be reasonably quantifiable, spiritual development and ministry are more difficult to observe. The funding NNGO likely values each of these types of output, but not all are equally contractible. Holmstrom and Milgrom (1991) demonstrated that, in such cases, the principle risks diverting effort and resources to those activities which are most easily incentivized. If financial rewards are tied to economic development activities, then NGOs will likely focus their attention on those activities which reap the greatest financial reward. When there are a variety of objectives which are equally valued, but not equally contractible, weak or no financial incentives may balance competing objectives more effectively than high power ones. As such, formal incentives in partnership agreements represent a significant tradeoff. Carefully considered incentives can align objectives and promote healthier and long lasting relationships. Poorly considered incentives can distort the allocation of resources and poison the relationship. The solution is likely context specific.

IV. Closing Thoughts on Partnership

Organizations, just like individuals, are guided by incentives. Failing to confront those incentives makes them no less influential, only less understood. Christian theology and economic science have differing views on the motivation of human behavior, but reconciling those views has practical applications when managing complex organizations. It is likely that SNGOs which engage in partnership agreements with NNGOs will maintain an incentive to pursue a variety of sub-goals that differ from the objectives of their supporters. When strong information asymmetries exist regarding effort, performance, and outcomes, it becomes increasingly costly for the NNGO to fulfill its obligation to its donors to monitor efficient and effective use of funds.

In this paper we argue that religious NGOs have distinct advantages and disadvantages in international development partnerships. Christian NGOs share a common identity and values. Those common values help match organizations with similar objectives. In religious networks there are strong constraints on deviant actions, and those actions are more observable to the group. Church members will likely fear both social and supernatural sanctions against deviant acts. To date, these advantages have been masked by the unwieldy and diverse nature of faith-based NGO activities. Donors and Christian NGOs alike may have become frustrated with the Christian development because these underlying incentives have not been fully examined.

The theological call for Christians to be involved in holistic ministry is real. However, the practical implications for managing the resulting partnerships between Christian NNGOs and SNGOs remain a daunting intellectual challenge. The first stage, we believe, is acknowledging that incentives matter. This is a more difficult "sell" than one might first imagine. There is genuine resistance among many Christian practitioners to discussing economic incentives. In our view, because efficiency is indeed an important goal for Christian NGOs, considering incentives is essential. The second step is to carefully unpack these incentives piece by piece. Christian NGOs should recognize, at least to a certain extent, that lessons learned from the economic framework and from the secular marketplace might help inform their own management decisions. Once such lessons are recognized, organizations can create better partnership agreements that suit their common goals.

Endnotes

1 Renewed concern for social action was articulated most publicly in the *Lausanne Covenant* (1974), a declaration prepared by more than 2,300 representatives from the worldwide church. This same commitment was reiterated in the more recent *Manila Manifesto* (1989).

2 In 1991 a working consultation of church organizations meeting at the Billy Graham Center in Wheaton, IL birthed a whole new network of mission agencies under the umbrella of COSIM (Coalition on the Support of Indigenous Ministries) (Kraakevik and Welliver, n.d.). The growing concern of these and other like-minded church/mission organizations for "partnerships" is expressed in such professional publications as *Evangelical Missions Quarterly* (see July 2001 issue) and *Missiology* (see January 2001 issue).

3 For a complete description of the survey see Appendix A.

4 See Brehm (2001) for a sample typology of partnership.

5 The theoretical prescription for dealing with agency problems in for-profit institutions can be traced to Jensen and Meckling (1976) seminal work. Examining agency in a nonprofit context is more recent. However, Hansmann (1980) characterizes the nonprofit organizational form as a natural market response to certain extreme forms of information asymmetry.

6 Daniel Rickett has written several books and articles on the subject of organizing partnerships among Christian ministries. A common theme in his writing is the need for written agreements among participating organizations. For more discussion on this issue see Rickett (2000).

7 Admittedly, this is a dramatic oversimplification of the partnership process. Furthermore, we are not proposing how organizational objectives are identified, which could be participatory or unilateral.

8 It is important to recognize that "financial transfers" between organizations may include a wide variety of non-cash resources including technical assistance, professional training, or gifts-in-kind. The basic agency problem still holds in these circumstances because of the fungible nature of funds within most NGOs.

9 Insurance companies accomplish this task by variation in deductibles and coverage. Presumably risky types will opt for low deductibles and greater coverage, while relatively low risk individuals will opt for high deductibles and less coverage.

