Strange bedfellows? NGO–corporate relations in international development: an NGO perspective

Nuria Molina-Gallart*

Policy, Advocacy and Campaigns, ActionAid UK, 33-36 Bowling Green Lane, London, UK

(Received 29 November 2013; accepted 7 May 2014)

In the last decade, non-governmental organizations (NGOs) have increasingly diversified their corporate engagement offering, among other things, research partnerships to develop new products and advice to improve value chains and positively impact on development. These partnerships present new opportunities for NGOs. But opportunities habitually come with risks, and NGOs are frequently ill-equipped to deal with them because they are still using old tools to assess new and more complex realities. If NGOs are to develop relationships with the private sector that are beneficial for both them and the communities they work with, they must bring their systems and policies for private sector engagement up to date with the new realities. This paper examines some of the current weaknesses in NGO–corporate engagement and presents recommendations for improvement that include adopting a much more comprehensive approach that does not only assess risks associated with specific (funding or corporate campaigning) relationships, but also takes stock of the different relative positions of power of the two parties; that acknowledges the vast diversity of actors within the ‘private sector’; and that enables NGOs to have a much more sophisticated understanding of the ‘development footprint’ made by the private sector companies they engage with.

Keywords: NGOs; private sector; multinational corporations; international development

1. Introduction

Non-governmental organization (NGO)–corporate partnerships are not new. Over the last decade, however, a renewed surge in engagement between NGOs and the corporate sector has been accelerated by the global economic crisis and the need for NGOs to diversify and intensify their fund-raising efforts (C&E Advisory Services 2012). This trend goes hand-in-hand with renewed debates about the role of the private sector as development actor and contributor to poverty eradication and economic and social development in developing countries (Bracking and Ganho 2011; Davies 2011).

Declining global official development assistance (ODA) has been an important factor driving NGO and bilateral development agencies’ interest in the potential role of the private sector (and private finance sector) in development. However, debates on the need to end aid dependency, on South–South cooperation and increasing commercial relations, and on the more resilient economic growth rates and foreign private capital inflows in developing countries in the wake of the global crisis may have also contributed to this trend (World Bank 2013).

As a result of this new mood, NGO–corporate relations have increased and diversified (Bulloch, Lacy, and Jurgens 2011; Schiller and Almog-Bar 2013). Until the early 2000s, NGO–corporate engagement was dominated by funding relationships and NGO–corporate campaigns (INTRAC 2000). The relationship was relatively straightforward as opportunities and risks were weighed against the core mission of the organization, which neither party needed to depart from. Hence, NGOs traditionally used simple guidelines and risk assessment tools when entering into these relationships.

In the last decade, these relations have moved towards more complex partnerships, such as collaborations to improve value chains and cause-related marketing (CRM). However, NGO strategic approaches to the private sector and the methods they use to assess their corporate engagements remain out of touch with the changing global landscape (Frithiof and Mossberg 2006). As a result, NGOs are ill-equipped to make well-informed decisions regarding the risks corporate partnerships pose and the opportunities they potentially provide.

To ensure that they benefit from these relations and that development outcomes are positive, NGOs must update their systems and policies for private sector engagement. This means adopting a more comprehensive approach to corporate engagement that does not only assess the risks of entering into funding relations or corporate campaigning, but also:

*Email: nuria.molina@actionaid.org

© 2014 The Author(s). Published by Routledge.
This is an Open Access article distributed under the terms of the Creative Commons Attribution License (http://creativecommons.org/licenses/by/3.0/), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited. The moral rights of the named author(s) have been asserted.
• has a more sophisticated understanding of the role the private sector plays in development as well as its potential impacts – both positive and negative;
• acknowledges the diversity of actors included within the broad category of ‘private sector’;
• has an awareness of the different relative positions of power of NGOs and corporations.

Consideration of these factors will enable NGOs to undertake better engagement with corporations and establish strategic relationships that result in positive outcomes for both NGOs and the communities they work with.

In this paper, I identify the main weaknesses in current policies and systems for NGO engagement with the private sector and outline how they could be improved in the light of a more sophisticated and comprehensive understanding of the private sector’s role in development.

In Section 2, I present the main types of NGO–corporate relations and the drivers behind them. In Section 3, I present the tools – policies and systems – currently used by NGOs to assess whether and which corporations they want to engage with, and under what terms and conditions. In Section 4, I explain how, in the light of the increasing diversity and complexity of NGO–corporate relations, current NGO systems and policies to assess corporate strategies face serious shortcomings and identify the main weaknesses in these systems. Finally, I conclude with recommendations to facilitate NGO–corporate engagement and deliver positive development impacts.

2. Taking stock of NGO–corporate relations: the what and the why

The origin of NGO–corporate relations lies in the philanthropic activities of corporations and wealthy individuals. However, these relationships have matured and become increasingly diverse and complex. Different measures can be used to gauge the quantitative increase in NGO–corporate partnerships in international development: an increase in corporate funding to NGOs; the number of partnerships; and the expectations of corporate and NGO professionals in the growth of this type of engagements. A brief look at these indicators shows an unequivocal upward trend in the number of NGO–corporate engagements in the UK since 2010 – in particular, a 14% year on year increase in marketing-led partnerships (C&E Advisory Services 2012).

(3) A survey conducted in 2011 among corporate and NGO professionals in the UK indicated that more than three quarters of respondents expected their investment in NGO–corporate relations and partnerships to grow over the following three years (C&E Advisory Services 2011). Remarkably, despite the difficult economic environment and limited business growth, none of the respondents thought that their investment in this area would decrease. These findings were confirmed in 2013, when 84% of business and 96% of NGO leaders expected these relations to become even more important for their organizations in the future (C&E Advisory Services 2013).

2.1. The what

With the continuing increase in NGO–corporate relations, the types of engagement are wide-ranging. They can, however, be broadly categorized as

(1) Funding/philanthropy: donations from private sector companies directly to NGOs;
(2) Partnerships: joint delivery of goods or services to improve value chains or facilitate research and development;
(3) NGO–corporate campaigning: to expose the harmful development impacts of corporate activities.

