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**Working Paper**

## Does it pay for US-based NGOs to go to war? Empirical evidence for Afghanistan and Iraq

Kiel Working Paper, No. 1878

**Provided in Cooperation with:**

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

*Suggested Citation:* Kim, Youngwan; Nunnenkamp, Peter (2013) : Does it pay for US-based NGOs to go to war? Empirical evidence for Afghanistan and Iraq, Kiel Working Paper, No. 1878, Kiel Institute for the World Economy (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/85070>

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**Kiel Institute  
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**Does It Pay for US-based  
NGOs to Go to War?  
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**No. 1878 | October 2013**

**Web: [www.ifw-kiel.de](http://www.ifw-kiel.de)**

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## **Does It Pay for US-based NGOs to Go to War? Empirical Evidence for Afghanistan and Iraq**

Youngwan Kim and Peter Nunnenkamp

### Abstract:

Apart from altruistic reasons, NGOs may engage in developing countries under conditions of conflict and war in order to secure funding and survive in the ‘market’ of humanitarian relief and development assistance. Applying a difference-in-difference-in-differences approach, we analyze empirically whether the presence of US-based NGOs in Afghanistan and Iraq improved their chances of external funding. We find that NGOs being active in Afghanistan tended to benefit from easier access to official sources of funding after the US intervention, compared to NGOs staying away. Nevertheless, there is no compelling evidence that it pays for NGOs to engage where the United States intervenes militarily.

Keywords: NGOs, official funding, private donations, Afghanistan, Iraq.

JEL classification: L31; F35; F51

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## 1. Introduction

The important role of non-governmental organizations (NGOs) in humanitarian relief and development operations can be attributed at least partly to the trend toward outsourcing of government services (Werker and Ahmed 2008).<sup>1</sup> According to McCleary and Barro (2008), about 40 percent of foreign aid granted by the United States is channeled through NGOs. NGOs are viewed by many official aid agencies as efficient and cost-effective providers of aid-related services (Edwards and Hulme 1996).

Government agencies such as the US Agency for International Development (USAID) make use of NGOs (or private voluntary organization in USAID jargon) not only under conditions of peace in the recipient countries, but also at times of conflict and war. Baitenmann (1990: 62) was among the first to observe that “as local conflicts of high or low intensity continue around the globe, host governments, the UN, and the ever-present superpowers are likely to look to NGOs for help.”<sup>2</sup> NGO activities in Afghanistan and Iraq after the US invasions in 2001 and 2003, respectively, are the most striking examples. Monshipouri (2003) discusses several activities through which NGOs may help conflict resolution and rebuilding countries such as Afghanistan.

NGOs for their part appear to be willing to work under conditions of conflict and war. Apart from altruistic reasons, NGOs may engage in countries such as Afghanistan and Iraq in order to secure funding and, thereby, survive in the ‘market’ of humanitarian relief and development assistance. NGOs “compete to raise money and secure contracts” (Cooley and Ron 2002: 7). The growth and survival of NGOs depends primarily on (official and private) donors, rather than the ultimate beneficiaries of NGOs’ aid-related services (e.g., Schloms

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<sup>1</sup> See also Simmons (1998) and Cooley and Ron (2002) on the increasing role of NGOs as contractors and intermediaries of official aid.

<sup>2</sup> Duffield (1997: 533) notes that “the growth of donor/NGO subcontracting, for example, has been especially marked in regions characterized by internal war, political exclusivism and public sector decay.” See also Evans-Kent and Bleiker (2003) on the role of NGOs in implementing post-conflict policies of states or their agencies.

2003). Hence, “pragmatic and organizational concerns” (Fruttero and Gauri 2005: 759) are likely to be an important factor determining NGOs’ location choices.<sup>3</sup>

Specifically, NGOs are supposed to raise funds “by raising their flag in media-saturated humanitarian ‘hot spots’” (Cooley and Ron 2002: 12).<sup>4</sup> Edwards and Hulme (1996: 966) argue that “NGOs may succumb to the temptation to take on functions which they know will attract large amounts of donor funding.” The boom of US aid to Afghanistan and Iraq after the military interventions in 2001 and 2003, respectively, are obvious cases in point. US aid disbursements jumped from practically zero prior to the interventions to US\$ 370 million in Afghanistan (2002) and US\$ 1.5 billion in Iraq (2003).<sup>5</sup>

Against this backdrop, we analyze empirically whether the presence of US-based NGOs in Afghanistan and Iraq improved their chances of external funding. We combine two datasets for a sample of 34 large NGOs in order to compare the changes in revenues and program expenditures between NGOs with and without activities in Afghanistan or Iraq: (i) self-collected data on the recipient country portfolio of NGOs for each year since 1997 and (ii) annual accounting data available for these NGOs from the so-called VolAg reports of USAID.<sup>6</sup> Specifically, we assess whether US-based NGOs with activities in Afghanistan or Iraq received higher increases in funding and grew faster in terms of program expenditures than the control group of NGOs without such activities. We perform a difference-in-difference-in-differences (DDD) analysis which allows us to test for significant differences

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<sup>3</sup> Fruttero and Gauri (2005) analyze the NGOs’ location choices among local communities within a particular country (Bangladesh).

<sup>4</sup> The dependence of NGOs on external funding could “drive a wedge between organizational imperatives and charitable objectives” (Fruttero and Gauri 2005: 760). However, Büthe et al. (2012: 573) find “virtually no support” for the hypothesis that 40 US-based NGOs “allocate funds with an eye to fundraising opportunities.”

<sup>5</sup> US aid disbursements to Iraq peaked in 2005 (US\$ 11.2 billion, including debt relief of almost US\$ 5 billion). Aid to Afghanistan increased more steadily to almost US\$ 3 billion per annum in 2009-2011. For details see: <http://stats.oecd.org/index.aspx?DataSetCode=CRS1> (accessed: October 2013).