10 ECFA is not able to make determinations on organizational effectiveness, only financial transparency.

11 The most common practice is to tie the compensation of loan officers to specific portfolio measures including size, portfolio quality, and repayment rates. Examples of participating organizations included WWB Cali, Financiera Calpia, CMAC, Banco ADEMI, Caja Los Andes, and BRI Unit Desa.

12 Of those Christian NNGOs who participated in our survey, roughly two-thirds indicated the use of written contracts with their SNGO counterparts. Yet less than a third used any type of financial incentives tied to SNGO performance. However, this result is likely overstated. By

design, the survey left the notion of financial incentives ambiguous. In subsequent open-ended questions, most organizations described their incentive schemes as simply deciding whether to continue funding on a project if the SNGO performed at or above some acceptable level. This type of system is relatively invariant to modest changes in SNGO performance. There appears to be some relationship between the size of the organization and its reliance on more formal agreements, but the correlation is not perfect.

13 Other examples of work on the role of religion in behavioral identity and conformity include Haviland (1974), Scupin (2003) Crapo (1993), and Ferraro *et al*. (1994).

14 Several of the respondents in our survey emphasized trust between partners as an indispensable ingredient in any successfully partnership. This trust factor was much more important to most of these agencies than any measurable performance indicator which might be applied.

15 Another common critique is that church-based development lacks sufficient scale for efficiency relative to larger development organizations. One could argue that small Christian NGOs should simply transfer their resources to larger, more efficient ones. Setting aside any theological arguments, there are several practical problems with this premise. The economies of scale in development argument presumes a sufficient degree of crowd-out in donations; that small organizations are mopping up charitable funds that would otherwise have been allocated to large organizations. This is an open question because there is little evidence on this issue in the charitable giving literature either way. It is more likely that small Christian NGOs operate as niche actors both in the services they provide and the donors they attract. The relevant points of comparison are similarly sized firms rather than large multinational agencies.

References

Barr, A. M. 1998. "Social Capital and Technical Information Flows in Ghanaian Manufacturing Sector." Center for the Study of African Economics, Oxford University.

Brehm, V. 2001. "Promoting Effective North-South NGO Partnerships." INTRAC Occasional Paper Series. 35, www.intrac.org.

_____. 2004. "Autonomy or Dependence? North-South NGO Partnerships." INTRAC Briefing Paper No. 6, NGO Research Program, www.intrac.org.

Brinkerhoff, J. 2002. *Partnership for International Development: Rhetoric or Results*. Boulder, CO: Lynne Rienner.

Bush, Luis. n.d.. "In Pursuit of True Christian Partnership" in James Kraakevik and Dotsey Welliver, eds., *Partners in the Gospel*. Wheaton, IL: The Billy Graham Center.

_____ and Lutz, Lorry. 1990. *Partnering in Ministry*. Downers Grove, IL: InterVarsity Press.

Butler, Philip. 1994. "Kindgdom Partnerships in the '90s" in William D. Taylor, ed., *Kingdom Partnerships for Synergy in Missions*. Downers Grove, IL: InterVarsity Press.

Crapo, R. 1993. *Cultural Anthropology*, 3rd edition. Dushkin.

Coase, R. 1937. "The Nature of the Firm." *Econometrica*. 4, pp. 386–405.

Fafchamps, M. and B. Minten. 1998. "Relationships and Traders in Madagascar." IFPRI-MSSD Discussion Paper No. 24.

Ferraro, G. *et al*. 1994. *Anthropology*. West Publishing.

Fox, Frampton. 2001. "Partnership—More Than a Buzzword." *Evangelical Missions Quarterly*. 37:3 (July), pp. 294–304.

Fowler, A. 2000. "Authentic NGDO Partnerships in the New Policy Agenda for International Aid: Dead End or Light Ahead?" *Development and Change*. 29, pp. 137–159.

Fukuyama, F. 1995. *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press.

Government Accounting Office. 2002. "Tax-Exempt Organizations: Improvements Possible in Public, IRS, and State Oversight of Charities." GAO–02–526.

Hansmann, H. 1980. "The Role of the Nonprofit Enterprise." *The Yale Law Journal*. 89, pp. 1633–1638.

Haviland, W. 1974. *Anthropology*, 4th edition. Holt, Rinehart, and Winston.

Hedlund, R. 1990. "Cheaper by the Dozen: Indigenous Missionaries vs. Partnership." *Evangelical Missions Quarterly*. 26:3, pp. 274–279.

Hoksbergen, R. 2002. "Toward Authentic Partnership: How North-South NGO Partnerships Contribute to Development." Calvin College, mimeo.