In addition, NGOs can procure goods and services from private sector providers (from buying computers to insurance or pension plans for their staff); invest their reserves in financial services; and use external contractors to outsource some of their activities. However, the purpose of these relations is to provide the goods and services needed to operate rather than deliver the NGOs’ core mission. Moreover, their financial value in the broader NGO–corporate engagement is marginal. Hence the focus of this article is on the three categories listed above.

(1) Funding/philanthropy: Philanthropic donations by corporations to NGOs can be very diverse in terms of size and nature. They range from a few thousand pounds (such as those received by medium-sized NGOs like ActionAid UK) to multi-million pound donations (such as the £15 million partnership between the multinational pharmaceutical GlaxoSmithKline (GSK) and Save the Children UK announced in May 2013). Corporate donations are mostly restricted contributions for either emergency response or to deliver a specific program that is aligned with the...
interests or core business objectives of the company – such as the GSK–Save the Children partnership which focuses on vaccines and health; or the Unilever–Oxfam partnership, which focuses on food security and livelihoods. However, small unrestricted contributions (of around £10,000 to £20,000) to the core funding of an NGO are slowly increasing. These donations can be channeled directly through corporate social responsibility (CSR) or philanthropy programs, or through foundations set up by a corporation with the aim of managing their philanthropic activities – such as the Unilever and GSK Foundations.

(2) Partnerships: The corporate sector is increasingly moving beyond philanthropic gesture in mainstreaming sustainability and development concerns into their core business objectives to mitigate negative impacts and – in the more progressive companies – proactively contribute to sustainable economic growth. CSR departments are shifting peripheral activities that have been mere add-ons to the company’s business, to the center of their business models, such as value chains, labor, and environmental issues (Strandberg 2002; Berger, Cunningham, and Dunwright 2007; Pedersen and Neergaard 2008). There is, however, no consensus around what CSR should entail and some authors raise concerns about the credibility of companies’ CSR efforts (Frynas 2005; Fonseca 2010; Gilberthorpe and Banks 2012). Regardless of such concerns, NGO–corporate partnerships are currently flourishing. They include:

- Joint service delivery and product development, such as Save the Children’s partnership with GSK.
- Global supply chains to, for instance, promote labor rights and smallholder farmers such as in Oxfam’s relationship with Unilever (Crawford and Smith 2008).
- Support to small businesses to improve market access and enterprise development in developing countries, such as Christian Aid’s ‘Monsoon and Silk Workers’ program, which aims to increase the number of silk rearers in Afghanistan.
- Campaigns to make businesses more transparent and accountable – such as ActionAid’s ‘Who Pays’ campaign – which led to a constructive engagement with Waitrose, British Brands Association, and the Federation of Small Businesses to advocate the creation of a Supermarket Adjudicator, resulting in the new Grocery Code Adjudicator Act 2013 (House of Commons Business, Innovation and Skills Committee 2011).

(3) NGO–corporate campaigning: While NGOs have campaigned to target harmful corporate behavior for decades (where NGOs do not engage in conversations with targeted companies – ‘pure campaigners’), NGO–corporate campaigning is more recent. This combines outside pressure (from, for example, civil society and the media) with inside engagement (‘vocal critics’ within corporations) in a bid to change corporate behavior.

The above range of relations reflects the diversity of both the NGO and corporate sector. As discussed below, private sector companies are extremely diverse in their size, operations, core business structure, and approach to social, labor, and environmental issues, ranging from Northern multinational corporations (MNCs), such as Unilever, Shell, and Coca-Cola, to increasingly emerging domestic companies, such as Sun Pharmaceutical, developing country small and medium enterprises, and cooperatives of micro-entrepreneurs. It might not, however, be helpful to cluster these very diverse economic and social actors together – for reasons I explain below. NGOs are also extremely different, ranging from large multi-million pound international NGOs, such as Oxfam, Save the Children, or ActionAid, to medium- or small-sized campaigning NGOs that do not deliver programs in developing countries; and small, local NGOs in developing countries. Accordingly, the nature of NGO–corporate relations differs greatly.

2.2. The why

The existing literature addressing NGO–corporate engagement tends to focus on the corporate reasons for engagement. The motivation for NGOs to enter into relations with corporates remains under-researched (Schiller and Almog-Bar 2013). While it is important to note that the motivations for different types of relations are diverse and that drivers for engagement do overlap, the reasons for NGO engagement with the corporate sector can be broadly categorized under the following terms:

(1) Funding,
(2) Realpolitik,
(3) Credibility,
(4) Outreach, and
(5) Change

(1) Funding: This is possibly the most common driver for NGO engagement with the private sector. It remains the leading metric used by NGOs to assess the value of partnerships (C&E Advisory Services 2013). It is also the main driver for philanthropic relations but is integral to the partnership type of NGO–corporate relationships – such as in the cases of the GSK–Save the Children and the Unilever–Oxfam partnerships. Traditionally, corporate funding is not only concentrated in bigger
internationalized development NGOs – who have greater absorption capacity and stronger brands – but also often channeled to small, local development NGOs or humanitarian emergencies. The funding base of NGOs is diverse and can range from institutional funding from governments to small, regular donations from their members and supporters, private foundations, and corporations. A diversified funding mix lowers the risk of funding crisis while providing greater independence. And while corporate funding is typically a very small percentage of total NGO funding, as suggested above, this is changing.

(2) Realpolitik: Possibly always present in all types of relations between NGOs and corporations, this driver for engagement increased in relevance as NGOs became more aware of the role played by MNCs as key economic and political actors in globalization.

Some MNCs contribute substantially to the gross domestic product (GDP) of some developing countries – in particular, low-income, resource-rich countries with a large presence of extractive MNCs or with large investments of commodity trading houses. Beyond their economic muscle, they also have political influence both at home (over home country governments in order to, for example, advocate investor-friendly bilateral trade and investment agreements) and abroad (exercised through negotiations of investment contracts with host developing countries who are often in weaker bargaining positions due to lower technical and political capacities). They are also able to obtain state-subsidized financing or state guarantees for their investments in developing countries through, for example, Export Credit Agencies, public development banks, or development finance institutions.