<sup>6</sup> The collection of VolAg data for the 1990-2008 period is available from: <http://ghdx.healthmetricsandevaluation.org/record/ihme-formatted-usaid-volag-database-1990-2008> (accessed: October 2013). The most recent VolAg report is available from: <http://www.usaid.gov/sites/default/files/documents/1880/volag2012.pdf> (accessed: October 2013).

when comparing the changes in major accounting items before and after the military interventions between NGO groups with and without activities in the countries concerned.

The structure of the paper is as follows: Section 2 discusses the related literature and introduces our hypotheses. We describe the data and the approach of testing for differences between NGOs with and without activities in Afghanistan and Iraq in Section 3. Section 4 presents our major results. We find that NGOs in Afghanistan tend to have easier access to official sources of funding. Nonetheless, there is no compelling evidence that it pays for NGOs to engage where the United States intervened militarily. Section 5 concludes.

## **2. Hypotheses and related literature**

As noted by *The Economist* (January 27<sup>th</sup>, 2000), “increasingly, NGOs compete and spend a lot of time and money marketing themselves.” NGOs compete for two major sources of external funding: official support and private donations. The former includes funds received from US government agencies as well as other governments and international organizations and accounted for about one quarter of total revenues of all NGOs which registered with USAID and engaged in international relief and development (USAID VolAg Report 2012). Private donations (cash and in-kind contributions) accounted for more than half (57 percent) of total revenues. So-called private revenues (comprising sales, user fees and investment income) contributed the remaining 18 percent.

As concerns government support, there are several reasons why we expect competition among NGOs for financial support from the US government to be particularly pronounced. US government agencies are generally the most important official sources of funds for US-based NGOs.<sup>7</sup> What is more, official US aid to Afghanistan and Iraq increased considerably after the military interventions. As a result, the share of these two countries in total US aid disbursements soared from practically zero in 2001 to more than 19 percent in 2004 and

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<sup>7</sup> US government agencies contributed 70 percent of total official support to all NGOs registered with USAID in 2010 (VolAg Report 2012).

almost 45 percent in 2005.<sup>8</sup> Recalling that a large part of official US aid is channeled through NGOs (McCleary and Barro 2008), the new focus on Afghanistan and Iraq greatly enlarged the pool of official funding that NGOs could tap. Indeed, empirical analyses of the cross-country allocation of NGO aid reveal that NGOs tend to imitate the cross-country allocation of aid by official donors (e.g., Koch et al. 2009; Dreher et al. 2012a).<sup>9</sup> According to Dreher et al. (2012b), this applies in particular for NGOs which are dependent on official funding.

Moreover, previous studies indicate that it depends on the location choices of NGOs whether they can compete successfully for an enlarged pool of official funds. The principal-agent model of Fruttero and Gauri (2005) suggests that NGOs can improve their access to external funds when impressing principals with “demonstrable results,” which requires being present where the principal’s political, economic and/ or humanitarian interests are at stake. As noted by Bütthe et al. (2012: 582), it is widely believed that NGOs engage “where they expect donors to want to see them engaged.” Cooley and Ron (2002) present several case studies of the “NGO scramble” over official resource pools in political and humanitarian “hot spots” such as the refugee camps in Goma (Dem. Rep. of Congo) in the mid-1990s.<sup>10</sup> Duffield (1997: 530) stresses that the humanitarian and security environment NGOs are working in had changed in the late 1990s already: “A key development has been the ability to provide relief assistance even under war conditions. This has been a major opportunity for NGO expansion.” Taken together this leads to our first hypothesis: *US-based NGOs being present in Afghanistan and Iraq have better chances to attract increased support from government sources after the military interventions than NGOs staying away.*

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<sup>8</sup> The exceptionally high share in 2005 is largely due to debt relief. However, Afghanistan and Iraq together still accounted for about a quarter of total US aid in 2006-2007. More recently, their share declined to 13.5 percent in 2011 (<http://stats.oecd.org/index.aspx?DataSetCode=CRS1>).

<sup>9</sup> However, Bütthe et al. (2012) find no significant relationship between official aid and the allocation of private aid by US-based NGOs.

<sup>10</sup> In a similar vein, Barnett (2005: 725) notes that many NGOs flooding into Rwanda and former Zaire were “simply there to fly the flag and impress prospective donors.”

However, there are also some studies indicating rather weak links between a larger pool of official support, the location choices of NGOs and their prospects to receive government funds. Kerlin (2013) finds that the shift in US foreign policy after September 11, 2001, was associated with an increase in government grants to NGOs. Surprisingly, however, the evidence for the predicted “increase in INGO interest in the Middle East and South Asia following an expected immediate influx of ODA funding for that region” (Kerlin 2013: 481) was weak and ambiguous.<sup>11</sup> An earlier study on the Afghan war in the 1980s argues that the politicization of humanitarian relief and security risks are reasons of why NGOs did not enter the country (Baitenmann 1990).<sup>12</sup> More generally, NGOs may fear to be misused for political purposes when engaging under conditions of conflict and war.

Furthermore, observations by Evans-Kent and Bleiker (2003) for the case of Bosnia and Herzegovina suggest that NGOs engaging where the pool of official funds has increased do not necessarily gain easier access to official funds. Major official donors such as USAID give priority to certain types of NGOs, e.g., NGOs focusing on democracy building: “As a result, NGOs that focus on different but equally urgent forms of reconstruction or peacebuilding face difficulties in securing adequate funding” (Evans-Kent and Bleiker 2003: 107). Other NGOs may engage where the pool of official funds has increased, though not for that reason. For instance, NGOs such as Médecins Sans Frontières “questioned the dual military and humanitarian-aid operation” in Afghanistan and argued “against accepting money from governments” (Monshipouri 2003: 145-146).<sup>13</sup> Cooley and Ron (2002) note that faith-based NGOs such as Catholic Relief Services have relatively easy access to alternative

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<sup>11</sup> More precisely, the percentage of officially funded NGOs operating in the Middle East and South Asia increased only slightly. However, Kerlin (2013) does not compare the change in official funding for NGOs with and without activities in specific countries, especially Afghanistan and Iraq, as we do in the following.