Holmstrom, B. and P. Milgrom. 1991. "Multitask Principle-Agent Analysis: Incentive Contracts, Asset Ownership, and Job Design." *Journal of Law Economics and Organization*. 7:0, pp. 25–52.

Holtmann, M. 2001. " Designing Financial Incentives to Increase Loan Officer Productivity: Handle With Care!" *Microbanking Bulletin*. April.

Jensen, M. and W. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics*. 3, pp. 305–360.

Knack, S.and P. Keefer. 1997. “Does Social Capital have an Economic Pay-off? A Cross-Country Investigation.” *Quarterly Journal of Economics*. 112:4, pp. 1251–1288.

Komendant, G. 1996. “Western Funding for National Workers: Certainly,” *East-West Church and Ministry Report*. 4:1 (Winter), pp. 2–4.

Kraakevik, James and Dotsey Welliver (n.d.). *Partners in the Gospel: The Strategic Role of Partnership in World Evangelization*. Wheaton, IL: Billy Graham Center.

Kreps, D. 1997. “Intrinsic Motivation and Extrinsic Incentives.” *American Economic Review*. 87:2 (May), pp. 359–364.

Lausanne Covenant. 1974. www.lausanne.org/Brix?pageID=12891.

Lund, S. and M. Fafchamps. 1998. “Risk Sharing Networks in Rural Philippines.” Department of Economics Working Paper, Stanford University.

Manila Manifesto. 1989. www.lausanne.org/Brix?pageID=12894.

Mayer, S. 1997. *What Money Can’t Buy*. Cambridge: Harvard University Press.

Mayers, M. K. 1976. *A Look at Latin Americans*. S.I.L. Museum of Anthropology, Publication No. 2.

McKaughan, Paul. 1994. “A North American Response to Patrick Sukhdeo” in William Taylor, ed., *Kingdom Partnerships for Synergy in Missions*. Pasadena:William Carey Library.

McKim, A. 2004. “Staff Incentive Policies for Credit Officers: An Analysis of Their Effects Within Heterogeneous Firms and Contexts and Across Multiple Tasks.” Unpublished dissertation, University of California at Berkeley.

Morduch, J. 1999. “The Microenterprise Promise.” *Journal of Economic Literature*. 37, pp. 1569–1614.

Myers, Bryant L. 1999. *Walking With the Poor*. New York: Orbis.

Narayan, D. and L. Pritchett. 1997. “Cents and Sociability: Household Income and Social Capital in Rural Tanzania.” World Bank Policy Research Working Paper, No. 1796.

Offenheiser, R. 1999. “Enhancing NGO Effectiveness in Africa: Re-Evaluating the Potential for Genuine Partnerships.” Oxfam Working Paper No. 4.

Paulson, Hank. 2002. *Global Partnerships*. Debrecen, Hungary: New Hope Publishing.

Radcliffe-Brown, A. R. 1952. *Structure and Function in Primitive Society*. New York: Free Press.

Rickett, Daniel. 2000. *Building Strategic Relationships: A Practical Guide to Partnering with Non-Western Missions*. Pleasant Hill, CA: Klein Graphics.

Rickett, Daniel and Dotsey Welliver. 1997. *Supporting Indigenous Ministries*. Wheaton, IL: Billy Graham Center.

Roberts, Keith. 1984. *Religion in Sociological Perspective*. Homewood, IL: Dorsey Press.

Salanie, B. 2005. *The Economics of Contracts*. Cambridge, MA: MIT Press.

Scupin, R. 2003. *Cultural Anthropology*, 5th edition. Prentice Hall.

Van Engen, Charles. 2001. "Toward a Theology of Mission Partnership." *Missiology: An International Review*. 29: pp. 11–44.

Weber, M. 1958. *The Protestant Work Ethic and Spirit of Capitalism*. New York: Scribner's.

Welliver, D. and M. Northcutt. 2004. *Mission Handbook: U.S. and Canadian Protestant Ministries Overseas 2004–2006*. Wheaton, IL: EMIS/Billy Graham Center.

Winter, Ralph D. 1981. "The Concept of a Third Era in Missions." *Evangelical Missions Quarterly. (*April), pp. 69–82.

Yohannan, K. P. 1986. *Revolution in World Missions*. Carrollton, TX: GFA books.

Appendix A: Summary of Survey Results

In the spring of 2005 we surveyed present and past participants of the Coalition on the Support of Indigenous Ministries (COSIM) Conference. These international Christian ministry organizations have demonstrated an organizational emphasis on developing long-term relationships with civil society organizations (often churches) in the developing world. Fifty-five distinct organizations have participated in these annual conferences; twenty organizations (36 percent) returned surveys. The survey sought to aggregate information on the widely disparate practices of organizing formal relationships with their international ministry partners. Given the small number of responses, special care was taken to maintain confidentiality, but a summary of survey results is as follows.