(3) Credibility: Credibility typically drives the partnership type of relationship. It is closely related to, but different from, the realpolitik. While realpolitik is a purely pragmatic driver, credibility is largely based on the value set promoted by the current mainstream development paradigm. According to this paradigm, the private sector – in particular large and powerful MNCs – is the driver of economic growth, and government intervention hinders rather than helps growth. It tends to consider that free-market capitalism is the only pathway for efficient resource allocation and successful economic development. Given the high normative value attached to them, large MNCs have become a source of credibility for NGOs who – implicitly or explicitly – can claim their business models are more efficient through association with large corporations. In turn, corporations can claim higher ethical standards through their association with NGOs.

NGOs, like many other institutions and companies, also tend to measure their success and influence in terms of size and income. Although the economic crisis has taken its toll on many NGO finances, the majority of big UK development NGOs still have income growth targets in their organizational strategies. Credibility is, therefore, often also derived from the size and financial power of the organization. In this regard, corporate funding is important in its own right for NGOs to meet their financial growth targets. However, it is becoming increasingly important as a condition to access funding from official development agencies (including the UK Department for International Development), as they often require NGOs to enter into consortia and partnerships to be eligible for certain funding lines or win official bids.

(4) Outreach: This driver is also behind the partnership type of NGO–corporate relations. It is, by and large, a symbiotic relationship whereby the two parties take advantage of each other’s ability to reach out to constituencies that could not otherwise be reached. This type of relationship can range from joint NGO–corporate advocacy letters to expand their reach; the use of company supply chain expertise to distribute NGO services; or CRM, such as the jeweler Bulgari and Save the Children partnership – a relationship driven by a combination of funding and outreach drivers.

(5) Change: The desire to change corporate behavior is the main driver behind corporate campaigns, although it is to some extent also cited as the driver for some partnerships. Together with funding, this is possibly one of the most common drivers for NGO engagement with corporates (INTRAC 2000; Nelson 2007).

The drive to change corporate behavior has been at the heart of environmental campaigns (by large international NGOs, such as Greenpeace and Friends of the Earth, but also smaller and more specialized NGOs, such as International River Networks or Rainforest Action Network) and ethical consumption campaigns (such as company boycotts promoted by Ethical Consumer). Corporate campaigning has increased among development NGOs over the last decade, with particular focus on the industrial sector, which can have devastating impacts on developing countries. This is the case of campaigns against extractive sector companies (such as campaigns against oil company Shell in Nigeria or mining company Vedanta in India by ActionAid and local groups), pharmaceutical
companies (such as the Treatment Action Campaign on generic AIDS drugs against GSK), or utilities companies (for example, the Cochabamba campaign in Bolivia targeting Bechtel against water provision privatization). More recently, development NGOs have increasingly targeted MNCs’ tax avoidance (for example, ActionAid campaigns against SABMiller and ABF) and land-grabbing practices (such as Oxfam Behind the Brands campaign against Pepsi, Coca-Cola, and ABF). All these campaigns aim at exploiting the reputational risks run by companies and the potential sales impact of consumers withdrawing their trust in a given company. They aim to exert pressure on the company to make public commitments regarding alleged ‘bad practice’ and to carry forward changes in their business model.

2.3. Entering into relationships with corporates: the how

After analyzing the what and the why of NGO–corporate relations, this section looks at the how – that is, the most common systems and policies used by NGOs to assess whether and which corporations they want to engage with and under what terms and conditions.

Corporate fund-raising screening guidelines and risk assessments for specific corporate campaigns are probably the most common systems and policies used by NGOs to assess corporate engagements. In contrast, assessments on whether and how to enter into partnerships – a relatively newer and more complex modality of engagement – are much less common and remain almost unexplored territory.

Both fund-raising guidelines and risk assessments for corporate campaigning share common traits. They are designed to determine the gains and losses associated with entering into a very specific relationship with relatively contained and clear objectives. They are straightforward with the positive and negative outcomes weighed against the core mission of the organization (none of these relationships require parties to substantially divert from their core objectives). For example, when a corporation decides to fund an NGO it simply channels a – typically very small – share of its profits to fund NGO programs but it does not require that they change their business models. Likewise, when NGOs undertake corporate campaigns they aim at changing the way a corporation conducts its business, but there is no intention to trigger any change within the NGO. Sometimes, the outcome of the engagement alters the parties involved but this is an (positive or negative) externality rather than an intended effect.9

This section briefly summarizes the types of NGO policies and systems most commonly used as well as the key risks considered in these assessments.

3. NGO systems and policies for corporate engagement

The most common systems and policies (or tools) still used by NGOs for corporate engagement are:

(1) fund-raising screening guidelines;
(2) risk assessment for corporate campaigning; and
(3) policies governing financial management and procurement.

(1) Fund-raising screening guidelines, or corporate fund-raising policy, determine whether or not an NGO enters into a funding relationship with a corporation. These guidelines are common in all big development NGOs; but content and formats typically differ across the sector.10

Some NGOs have fairly light guidelines that seek to exclude funding from companies known to have breached international law and human rights agreements (such as child labor). Very often, these guidelines also exclude sectors in standard exclusion lists of responsible or social investors (such as arms manufacturing, tobacco, alcohol, and gambling). Light guidelines tend to be simple checklists with few basic questions regarding the track record of the company on human rights and social and environmental standards. They tend to include questions regarding media coverage of some of the potential violations, which could generate reputational risks for the NGO.

Other guidelines have much stricter thresholds that not only refer to the ‘do no harm’ type of exclusions, but also seek to identify companies with high ethical standards in the way they run their businesses (some of these guidelines even include an indicative target for the tax effort made by these companies). These guidelines tend to be much longer (ranging from 20 to 40 pages); the underlying research – or the guidelines themselves – has often been commissioned to external researchers or specialists on ethical investment (or similar fields of expertise), and they are less focused on external perceptions and reputational risks than on the actual ethical credentials of the company.