<sup>12</sup> See also Nichols and Borton (1994) for a detailed account of the role of NGOs in providing relief and rehabilitation assistance to Afghan refugees in Pakistan and through ‘cross-border operations’ from Pakistan into Afghanistan in the 1980s and early 1990s. For a broader discussion of the historical role of aid and major actors in relation to the Afghan crisis, see Goodhand (2002).

<sup>13</sup> Likewise, Lex Kassenberg, country director of CARE International in Afghanistan, noted in 2009: “We have turned down funding opportunities which require working with the military and involvement in counterinsurgency” (<http://www.irinnews.org/report/87288/afghanistan-usaid-rejects-ngo-concerns-over-aid-militarization>; accessed: October 2013).



funds and can, thus, afford to reject contracts offered by governments and international organizations when they believe officially supported projects to be misguided.

As noted before, private donations represent the most relevant alternative source of NGO financing. NGOs would thus have to take into account how private donations react to their engagement in countries after military interventions. By “raising their flag in media-saturated humanitarian ‘hot spots’” (Cooley and Ron 2002: 12), NGOs may impress not only official principals issuing contracts and outsourcing aid services, but also private donors who need to be awakened and persuaded that the NGO’s activities fit particularly well with the personal motivation to donate (Aldashev and Verdier 2010).

In the theoretical model of Aldashev and Verdier (2010), NGOs with differentiated activities compete with each other for private donations through fundraising. In the context of the present paper, NGOs working in Afghanistan and Iraq would alert those private donors whose own preferences match closely with NGO activities under conditions of conflict and war. Indeed, various NGOs advertise their activities in Afghanistan and Iraq when performing Google searches for “NGO aid Afghanistan” and “NGO aid Iraq”, respectively.<sup>14</sup> NGOs are thus likely to attract higher private donations to the extent that they persuade donors that NGO activities in Afghanistan and Iraq are particularly worthwhile causes to give. As stressed by Aldashev and Verdier (2010), NGO competition for private donations is not necessarily a zero-sum game where the fundraising effort of one particular NGO only diverts donations from other NGOs. Rather, all NGOs with activities in Afghanistan and Iraq might benefit from the fundraising effort of NGO peers which succeed to awaken potential donors, thereby enlarging the overall pool of private donations for NGO activities under conditions of conflict and war.

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<sup>14</sup> In August 2013 examples included: Afghan Voice (<http://www.afgvoice.org/support-us.html>), Medico International (<http://www.medico.de/en/projects/afghanistan/>), the German chapter of World Vision ([www.worldvision.de](http://www.worldvision.de)), and the Human Relief Foundation (<http://www.hrf.org.uk/>).

Aldashev and Verdier (2010) mention major humanitarian crises such as the Asian tsunami in December 2004 as events rendering it easier for NGOs to activate new donors and attract higher private donations. The same may apply in the immediate aftermath of military interventions when the public in the United States (and in its coalition partner countries) is alerted to the plight of the local population (e.g., women in Afghanistan) and convinced about the need for external private help to quell insurgents and terrorists or fight ‘evil’ regimes.

Nevertheless, it is questionable whether NGOs engaged in Afghanistan and Iraq received higher private donations than NGOs staying away. According to Evans-Kent and Bleiker (2003), the case of Bosnia-Herzegovina indicates that NGO funding is relatively abundant only in the initial phases of an intervention, but increasingly scarce later on. A historical analysis of private giving in the United States reveals that crises during the 1959-1999 period were seldom a significant driver of donations once personal income and wealth is controlled for (Brown and Rooney 2010). More closely related to the present context of Afghanistan and Iraq, ‘compassion fatigue’ tends to undermine the NGOs’ ability to raise private donations if the public increasingly questions the rationale and effectiveness of military interventions. This is particularly likely in cases such as Afghanistan where media reports on pervasive corruption, elite capture and waste of aid funds, and insufficient coordination fuel the impression that the authorities in the recipient country do not deserve private external support.<sup>15</sup> Furthermore, the press increasingly debated the politicization and militarization of aid in Afghanistan and Iraq, which is likely to have damaged the NGOs’ distinct identity.<sup>16</sup> This leads to our second hypothesis: *US-based NGOs being present in Afghanistan and Iraq do not necessarily have better chances to attract private donations after military interventions than NGOs staying away.*

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<sup>15</sup> Goodhand (2002: 851) refers to “Afghanistan’s history as a rentier state.” See Bennett and Kottasz (2000) for a similar line of reasoning with respect to disaster relief. Bennett and Kottasz find that disapproval of a country’s government and its association with military action represents a major disincentive to generous private donations.

<sup>16</sup> See, e.g., <http://www.irinnews.org/report/87288/afghanistan-usaid-rejects-ngo-concerns-over-aid-militarization> (accessed: October 2013).

