

SMALL IS BEAUTIFUL: MOTIVATIONAL ALLOCATION IN THE NON-PROFIT SECTOR

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Abstract

We build an occupational-choice general-equilibrium model with for-profit firms, non-profit organizations, and endogenous private warm-glow donations. Lack of monitoring on the use of funds implies that an increase of funds of the non-profit sector (because of a higher income in the for-profit sector, a stronger preference for giving, or an inflow of foreign aid) worsens the motivational composition and performance of the non-profit sector. We also analyze the conditions under which donors (through linking donations to the motivational composition of the non-profit sector), non-profits themselves (through peer monitoring), or the government (using a tax-financed public funding of non-profits) can eliminate the low-effectiveness equilibrium. We present supporting case-study evidence from developing-country NGO sector and humanitarian emergencies. (JEL: L31, D64, J24, D5)

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