The largest UK development NGOs are a representative sample of the breadth of the different types of guidelines described above. The strictness of the guidelines is usually inversely proportional to the amount of funds raised from the corporate sector. However, there is no evidence showing whether a causal relationship exists between the two, or whether this is a simple correlation of the fact that NGOs with stricter guidelines might have less appetite to raise fund from the private sector. Lack of literature on comparative analysis of different fund-raising guidelines and the impact on the share of their corporate fund-raising makes it hard to provide conclusive findings on the impact of strict fund-raising guidelines on actual funds raised from corporations.

(2) Risk assessment for corporate campaigning. Typically, before launching a corporate campaign (i.e. against
the use of child labor, or the conditions of garment workers in poor countries, or the aggressive marketing of baby formula milk), NGOs carefully assess the risks and opportunities associated with it and weigh up expected gains against potential losses.

These assessments usually consider a wide range of issues, including:

- Due diligence on the NGO research conducted to substantiate the claims or accusations against the company. This process tends to include usual internal sign-off processes and external peer-review by experts.
- Legal checks to minimize libel risks.
- Ensuring that communities in the affected area or workers from the relevant company are not being put at risk and assessing whether company’s retaliation could in one way or another put broader NGO operations at risk.
- Checking potential direct or indirect links with the company that could compromise the ethical reputation of the NGO.
- Checking how the anti-corporate tone of the campaign could potentially have an impact on prospects for insider engagement with the company, or more generally, on the profile and external perception of the NGO.
- Assessing opportunities for changing the behavior of the company.

For example, in a recent campaign launched by Save the Children against companies aggressively marketing baby formula milk in developing countries an ad hoc risk assessment and management working group was put in place to ensure the robustness of the research and the allegations made against the target companies to check legal risks, to assess the potential links with the company of offices and aid workers in relevant case study countries, and to ensure the tone of the activities and outputs involved in the campaign did not put the broader corporate engagement strategy of the organization at risk.11

Another example is ActionAid’s tax justice campaign. In this case, the campaign is part of the organizational risk register that oversees different types of risks associated with all the activities conducted by the NGO. Before the launch of any campaign targeting a specific corporation, the organization conducts strict due diligence on the research and allegations made, legal checks, potential impacts of company retaliation on the NGO workers in case study countries or workers of the company and compatibility with insider engagement strategies with the company. Considerations may change substantially across different NGOs depending on the appetite for risk of each NGO and their track record in terms of corporate campaigning.

It is worth noting that, in general, development NGOs tend to be less inclined to corporate campaigning than environmental and human rights NGOs (i.e. mostly campaigning-only NGOs). One reason for this might be that the potential risks associated with the communities affected by corporate operations are assessed before this type of campaigning begins. Other hypotheses point to a greater dependency of development NGOs on corporate funding. These types of assessment are informal rather than formal, made on an ad hoc basis before entering into corporate campaigning.

(3) Policies governing financial management and procurement. Until very recently, NGOs tended to buy goods and contract services – including financial services, such as banking, insurance or employee pension schemes – on the basis of price and quality. Over the past few years, NGO management has become increasingly aware of their role as consumers and the need to align their consumption decisions with their ethical values. Currently, at least two of the biggest UK development NGOs (Oxfam and ActionAid) are developing new policies – ranging from guidelines for ethical procurement to internal policies for an ethical management of the financial services that they use – to ensure that their consumption decisions are aligned with their policy, advocacy, and campaigning positions.

These policies intend to ensure that finances (bank accounts, reserves, pension schemes, insurances for staff, etc.) are managed through financial institutions with high ethical credentials and that goods and services are not procured from companies that engage in unethical activities. They take an approach similar to that used by ethical investors (using exclusion lists to rule out harmful sectors, such as drugs, arms, etc.), and in some public procurement policies.

As the intensity of NGO–corporate relations increases and their nature diversifies, these specific approaches become insufficient to manage a wider and more complex set of relationships. In the next section, I identify the main weaknesses in the existing web of NGO systems and policies to assess the potential benefits of corporate relationships for NGOs.

4. Weaknesses: what are NGOs missing?

Although emerging partnerships present new opportunities for NGOs, these opportunities carry with them multifaceted risks. Unfortunately, NGOs remain ill-equipped for corporate partnerships because they are still using the old tools presented in Section 3 for what are new and more complex realities. This section focuses on three of the main risks to NGOs:

(1) power imbalances,
(2) private sector myopia, and
(3) the ‘development footprint’
4.1. Power imbalances

The first set of risks NGOs face are power imbalances. NGOs and MNCs have different relative positions of financial, economic, social, and political power, which become an issue when NGOs and corporations enter into partnerships.

Financial power imbalances in the aid industry have been widely researched in the context of donor–recipient relationships, where power tends to be heavily skewed toward the donor (De Renzio and Mulley 2006; Molina-Gallart 2007, 2008). Although more limited, there is also a body of literature that explores the power imbalances between donors and recipients in the context of philanthropic relations, either outlining the problems inherent in these imbalances and making a case for a greater balance in these relationships (McGarvey 2006) or building on this power imbalance to suggest how it can be used by donors to change behavior and pick winners among non-profit organizations. According to Hunter (2009), for example, NGOs are perceived to a large extent as ineffective institutions and, as such, they require external incentives to reform.12

Grant-making processes are fraught with these power imbalances, although they obviously change from donor to donor depending on their funding culture – i.e. how interventionist the donor is in its relationship with grantees. Some MNCs only donate to areas closely related to their core business strategy (such as GSK’s donation to Save the Children for health and vaccines-related programs, or Unilever’s contribution to Oxfam towards sustainable agriculture). These types of donations are restricted to specific programs for specific deliverables (as opposed to core donations that the NGO can allocate to any of its programs, according to needs). MNCs can also have greater leverage on how the money is spent, as they have the technical knowledge, giving them greater power and control over the relationship.

Moreover, when resources are limited, as they typically are in developing countries, NGO needs tend to be greater than the funding available, allowing donors to pick and choose their grantees from a large pool of eligible candidates. It is common practice for corporations to consider several NGOs for funding allocation, although they will only end up funding just one. To win bids, NGOs must align themselves and comply with the priorities and requirements of the corporate donor.