The first and second hypotheses taken together suggest that the effects of being active in Afghanistan and Iraq on the NGOs' overall revenues and their (overseas) program expenditures be ambiguous. Increases in government funding may be offset at least partly by stagnating or declining private donations. Two additional arguments render this possibility still more likely. Edwards and Hulme (1996: 962) suspect that official NGO funding generally weakens the legitimacy of NGOs as independent actors in humanitarian relief and development operations. This would imply that official funding tends to crowd out private donations to the extent that it reduces the marginal valuation of the NGO's charitable output by private donors (Okten and Weisbrod 2000).<sup>17</sup> Furthermore, official funding may reduce private donations indirectly by weakening the NGOs' incentives to engage in fundraising (Andreoni and Payne 2003). Andreoni and Payne (2011: 334) separate the "classic crowd out" of private donors "who feel they gave through taxes" from "fundraising crowd out." Their empirical findings indicate that crowding out works primarily through reduced fundraising effort. This leads to our final hypothesis: *US-based NGOs being present in Afghanistan and Iraq do not necessarily grow faster after military interventions, in terms of overall revenues and (overseas) program expenditures, than NGOs staying away.*

### **3. Data and approach**

Data on the recipient country portfolio of US-based NGOs are extremely scarce. So-called PVO Executive Contact Lists are available from USAID for selected years in the past, some of which provide lists of NGOs with activities in specific regions or countries.<sup>18</sup> Büthe et al. (2012) collected data for 40 US-based NGOs on the cross-country allocation of funds raised

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<sup>17</sup> On the other hand, official funding could be taken by private donors as a signal of government approval and social need so that donations may even be crowded in.

<sup>18</sup> For the most recent past, the USAID's online PVO registry (<http://pvo.usaid.gov/usaid/>) can be searched for NGOs with activities in specific countries.

from private sources, but apparently for just one year.<sup>19</sup> Both sources do not offer comparable data on an annual basis for activities in specific recipient countries.

We make use of a new time-series cross-sectional dataset on the activities of US-based NGOs in developing countries, including Afghanistan and Iraq. Our data collection effort focused on large NGOs which the National Center for Charitable Statistics (NCCS) classifies in categories Q30 and Q33, i.e., international development and international relief, respectively.<sup>20</sup> More precisely, we selected the 58 largest NGOs with total assets of more than US\$ 20 million in category Q30 and the 56 largest NGOs with total assets of more than US\$ 10 million in category Q33. Drawing on websites and annual reports and personal contact through e-mail and phone, we obtained sufficient information on annualized recipient country portfolios, covering the 1997-2008 period, for 40 NGOs out of the pre-selected 114 NGOs. This group of 40 NGOs accounts for 51 percent of total assets of all NGOs classified by NCCS in categories Q30 or Q33. Importantly, this dataset enables us to identify which NGO was active in Afghanistan or Iraq at a particular point in time – which is required to distinguish between the treatment and control sub-groups in our sample (see below).

The self-collected data on NGO activities in developing countries are combined with detailed information on NGO revenues and expenditures from USAID's annual VolAg reports. However, this information is available only for NGOs which registered with USAID during the period of observation. As a result, the subsequent analysis is based on a sample of 34 NGOs.<sup>21</sup> The VolAg reports offer annual data on total NGO expenditures as well as overseas program expenditures. Importantly, total revenues are differentiated between official and private sources. Among official sources, funding from US government agencies (including USAID) and contract-related US funding are of particular interest in the present

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<sup>19</sup> Consequently, the analysis of NGO aid allocation by Büthe et al. (2012) is purely cross-sectional. Moreover, Büthe et al. explicitly exclude government funds which are of major interest among the major revenue items in the context of our paper.

<sup>20</sup> For details, see: <http://nccs.urban.org>.

<sup>21</sup> Appendix 1 lists the 34 NGOs in our sample.

context. Finally, we consider two distinct private sources: private donations (i.e., cash and in-kind contributions from the public) and so-called private revenue (including income from selling goods and services as well as investment income). The distinction between the different revenue items allows us to test the hypotheses raised in Section 2.

A simple before-after approach may offer first indications on the effects of military interventions on the listed revenue and expenditure items for NGOs being engaged in Afghanistan or Iraq. However, comparing the level of NGO revenues or expenditures before and after interventions would rely on the strong assumption that nothing else has changed the level of these items after the intervention, which is unlikely to hold. The alternative with-without approach would simply entail comparing the changes in accounting items between NGOs which were active after the intervention with NGOs which remained absent. Again, this requires a strong assumption that is unlikely to hold, namely that both groups did not differ systematically even before the intervention.

Combining the before-after approach and the with-without approach mitigates the problem of overly strong assumptions and allows drawing correct inferences regarding the effect of military interventions. Therefore, we calculate the changes in major accounting items (e.g, total revenues,  $Rev$ ) before and after the intervention (e.g., during the 1997-2001 and 2001-2005 periods in the case of Afghanistan); the before-after differential for the treatment group ( $T$ ) of NGOs with activities in the country is then compared with the before-after differential for the control group ( $C$ ) of NGOs without activities in the country. Formally, this amounts to:

$$\begin{aligned}
 DDD = & ((Rev^{T,2005} - Rev^{T,2001}) - (Rev^{T,2001} - Rev^{T,1997})) \\
 & - ((Rev^{C,2005} - Rev^{C,2001}) - (Rev^{C,2001} - Rev^{C,1997}))
 \end{aligned}$$

As discussed in more detail below, we adjust the sub-periods before and after the interventions depending on whether assessing patterns for Afghanistan or Iraq, or assessing short- and longer-term effects.