The size of responding organizations varied widely. The smallest organizations had two full-time employees, while the largest had well over 200. Similarly, annual operating budgets ranged from $100,000 to over $13,000,000. The mean organization for the sample had 46 employees and $3,300,000 operating budget. More important for the purposes of the survey were the number of distinct partnerships maintained by the organization. The largest of the organizations worked with 200 indigenous organizations overseas; the smallest worked with five. The mean number of partnerships per organization was 50, while the median was 30.

Organizations were asked to categorize their partnerships according to the type of organization with which they are working. Twenty-five percent of respondents worked solely with other NGOs (excludes churches). Another quarter of the organizations worked exclusively with churches. The remaining organizations worked with some mixture of NGOs, churches, and individuals. A follow-up question asked about the purpose or objective of their partnerships. Disappointingly for the purposes of this study, only four organizations (20 percent) within the sample chose economic development as a primary focus of their ministry partnership. The remaining organizations in the survey indicated a combination of evangelism, leadership/pastor training, or children's ministry as their emphasis.

Seventeen respondents (85 percent) listed direct financial support as a primary component of their partnership. Most organizations offered some combination of financial support, technical training, or more general spiritual support services. When asked specifically about the structure of their partnership agreements, thirteen (65 percent) indicated the use of formal written agreements with their partners. Five (25 percent) relied on some type of oral or informal agreements, while two organizations did not use any type of explicit agreement with their partners. Of those organizations which had written partnership agreements, five included financial incentives linked to performance. However, this respone, as with the others, should be treated with caution. The survey was deliberately vague on what it meant to include performance conditions in a partnership agreement. Based on subsequent written comments, most survey respondents interpreted this to mean that future contributions were weighed based on the subjective long-term "success" of the partnership. To the extent that this linkage is imprecise or not transparent to the indigenous partner, its effect on performance is theoretically ambiguous. Though asked, no organization volunteered information on an incentive scheme that could reasonably meet the agency literature definition of a "high powered" incentive structure.

We wish to re-emphasize that this convenience sample is much too small to draw any inference regarding characteristics of the wider population of organizations working in partnerships. The most revealing results came from the comments attached to the survey. Many of the survey respondents responded positively to the basic premise of the study. These organizations feel that structuring effective and efficient partnerships is an important goal in which there is room for improvement. A smaller fraction of respondents took issue with both the premise and the market-based language of the survey. They express concern over imposing ideas that were too "American" or "economic" in what they approached as a spiritual relationship.

We believe that this range of responses illustrates an important culture conflict in Christian ministry. To what extent should faith based nonprofit organizations adopt methodologies and language similar to for-profit organizations? Should efficiency and measurable effectiveness be an important goal for Christian NGOs? It will take more debate to convince many organizations of the merit of examining incentives in partnership agreements.

Appendix B: Sample Survey

1. *Approximately how many people are employed by your organization?*
2. *What is your approximate annual operating budget?*
3. *Would you characterize partnership with indigenous ministries as a primary emphasis of your ministry?*
   ___Yes (proceed with remaining questions)
   ___No (no further responses are needed)
4. *Approximately how many partnerships do you maintain?*
5. *Which would most accurately describe your indigenous ministry partner(s)?*
   __ Local Churches
   __ Other Nonprofit Organizations
   __ Individuals
   __ Other (please specify):
6. *If your organization has worked directly with indigenous churches, how has this been a positive or negative strategy?*
7. *What is the primary purpose(s) of your partnerships?*
   __ Evangelism/Church Planting
   __ Economic Development
   __ Children's Ministries
   __ Leadership/Pastor Training
   __ Other (please specify):
8. *Which would best characterize your organization's most prominent role in partnership?*
   __ Financial Support
   __ Technical/Training
   __ Prayer Support
   __Other (please specify):
9. *When arranging support for a new indigenous ministry partner, are you most likely to:*
   __ rely on a formal written contract.
   __ rely on an oral agreement.
   __ rely on an implicit understanding.
   __ other or none (please specify):

10. In the space provided below, please describe how your organization monitors the performance of your indigenous ministry partners. Examples may include: site visits, written reports, or third party inspections. If there is no monitoring, simply write "none".

11. Does your organization ever formally link contributions to an indigenous ministry partner to its performance?
__ Yes
__ No

12. If you answered "yes" to the previous question, briefly describe this linkage in the space provided. ■