These imbalances are, however, to an extent manageable within the context of funding relationships or even corporate campaigning. This is because these types of relationships do not require NGOs to substantially divert from their core business strategies, thus allowing them to operate in familiar territory where they can easily gauge the implications of corporate relations. In the case of funding relationships, and with the exception of situations when an NGO might be undergoing a financial crisis or in the case of small NGOs with limited and fragile finances, an NGO can always reject funding that does not fulfill the criteria of its fund-raising guidelines. Rejecting corporate funding is not a frequent practice but it is also not uncommon.

It is in the context of newer and more complex types of partnerships where power imbalances have become more problematic (see the case study examined in Schiller and Almog-Bar, 2013). When NGOs enter into relations that require moving to new territories and finding common ground and objectives with corporations, they face a number of challenges.

First, NGOs might lack technical expertise, which risks placing them in a position where they develop and legitimate a product or service which could potentially have harmful development impacts. For instance, an NGO may enter into a research partnership with a multinational pharmaceutical company to develop a nutritional product to fortify children’s nutritional status in poor communities. While this product could potentially have a positive impact, it raises issues of (a) externalizing profits, i.e. why has not the product been developed and marketed by local companies to create localized economic development and (b) health benefits, i.e. the NGO may not be qualified to assess whether the product poses a health risk to consumers.13

Second, corporations tend to be better positioned to ensure that relations with NGOs – or with any other partner – deliver a net gain for them, whereas NGOs are more used to operating in political and social contexts dominated by corporations rather than competition. According to the Corporate-NGO Partnership Barometer (C&E Advisory Services 2013) only one-third of NGOs considered non-financial relations with MNCs beneficial to their core mission, while two-thirds of businesses considered relations with NGOs to be beneficial.

In addition, corporate contributions – be it funds, in-kind gifts, or services – are usually easier to quantify, whereas NGO contributions – legitimacy, ethical value, and knowledge of the communities where they operate – are more difficult to quantify but extremely valuable. In practice, this often begs the question of whether the relation is “profitable” for an NGO as it is hard to measure the size of its contribution. For example, in instances of CRM, a company can quantify the additional sales resulting from the partnership, and the NGO will know the additional income from this funding source. However, it will be much harder for the NGO to quantify the additional contribution that it made to improving the brand of the corporation and providing the (ethical) value that is associated with the moral reputation attached to the NGO. This raises questions about whether the NGO negotiated the full cost and additional contribution to the partnership and received a proportional return.

According to Schiller and Almog-Bar (2013), imbalances in financial position and technical expertise are compounded by the perception of superiority in skills
and expertise held by corporate staff over NGO staff. Their case study suggests that in one NGO–corporate partnership, despite the high level of technical expertise and political connections of the NGO, the corporate partner was perceived (by both) as more powerful and influential. This deeply ingrained ideological bias may be the product of mainstream thinking where private sector institutions are generally considered to be more effective and professional than public sector and non-profit institutions.

Evidence of the perceived imbalances among corporate and NGO staff are confirmed by responses recorded in the Corporate-NGO Partnership Barometer (C&E Advisory Services 2013). Businesses tend to classify a significantly higher proportion of partnerships as strategic compared with their NGO counterparts. This means that corporates are significantly more satisfied than NGOs with the partnerships, while NGO staff remains skeptical about net gains.

The above challenges beg the question of whether NGOs are entering into equal and balanced partnerships, and whether they face a situation similar to the one developing countries face when negotiating an investment contract with an MNC, where governments often lack the technical and negotiating skills to ensure that the contract delivers positive results for the country.

4.2. Private sector myopia

The second set of risks are linked to the – usually unacknowledged – vast diversity of actors that the term ‘private sector’ encompasses and the general tendency among NGOs to focus on MNCs, the most powerful corporate actor, but definitely not the only one. Categories of private sector companies and their relation to development are

(1) MNCs (including global banks and investors): Their core business aims are to provide goods and services to generate economic activity, create jobs, pay taxes, etc. They have a for-profit objective and are responsible for most of the global foreign direct investment (FDI) flows, including those to developing countries. They tend to be forerunners in CSR activity because of their visibility and associated reputational risks. For this reason, they have been the traditional targets of standard corporate engagement by NGOs such as Oxfam, Save the Children, etc. They also have the strongest influence over governmental law, policy, and budgetary decisions.

(2) Big domestic business: Although this category of business is much less visible than MNCs, it tends to make up the biggest share of national GDP (including that in developing countries), but domestic businesses are much less internationalized. They tend to provide the greatest share of jobs in ‘advanced economies’ and roughly half in middle-income countries; they bear the brunt of corporate taxation and are less active in CSR than MNCs and less influential in governmental law, policy, and budgetary decisions than MNCs (but national governments are aware of their economic importance).

(3) Small- and medium-sized entrepreneurs and micro-business: They can make up for most of the jobs in some developing countries but they make up for a much smaller share of the GDP, and they are much less active in CSR and far less influential in governmental law, policy, and budgetary decisions than the above two categories. Their challenges and interests sometimes have a neater overlap with those of the average worker or citizen than those of categories 1 and 2.

The risk here is neglecting many smaller, localized private sector actors (category 3), such as smallholder farmers, textile sector micro-entrepreneurs, etc. Limited engagement with MNCs tends to focus on generating commercial opportunities for these small and micro-entrepreneurs, particularly in the context of global value chains controlled by Northern MNCs.

These engagements represent the two extremes of the private sector: the most powerful economic and financial actors (MNCs from advanced economies); and the most powerless of the private sector actors (small and micro-entrepreneurs). It is understandable that NGOs attempt to influence, or get funding from, the most powerful corporations to try and help the powerless; but this not only heightens risk but also misses an opportunity.

First, a simplified NGO vision of the private sector is determined by the need to secure corporate funding (funding driver) and recognition of the political power of MNCs (realpolitik driver) in a globalized economy (INTRAC 2000; Molina-Gallart fieldnotes). This simplified understanding, however, threatens to tilt the balance of engagement toward MNCs from the ‘global north’, which might focus NGO engagement on the harmful impacts that these types of companies tend to have.