In addition to calculating descriptive DDD statistics as indicated above, we follow Öhler et al. (2012) and Nunnenkamp and Öhler (2011) by performing regressions to test for significant differences between the patterns for the treatment and control groups of NGOs. More precisely, we derive standard errors and  $t$ -statistics from a regression where the change in accounting items, e.g.,  $Rev$ , in the different sub-periods represents the dependent variable. Dummies for the treatment group and the sub-period after the intervention as well as an interaction term between these two dummies are included as independent variables. The coefficient on the interaction term corresponds to the DDD estimate. Formally, the regression is as follows:

$$\text{Change in } Rev = \alpha + \beta \text{ Treat} + \gamma \text{ 2nd Period} + \delta (\text{Treat} * \text{2nd Period}) + \epsilon$$

#### **4. Results**

Our empirical analysis focuses on the case of Afghanistan. Immediately after the military intervention in October 2001, 15 US-based NGOs out of the overall sample of 34 NGOs reported to be active in Afghanistan. Consequently, we have similarly large treatment and control groups of 15 active NGOs and 19 inactive NGOs, respectively, in Afghanistan. In contrast, we have a considerably smaller treatment group of eight NGOs that reported to be active in Iraq immediately after the United States intervened in March 2003. Yet, the case of Iraq may offer additional insights. Several NGOs in the treatment group for Afghanistan had

previous experiences of being active there, while almost all NGOs entered Iraq only in 2003.<sup>22</sup>

*Afghanistan: sample characteristics and longer-term effects*

Before calculating the changes over time in major revenue and expenditure items and comparing them between the treatment and control groups of NGOs, Table 1 presents some characteristics of the two groups before the US intervention in Afghanistan in 2001. The 15 NGOs being active in Afghanistan were clearly larger on average than the inactive NGOs in the control group. Total expenditures and revenues in the treatment group are about 2.5 times larger than total expenditures and revenues in the control group. At the same time, the average number of foreign countries where NGOs in the treatment group were active (including Afghanistan) is almost twice as large as the number of countries where NGOs in the control group were active. This suggests that the considerable difference in terms of overall size be largely due to a more diversified recipient country portfolio in the treatment group, while the difference in the size of country-specific programs appear to be less pronounced.<sup>23</sup>

The two groups resemble each other in several respects. First, overseas program expenditures account for bulk of total expenditures, i.e., NGO activities within the United States play a minor role for both the treatment and control group. Second, both groups are also similar with regard to the structure of revenues. Private donations represent the dominant source of NGO funding, even though the dependence on official funding is stronger for NGOs in the treatment group than for NGOs in the control group. In the light of the lively debate on the pros and cons of contract-related funding (e.g., Cooley and Ron 2002), it may be surprising that this type of official funding played a minor role for the financing of NGOs

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<sup>22</sup> CARE (since the early 1960s) and Management Sciences for Health (since the early 1970s) had particularly long experiences of being engaged in Afghanistan. Two NGOs reported activities in Iraq already in the 1990s, AmeriCares and Life for Relief and Development.

<sup>23</sup> Recall that data on overseas program expenditures for specific recipient countries are not available. As discussed in more detail below, we address the potential bias resulting from the difference in the average size of NGOs in the treatment and control group, respectively, by excluding the largest NGOs in a robustness test.

independent of whether or not they were active in Afghanistan. Likewise, private revenues from more business-like activities contribute only marginally to total revenues for both groups of NGOs.

Table 2 reports the difference-in-difference-in-differences calculations for Afghanistan in several steps. We are interested in identifying longer-term effects of being active in Afghanistan. More precisely, we consider the 1997-2001 period to reveal changes before the US military intervention and the 2001-2005 period to reveal changes after the intervention. The treatment and control groups are defined as before, i.e., the calculations are based on 15 NGOs being active in Afghanistan immediately after the intervention and 19 NGOs being inactive in Afghanistan at that time.

Part A of Table 2 shows the first step of calculating the difference (D) in the levels of revenues and expenditures before and after the intervention, averaged for the treatment group and the control group, respectively. As can be seen, total expenditures and total revenues increased before as well as after the intervention for both the treatment and the control group. The average increase in total expenditures and revenues for NGOs in the treatment group was 2.5 – 3 times as large as the average increase in total expenditures and revenues for NGOs in the control group even before the intervention. Both groups reported considerably larger increases in total expenditures and revenues after the intervention. At the same time, the gap between the groups appears to have widened: most notably, the average increase in total revenues of active NGOs was 3.6 times larger than that of inactive NGOs in the 2001-2005 period.

The D results for specific sources of revenues underscore the important role of private donations for the funding of both NGO groups. The increase in private donations before the intervention was 3 – 4 times as large as the increase in overall official funding. The increase in private donations continued to be considerably larger, compared to the increase in official funding, after the intervention. This holds for both groups of NGOs. It is interesting to note,



however, that the D results for private donations indicate that this source of funding was particularly important for those NGOs which did not engage in Afghanistan. The contribution of overall official funding to the increase in total revenues of inactive NGOs declined from 22 percent in the 1997-2001 period to 15 percent in the 2001-2005 period. This is in striking contrast to the treatment group of active NGOs, for whom overall official funding contributed one quarter to the increase in total revenues after the intervention. The average increase in overall official funding of active NGOs was almost six times as large as the corresponding increase for inactive NGOs in the 2001-2005 period (compared to 3.3 times as large in the 1997-2001 period). Taken together, the patterns in Part A of Table 2 may lend tentative support to the hypothesis that NGOs being present in Afghanistan had better chances to attract increased funding from official sources, though not necessarily from private sources, than NGOs staying away.<sup>24</sup>

The subsequent step of calculating the before-after differences (DD) for the treatment and control group, respectively, in the first four columns in Part B of Table 2 underscores that the growth (in terms of expenditures and total revenues) of NGOs being active in Afghanistan accelerated after the intervention. Moreover, the means of the DD for the total expenditures, overseas program expenditures and total revenues of active NGOs are 4 – 4.5 times as large as the means of the corresponding DD for the control group. The growth acceleration in the 2001-2005 period was not restricted to NGOs with activities in Afghanistan, but it appears to be more pronounced for them, on average, than for the control group of inactive NGOs.<sup>25</sup> All the same, the DDD results shown in last columns of Part B in Table 2 prove to be statistically insignificant, at conventional levels of confidence, when estimating the DDD regression from Section 3 for total expenditures, overseas program expenditures or total revenues. It cannot be

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<sup>24</sup> The differences (D) for other private revenues were negative for both NGO groups before the intervention. They turned positive after the intervention. Yet, this type of commercial-like, private funding continued to be of minor relevance for active and inactive NGOs.

<sup>25</sup> Recall that the levels of total expenditures and revenues were just about 2.5 times larger for the treatment group than for the control group in 2001.

ruled out that this is largely due to the large variation of expenditures and revenues within the rather small groups of NGOs under consideration.<sup>26</sup> Keeping this important caveat in mind, it may be noted that the insignificant DDD results for total expenditures and revenues are in line with the hypothesis advanced in Section 2, according to which NGOs being present in Afghanistan do not necessarily grow faster than NGOs staying away.

Not surprisingly, our findings for total revenues carry over to the most important source of funding for both sub-groups of NGOs, i.e., private donations.<sup>27</sup> For active as well as inactive NGOs, the DD results on total revenues can largely be attributed to private donations. Consequently, the mean of the DDD for private donations accounted for more than 70 percent of the mean of the DDD for total revenues. Fairly high standard errors again provide a possible explanation for the insignificant result from the DDD regression with private donations as the dependent variable. Yet this finding is also plausible, recalling from Section 2 that NGOs being present in Afghanistan do not necessarily have better chances to attract private donations than NGOs which did not engage there after the US military intervention.

Most interestingly, Part B of Table 2 provides at least tentative support to our first hypothesis on official funding of NGOs, though the evidence is far from conclusive. The DD results reveal that total official funding contributed considerably to the growth acceleration of NGOs in the treatment group (though clearly less so than private donations). In contrast, the mean of the DD for total official funding accounted for only eight percent of the mean of the DD for total revenues of NGOs in the control group. Importantly, the DDD result proves to be statistically significant, at the ten percent level, when performing the DDD regression with total official funding as the dependent variable. This finding is in line with the expected pattern that NGOs being present in Afghanistan tend to benefit from better access to official

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<sup>26</sup> The DD panels in Part B of Table 2 indicate that the standard errors are particularly large, relative to the means, for the control group of NGOs. See also below on the exclusion of some outliers.

<sup>27</sup> As mentioned before, (other) private revenues play a marginal role and are not of particular interest to us. Nevertheless, it deserves to be noted that (other) private revenues represent the only item for which we obtain a negative DDD result in Table 2 – though far from reaching statistical significance at conventional levels.

sources of funding. Strikingly, however, the DDD result is no longer significant at conventional levels when restricting official funding to US government sources. This suggests that non-US governments, possibly mainly from NATO partners, and international organization play an important role for the funding of US-based NGOs engaged in Afghanistan after the military intervention.

#### *Afghanistan: robustness tests*

In the following, we assess the robustness of the baseline results for the case of Afghanistan by modifying the calculation in two respects: (i) we consider shorter time intervals before and after the military intervention to capture short-term effects, rather than longer-term effects; (ii) we reduce the NGO sample by excluding the five largest NGOs from the calculations. The results on short-term effects for the full and reduced sample are shown in Table 4. Note that we restrict the presentation of results to the DDD calculation; we do not show the initial steps of D and DD calculations to avoid clutter.<sup>28</sup>

Arguably, the short-term effects on both official and private funding of NGOs engaging under conditions of conflict and war may differ from the longer-term effects assessed so far. On the one hand, the increase in official funding may be delayed due to bureaucratic inertia so that the short-term effects of the NGOs' location decisions on official funding could be weaker than the longer-term effects. On the other hand, the increase in private donations could be larger in the short run than in the longer run: NGOs may reduce their fundraising effort as soon as the budget constraint is relaxed by easier access to official funding (Andreoni and Payne 2003; 2011); and private donors may increasingly question the rationale and effectiveness of the NGOs' engagement under conditions of conflict and war.

We replace the four-year periods before and after the military intervention in Afghanistan by two-year periods, i.e., 1999-2001 and 2001-2003, in order to compare short-

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<sup>28</sup> The D and DD results are available from the authors on request.

term effects with our baseline results. The first three columns in Table 3 present the DDD results with the treatment and control groups of NGOs defined as before in Table 2. Compared to the corresponding DDD results in Table 2, the means of the DDD are typically considerably smaller in Table 3. This is obviously largely because all differences are now calculated over shorter time intervals. Strikingly, however, the mean of the DDD shrinks most for private donations, while it is as high as before for official funding from US government sources. As a result, the short-term effects on the DDD for the total revenues of NGOs are mainly attributable to the funding decisions of US government agencies. This speaks against the suspected bureaucratic delay in official US funding of NGOs being engaged in Afghanistan when the military intervention started. Importantly, the short-term DDD effect on official funding from US government sources is statistically significant at the ten percent level, supporting our first hypothesis advanced in Section 2.<sup>29</sup>

Apart from official funding, Table 3 corroborates the previous finding of statistically insignificant DDD effects on total (and overseas) expenditures, total revenues, and private donations. Neither in the longer run, nor in the short run did US-based NGOs benefit from their presence in Afghanistan in terms of overall growth, the scale of foreign operations, or a larger pool of private donations – relative to US-based NGOs that did not engage there.

The just noted findings on total (and overseas) expenditures, total revenues, and private donations also hold when excluding five extraordinarily large NGOs from the sample.<sup>30</sup> The treatment group then consists of eleven NGOs being present in Afghanistan (excluding Save the Children, CARE, AmeriCares, and World Vision), while the control group consists of 18 NGOs (excluding Food for the Poor). Note that this modification

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<sup>29</sup> However, the short-term effect on contract-related funding from US government agencies is as insignificant as the longer-term effect before. Furthermore, the DDD result for total official funding of the full sample of 34 NGOs loses its significance in Table 3, compared to the longer-term effect reported in Table 2. Possibly, bureaucratic delay played a larger role with respect to funding from non-US governments and international organizations.