Second, this myopia misses the opportunity to engage with the ‘missing middle’ – that is, the small- and medium-sized companies that are not internationalized in developed and developing countries but are still powerful actors in the context of national politics, and who generate a steady stream of jobs and taxes (they have a more limited ability to de-localize or to shift-profits to avoid taxes, given their limited internationalization), and who have been crucial economic actors in successful processes of economic development (Chang 2002, 2008, 2010). Engaging with the ‘missing middle’, although it would be strategic from a policy perspective due to the potential overlap of interests and to the positive impact that these companies have had in economic development (Chang 2002), is not an easy task. Relations are challenged by the diverging
interests of actors while opportunities for engagement are hindered by the lack of resources that these smaller companies devote to political and social engagement.

The drivers for engagement, therefore, are multiple, including access to corporate funding, partnering with corporations to tap into their credibility, political power to strengthen NGO credibility, or advocacy work. However, these are instrumental drivers. If NGOs are to devise strategic engagement strategies with the private sector to further their core mission, they must gain a better understanding of the private sector’s ‘development footprint’.

4.3. The ‘development footprint’

The third set of risks, and possibly the most important, are linked to what I call the ‘development footprint’ of corporations; i.e. the overall impact that their operations have in developing countries, from social to environmental impacts on the communities where they operate, to the terms and conditions of investment contracts that they negotiate with host (developing country) governments, or even the macroeconomic impacts of their business models in these contexts. In the last few years, the role of private sector companies in development has become a key issue in development debates. Debates focus on positive contributions – such as poverty eradication and sustainable development – their role in financing development, and whether ‘traditional development’ and the aid industry should embrace private sector companies as the so-called ‘new’ development actor (Bracking and Ganho 2011; Davies 2011).

A powerful driver behind these debates is the decline in ODA in Organisation for Economic Cooperation and Development (OECD) countries for the first time in decades, which is forcing the development community to look elsewhere to fill financing gaps. It is striking, however, that the increased focus on the role of private sector companies and private sector finance in development coincides with increased concern for how the practices of some of the biggest and most powerful private sector companies – mostly in the financial sector – led to the global economic and financial crisis which started in 2007/2008. Even more striking is that private sector companies are touted as ‘new’ development actors, when it is widely agreed in development economics that the private sector has been crucial to global economic development in the last few centuries (Khan and Reinhart 1990; Khan and Kumar 1993).

For NGOs, one of the possible explanations for this apparent recent discovery of the private sector as a development actor may be down to the fact that NGOs tend to focus on social policy (essential services), access to basic utilities (such as water and sanitation), and hunger, which are the areas where they traditionally deliver on-the-ground programs. Some NGOs have indeed developed expertise on economic policy, including trade, macroeconomic policy, fiscal policy, or financial sector policy. However, this has mostly been reactive to the structural adjustment programs of the 1990s and early 2000s and the free-trade and free-market push of the last decades by influential development actors, such as multilateral development banks. A proactive agenda and thinking on heterodox economic policies, including on the role of the private sector in development, is much less developed in the larger development NGOs. If they are to engage more strategically with the private sector, this gap needs to be filled.

First, they need to have a better understanding of the diversity of actors – and their often diverging interests – within the broad category of ‘private sector’ to identify which of these actors’ interests are closest to their own. As stated earlier, from MNCs to small, medium, and micro-entrepreneurs, from public-listed to private companies, from advanced economies to developing-country companies, the roles, interests, and impacts on development are extremely diverse, if not opposed at times. So far, larger development NGOs have, by and large, conflated MNC engagement with private sector engagement as a whole.

For instance, engagement in tax justice campaigns has largely been focused on MNCs with the objective of questioning and eventually changing their tax avoidance practices. Powerful small- and medium-sized companies in developed and developing countries, which tend to engage much less in profit-shifting for the purpose of tax avoidance, partially because they are less internationalized, have been largely missing from NGO engagement. These smaller companies could be close allies (as they cannot minimize their tax bills in the ways MNCs do and hence suffer a comparative disadvantage).

Second, when engaging with MNCs, NGOs usually focus on a specific aspect of their businesses (either tax avoidance or violation of labor rights), or a concrete operation in a developing country (engaging in a joint partnership), or even in a particular impact of their operations (such as the effect on food security or exposing harmful behavior). The development impacts – positive or negative – that NGOs have largely focused on tend to be at a micro- or mezzo-level (for instance, labor and environmental impacts of a copper mine or the impact of improved value chains in access to markets by smallholder farmers), and less so at the macro-level. The tax justice campaigns represent a more macro-focus, as do recent attempts to estimate the impact of land leases to large MNCs on food security. But these are still limited. Both the economic development literature and the vast literature on the impacts of FDI point to a much broader set of issues that NGOs tend not to assess when they engage with private sector companies.

Another aspect often missing in the NGO analysis of the private sector is their crucial interactions with the public sector, without which it is hard to deliver positive
development impacts. Historically, the vast majority of successful economic development processes has involved a close and symbiotic relationship between the public – government and government agencies – and private sectors and continues to play an important part of the economic policy of most-advanced and emerging economies. Governments have played active roles in providing credit and subsidies, enacting protectionist measures, and supporting export industries (Chang 2002; Reinert 2007).

This omission has been propagated by the mainstream schools of thought in development economics – to a large extent led by multilateral development banks and orthodox development economists – that have approached the role of private sector companies and FDI in developing countries in isolation from the regulatory and supporting roles of the state. This view has presided over the ‘private sector development’ (PSD) paradigm promoted by the World Bank, other multilateral development banks, and bilateral official development agencies (see Bayliss and Hall (2002) for a critique of the World Bank’s and other official development agencies’ approaches to ‘PSD’). This paradigm has also been advocated by some MNCs in the ‘global north’ that saw in this approach a push for liberalization and privatization in developing country markets, which could provide important commercial opportunities, as well as subsidies and investment guarantees from official development agencies.