<sup>30</sup> The average of total revenues for each of the excluded NGOs amounted to more than US\$200 million in the period of observation, compared to an average of US\$ 44 million for the remaining 29 NGOs taken together.

minimizes the above noted difference in the average size of NGOs in the treatment and the control group (see Table 1). As can be seen in the final column of Table 3, all DDD regressions with NGO expenditures, total revenues, or private donations as the dependent variable once again fall short of achieving statistical significance at conventional levels.

At the same time, the DDD results on short-term effects for the reduced NGO sample strengthen the support to our first hypothesis, according to which US-based NGOs being engaged in Afghanistan have better chances to receive increased official funding than NGOs staying away. Now the DDD regressions with either total official funding or official funding from US government sources as the dependent variable both show statistically significant short-term effects at the ten percent level.

#### *Iraq: longer-term and short-term effects*

Finally, we performed the DDD regressions for the case of Iraq (Table 4).<sup>31</sup> Considering that the US military intervention in Iraq started in March 2003, we adjusted the before-after comparison accordingly. The calculation of longer-term effects in the first three columns of Table 4 is based on changes in the 1999-2003 and 2003-2007 periods, respectively. The calculation of short-term effects in the last three columns of Table 4 is based on changes in the 2001-2003 and 2003-2005 periods, respectively.

The most striking difference to the case of Afghanistan is that we do not find any significant DDD result for Iraq, independent of whether we try to capture longer-term or short-term effects. The statistically weak findings are most probably attributable to the considerably smaller treatment group with just eight US-based NGOs from our sample being present in Iraq in 2003. In particular, we no longer find support to our first hypothesis that US-based NGOs following the US government and engaging under conditions of conflict or war benefit in terms of higher official funding.

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<sup>31</sup> Again, we do not show the D and DD results from the previous steps in Table 4 for the sake of brevity.

Nevertheless, Table 4 may offer some interesting – though tentative – insights which could guide future research. Looking first at the short-term effects, the means of the DDD point to the overriding role of private donations in raising additional revenues and financing higher overseas program expenditures. A possible explanation could be that NGOs following the US government into Iraq were initially successful in communicating to the public that they were meeting a completely new and important challenge by helping overthrow an ‘evil’ regime.<sup>32</sup>

Furthermore, it appears that the case of Iraq differs considerably from the case of Afghanistan when comparing the longer-term effects with the short-term effects in Table 4. The much larger DDD for total official funding and official funding from the US government in the longer run (first column in Table 4), compared to the short run (fourth column of Table 4), may indicate that access to official sources became easier for NGOs in Iraq in the course of time. In sharp contrast, the positive – though insignificant – DDD for private donations in the short run turned negative – though again insignificant – in the longer run.<sup>33</sup> The latter results may be attributed to increasing doubts in the public domain about the political rationale and effectiveness of the war in Iraq, notably after it became clear that weapons of mass destruction were not to be found.

## **5. Summary**

Apart from altruistic reasons, NGOs may engage in developing countries under conditions of conflict and war in order to secure funding and survive in the ‘market’ of humanitarian relief and development assistance. In particular, NGOs may go where their government’s political and military interests are at stake and, thereby, gain easier access to official funding. However, NGOs would also have to take into account how private donations react to their

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<sup>32</sup> It should be recalled that the treatment group largely consisted of NGOs which entered Iraq only in the year of the military intervention.

<sup>33</sup> The same pattern holds for total revenues, which is not surprising as private donations are the predominant source of funding.

engagement where official principals are outsourcing aid-related services at times of conflict and war.

We address this potential dilemma by testing the hypothesis that US-based NGOs being present in Afghanistan and Iraq had better chances to attract increased financial support from government sources after US military interventions, though not necessarily from private sources, than NGOs staying away. We perform a difference-in-difference-in-differences (DDD) analysis by combining two datasets for a sample of 34 large NGOs: (i) self-collected data on the recipient country portfolio of NGOs for each year since 1997 and (ii) annual accounting data available for these NGOs from USAID.

We find that NGOs being active in Afghanistan tended to benefit from easier access to official sources of funding after the US intervention, compared to NGOs staying away. Nevertheless, there is no compelling evidence that it pays for NGOs to engage where the United States intervenes militarily. The effects of NGO presence in Afghanistan on private donations prove to be statistically insignificant – independent of whether we consider shorter or longer periods before and after the US intervention. Given that private donations are the predominant source of revenues for most US-based NGOs, it is hardly surprising that the effects on total revenues and (overseas) expenditures are insignificant, too. In other words, NGOs being present in Afghanistan did not grow faster than NGOs staying away. The evidence for the small number of sample NGOs with activities after the US invasion in Iraq is weak and less reliable, but there are indications that it became increasingly difficult for these NGOs to attract private donations with mounting doubts about the political rationale of the war and the effectiveness of persistent US military presence.

As discussed by Monshipouri (2003), various activities of competent and altruistic NGOs may help conflict resolution and rebuilding countries such as Afghanistan. According to our results, NGOs are well advised to rely on their competencies and altruism, rather than pragmatic concerns of government funding, when deciding on whether or not to take part in

the outsourcing of aid-related services under conditions of conflict and war. To paraphrase Edwards and Hulme (1996: 966), NGOs which “succumb to the temptation to take on functions which they know will attract large amounts of donor funding [from government sources]” may even fail to secure future financing in the longer run. For most NGOs, financial stability and the overall scale of operations depend primarily on private sources of funding. Hence, it is critically important for NGOs not to lose their distinct identity and not to erode their legitimacy as independent providers of humanitarian relief and development assistance. This risk looms particularly large when NGOs relax in their fundraising effort (as suggested by Andreoni and Payne 2011), while aid becomes increasingly politicized and militarized.



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Table 1 — Major characteristics in 2001: Means for 15 active NGOs and 19 inactive NGOs in Afghanistan

	15 active NGOs (treatment group)	19 inactive NGOs (control group)
Total expenditures (US\$ mill)	134	53.6
thereof (%):		
Overseas program expenditures	76.1	86.4
Number of recipient countries	21.5	12.8
Total revenues (US\$ mill)	135	53.3
thereof (%):		
Official funding, total	37.9	23.3
Official funding, US government	29.9	21
Official funding, US government, contracts	1.5	2.3
Private donations	61.4	75.4
(Other) private revenues (US\$ mill)	0.9	1.3

Notes: number of recipient countries includes Afghanistan for the treatment group. Private donations include cash and in-kind contributions

Sources: VolAg Reports; own data collection (number of recipient countries)

Table 2 – Changes in revenues and expenditures (US\$ million): longer-term effects for 15 active NGOs and 19 inactive NGOs in Afghanistan

Part A	D treatment group (15 active NGOs)				D control group (19 inactive NGOs)			
	2001-1997		2005-2001		2001-1997		2005-2001	
	Mean	SE	Mean	SE	Mean	SE	Mean	SE
Total expenditures	63.5	29.3	117	43.2	25.8	11.6	38.7	24.9
Overseas program expenditures	42.1	17.4	96.1	29.9	22	11	35.8	23.5
Total revenues	62.8	30.1	148	57	22	11.7	41.2	24
Official funding, total	15.8	5.13	36.6	10.2	4.8	2.1	6.3	3.6
Official funding, US government	12	3.9	25	8.4	4.5	2.0	5.7	3.4
Official funding, US government, contracts	0.41	0.5	3.5	3.2	0.59	0.46	0.14	1.42
Private donations	47.7	27.6	109	56.4	19.0	10.7	33.1	23.3
(Other) private revenues	-0.60	0.69	1.98	1.03	-1.9	2.2	1.8	1.9

  

Part B	DD treatment group (15 active NGOs)		DD control group (19 inactive NGOs)		DDD		
	Mean	SE	Mean	SE	Mean	SE	t-value
	Total expenditures	53.3	23.4	12.9	14.0	40.4	55.6
Overseas program expenditures	54.0	16.9	13.7	13.2	40.3	42.4	0.95
Total revenues	84.7	36.1	19.2	13.5	65.5	64.5	1.02
Official funding, total	20.8	7.1	1.5	4.7	19.4	11.2	1.73*
Official funding, US government	13.0	7.0	1.2	4.5	11.9	9.4	1.26
Official funding, US government, contracts	3.1	2.7	-0.45	1.8	3.5	3.3	1.08
Private donations	61.2	36.6	14.0	13.0	47.2	62.6	0.75
(Other) private revenues	2.6	1.4	3.7	4.1	-1.07	3.4	-0.31

Notes: Private donations include cash and in-kind contributions. \* significant at the 10 percent level.

Source: Own calculations based on VolAg Reports.

Table 3 – Changes in revenues and expenditures (US\$ million): short-term effects for active NGOs and inactive NGOs in Afghanistan

	DDD (15 active, 19 inactive NGOs)			DDD, excluding outliers (11 active, 18 inactive NGOs)		
	Mean	SE	t-value	Mean	SE	t-value
Total expenditures	11.7	22.2	0.53	9.9	6.9	1.42
Overseas program expenditures	8.8	16.7	0.53	8.6	6.5	1.33
Total revenues	17.7	24.1	0.74	7.0	8.6	0.82
Official funding, total	11.9	7.7	1.54	8.6	4.8	1.78*
Official funding, US government	11.9	6.6	1.79*	9.2	4.7	1.97*
Official funding, US government, contracts	1.4	1.3	1.09	1.4	1.6	0.89
Private donations	8.2	21.4	0.38	2.1	4.2	0.51
(Other) private revenues	-2.6	3.6	-0.72	-4.0	4.3	-0.93

Notes: Private donations include cash and in-kind contributions. \* significant at the 10 percent level.

Source: Own calculations based on VolAg Reports

Table 4 – Changes in revenues and expenditures (US\$ million): longer-term and short-term effects for 8 active NGOs and 26 inactive NGOs in Iraq

	DDD, longer-term effects (2007, 2003, 1999)			DDD, short-term effects (2005, 2003, 2001)		
	Mean	SE	t-value	Mean	SE	t-value
Total expenditures	-16.4	60.2	-0.27	17.0	43.0	0.40
Overseas program expenditures	44.6	54.6	0.82	48.2	38.5	1.25
Total revenues	-25.3	59.6	-0.42	40.0	53.3	0.75
Official funding, total	19.9	21.1	0.94	1.7	11.3	0.15
Official funding, US government	24.4	19.5	1.25	3.7	10.7	0.35
Official funding, US government, contracts	-0.86	1.8	-0.48	-2.3	4.0	-0.56
Private donations	-46.6	57.9	-0.80	35.3	51.9	0.68
(Other) private revenues	1.8	1.7	1.04	3.4	3.7	0.94

Notes: Private donations include cash and in-kind contributions.

Source: Own calculations based on VolAg Reports

## Appendix 1 – List of NGOs in the sample

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Action Against Hungry, Africare, Aga Khan Foundation, American Jewish Joint Distribution, AmeriCares, Asia Foundation, CARE, CHF International (Cooperative Housing Foundation, now Global Communities), Children International, Christian Children’s Fund, Citihope International, Food for Hungry, Food for Poor, Hope Worldwide, International Medical Corp, International Orthodox Christian Charities, International Relief and Development, International Relief Teams, Ipas, Life for Relief and Development, Lutheran World Relief, Management Services for Health, Mercy Corps, Pathfinder International, PLAN International, Planet Aid, Pact Inc., Project Concern International Our Children, Project Orbis International, Research the Children Foundation, Save the Children Federation, Women for Women International, World Relief, World Vision International

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