Although some NGOs have been critical of the PSD paradigm and its implications for NGO engagement with the corporate sector, their critiques have often been patchy and sectoral, rather than providing a holistic alternative approach. A more sophisticated understanding of the role of the public sector, and the implication of the PSD approach for infant industries in developing countries, is crucial to the development of beneficial NGO–corporate engagement. In its absence, NGOs risk entering into partnerships with companies that may provide seemingly positive effects at the micro-level, but which could be harmful at the macro-level.

From the impact of MNCs on job creation, to technology transfer and patents, tax avoidance, the effects of potential crowding out of business opportunities for local companies, to the role of the public sector in supporting a flourishing private sector in developing countries, a range of comprehensive micro-, mezzo-, and macroeconomic effects must be taken into account by NGOs. Such a holistic assessment would provide a more accurate ‘development footprint’ of a given company, without which NGOs risk entering into a partnership with MNCs – or other smaller scale companies – blindly.

5. Conclusion: a new model to assess NGO–corporate engagement

A robust model to assess NGO–corporate engagement should start with developing a sophisticated policy position on what the NGO thinks could be the positive contribution of the private sector to economic and social development in low-income countries. Ideally, this should be part of the NGO’s broader vision for development and would ultimately enable them to assess corporations’ ‘development footprint’ (Molina-Gallart 2011).

NGOs should start by addressing the following key questions:

1. Does the company have a good track record on human rights, social and labor standards, and the environment in developing countries?
2. Is the company complying with key principles of development effectiveness, such as alignment to national development goals and strategies, support to technology transfer, employment of local citizens, and local business development?
3. Is the company involved in tax evasion or tax avoidance (including transfer mispricing, minimum capitalization practices, use of tax havens to invest in developing countries, or applying pressure on developing-country governments to obtain tax breaks or favorable tax treatments)?
4. Are the company’s procurement practices favoring developing-country providers in the context of their investments in poor countries in order to maximize local companies’ business opportunities in global value chains?
5. In cases where there is an investment contract with the host country, has the company followed due diligence regarding transparency in the negotiation of the contract as well as public and informed consent by affected communities? Is the contract complying with the highest standards and model contracts for responsible investment?
6. Is the company lobbying official policy processes (such as bilateral or multilateral investment treaties) to ensure protection of investors’ rights which could curtail developing-country governments’ policy space to fulfill their human right duties towards their citizens?

Then, NGOs should assess the different roles that a corporation plays in the development arena, identifying which of those roles they want to influence or engage with by assessing which private sector roles are more relevant targets for the NGO’s objectives, and where the NGO can add value. These roles range from core business activity (i.e. provision of goods and services for profit) to CSR, environmental, social and governance standards, and community investment activity, to the least visible activity of influencing governmental law, policy, and budgetary decisions.

An example of how different corporate roles can be operationalized is presented in the following table:
Third, NGOs should question what types of private sector companies they want to prioritize in their engagement strategies – MNCs, domestic, or small-, medium-, or micro-sized businesses – by identifying which categories are most relevant for each of the NGO’s objectives, and what type of company is more likely to partner with the NGO, given its internal policies, campaigns, vision for development, and brand.

Finally, NGOs should have accurate *ex ante* assessments of the expected beneficial outcomes from engagement, as well as the potential losses or risks at stake. The measurement of the expected outcomes has to not only cover monetary and hence more easily quantifiable outcomes, but should also cover outcomes for both parties which are not so easy to quantify. While this is not easy and new methodologies might need to be set up, it is crucial for measuring the contributions that NGOs bring to these types of engagement because they might be less tangible but extremely valuable.

This suggests adopting a much more comprehensive approach that does not only assess specific risks associated with specific (funding or corporate campaigning) relationships, but also takes stock of the different relative positions of power of involved parties; which acknowledges the vast diversity of actors within the broad term ‘private sector’; and which enables NGOs to have a much more sophisticated understanding of the ‘development footprint’ of the private sector companies they engage with. Without them, NGOs risk engaging in partnerships that can be detrimental both to them as organizations and their core mission to eradicate poverty. With them, NGOs will strengthen their bargaining position and their understanding of what works and what does not with private sectors in development.

No doubt this involves important efforts to not only change internal policies and systems, but also develop a much deeper and complex understanding of the role of the private sector in development. However, given the upward trends in these relations, it is no longer a matter of choice but of necessity.

| Corporate objectives | Core business | Corporate social responsibility | Corporate interaction with government |
|----------------------|---------------|---------------------------------|--------------------------------------|
| **NGO objectives** (examples) |               |                                 |                                      |
| Address structural causes of poverty | x |                       |                                      |
| Increase influence on relevant policies | x |                                      | x                                     |
| Increase funding | x |                                      | x                                      |

Note: Dark tint = crowded; medium tint = less crowded but active; light tint = Greenfield.

**Notes**

1. See aid statistics by the OECD Development Assistance Committee at [http://www.oecd.org/dac/stats/ODA2012.pdf](http://www.oecd.org/dac/stats/ODA2012.pdf). After a decade of increasing global ODA, in 2012 development aid fell by 4% in real terms, following a 2% fall in 2011.
2. Figures compiled by the author with data from annual reports and data provided by corporate partnerships departments of the UK top 10 development and humanitarian NGOs.
3. See press releases issued on 9 May 2013 by Save the Children UK at [www.savethechildren.org.uk](http://www.savethechildren.org.uk) and GlaxoSmithKline on [www.gsk.com](http://www.gsk.com) and on [www.gsk.fr/gsk/actualite/pdf/GSKandSaveTheChildren.pdf](http://www.gsk.fr/gsk/actualite/pdf/GSKandSaveTheChildren.pdf)
4. Source: Author’s interviews with Private Sector Advisers and Heads of Corporate Partnerships and Philanthropy of the biggest four UK development NGOs (Oxfam GB, Save the Children UK, Christian Aid, and ActionAid UK).
5. The nature of these two stands of corporate funding is rather different and has been explored elsewhere. Unfortunately, the scope of this article does not allow for further elaboration on these two variations of corporate funding to development NGOs. This is by no means an exhaustive list of NGO funding sources, but just a list of most recurrent sources of funding. Again, the nature, size, and origin of the NGO often determines the funding base and mix of funding sources.
6. The definition of corporate funding used in the article excludes funding from philanthropic institutions, including private foundations that have some direct or indirect links with corporation, such as the Gates Foundation or the Volkswagen Foundation, but which were set up as independent legal entities and whose mission is strictly non-profit, as opposed to the for-profit mission which defines a corporation.
7. On how Coca-Cola applies supply chain expertise to help non-profits to deliver pharmaceuticals in Africa, please see [Coke applies supply-chain expertise to deliver AIDS drugs in Africa, 13 November 2012, http://www.cocacolacompany.com](http://www.cocacolacompany.com)
8. Bulgari and Save the Children partnership, Rewrite the future: [http://www.savethechildren.org.uk](http://www.savethechildren.org.uk)
9. For instance, as a result of the insider engagement and private discussions between companies and development NGOs in the context of NGO tax justice campaigns, a greater understanding was gained on both sides of the drivers for a certain set of business practices and the drivers for the NGO corporate campaign. This might have, to some extent, changed the analysis of the problem and, to a more limited extent, the position of both parties; however, this is rather an externality of this interaction rather than an intended effect.
10. Fund-raising guidelines are internal confidential documents which are not publically disclosed.
11. Source: Direct personal experience of the author who took part in the risk management group.
12. It is interesting to note that this is the same rationale which for many years underpinned donor conditionality, whereby developing countries were – and still often are – considered to lack the capabilities to run effective governments, hence donors felt compelled to attach conditions to their aid programs.
13. Author’s own experience in the context of the negotiation of a partnership between a major UK development NGO and a pharmaceutical multinational corporation.
14. See OECD ODA 2013 figures at [www.oecd.org](http://www.oecd.org)
References

Bayliss, Kate, and David Hall. 2002. “Another PSIRU Critique of another Version of the World Bank Private Sector Development Strategy.” Report by Public Services International Research Unit.

Berger, Ida E., Peggy H. Cunningham, and Minette E. Dunwright. 2007. “Mainstreaming Corporate Social Responsibility: Developing Markets for Virtue.” California Management Review 49 (4): 132–157.

Bracking, Sarah, and Ana Sofia Ganho. 2011. “Investing in Private Sector Development: What Are the Returns? A Review of Development Impact Evaluation Systems Used by Development Finance Institutions in Europe.” Report Commissioned by Norwegian Church Aid and ActAlliance.

Bulloch, Gib, Peter Lacy, and Chris Jurgens. 2011. “Convergence Economy: Rethinking International Development in a Converging World.” Accenture.

Chang, Ha-Joon. 2002. Kicking Away the Ladder: Development Strategy in Historical Perspective. London: Anthem.

Chang, Ha-Joon. 2008. Bad Samaritans the Myth of Free Trade and the Secret History of Capitalism. New York: Bloomsbury Press.

Chang, Ha-Joon. 2010. 23 Things They Don’t Tell You About Capitalism. London: Penguin Books.

C&E Advisory Services. 2011. Corporate-NGO Partnerships Barometer 2011. http://www.candeadvisory.com

C&E Advisory Services. 2012. Corporate-NGO Partnerships Barometer 2012. http://www.candeadvisory.com

C&E Advisory Services. 2013. Corporate-NGO Partnerships Barometer 2013. http://www.candeadvisory.com

Crawford, Robert J., and N. Craig Smith. 2008. “Unilever and Oxfam: Understanding the Impacts of Business on Poverty.” INSEAD Case Study. http://www.insead.edu/facultyresearch/centres/sic/eecr/research/documents/UnderstandingtheImpactsofBusinessonPoverty.pdf

Damlamian, Corinne. 2006. “Corporate-NGO Partnerships for Sustainable Development: How Corporations and Nongovernmental Organizations can Work Together, Illustrated with Examples from the Fair Trade movement.” Degree thesis, University of Pennsylvania.

Davies, Penny. 2011. “The Role of Private Sector in the Context of Aid Effectiveness.” Report commissioned by the Working Party on Aid Effectiveness of the OECD Development Assistance Committee.

De Renzio, Paolo, and Sarah Mulley. 2006. “Promoting Mutual Accountability in Aid Relationships: Addressing the Power Imbalance between Donors and Recipients is Necessary to Promote Real Partnerships.” ODI Briefing Papers, Overseas Development Institute, London.

Fonseca, Alberto. 2010. “How Credible are Mining Corporations’ Sustainability Reports? A Critical Analysis of External Assurance under the Requirements of the International Council on Mining and Metals.” Corporate Social Responsibility and Environmental Management 17 (6): 355–370. doi:10.1002/csr.230.

Frithiof, Mattias, and Amelie Mossberg. 2006. “NGO – Business Partnerships: A Strategic Way of Performing Corporate Social Responsibility?” Master thesis, Stockholm School of Economics.

Frynas, J. G. 2005. “The False Developmental Promise of Corporate Social Responsibility: Evidence from Multinational Oil Companies.” International Affairs 81 (3): 581–598.

Gilberthorpe, E., and G. Banks. 2012. “Development on Whose Terms?: CSR Discourse and Social Realities in Papua New Guinea’s Extractive Industries Sector.” Resources Policy 37 (2): 185–193.

House of Commons Business, Innovation and Skills Committee. 2011. “Time to Bring on the Referee? The Government’s Proposed Adjudicator for the Groceries Code.” Ninth Report of Session 2010–2012, Volume 2.

Hunter, David E. K. 2009. “The End of Charity: How to Fix the Nonprofit Sector through Effective Social Investing.” Philadelphia Social Innovations Journal. http://www.philpsocialinnovations.org/site/index.php?option=com_content&id=36%3Athe-end-of-charity-how-to-fix-the-nonprofit-sector-through-effective-social-investing&Itemid=31

INTRAC (International NGO Training and Research Center). 2000. “NGOs and the Private Sector.” NGO Policy Briefing Paper No. 1.

Khan, M. S., and M. S. Kumar. 1993. “Public and Private Investment and the Convergence of Per Capita Incomes in Developing Countries.” IMF Working Paper, WP/93/51, International Monetary Fund, Washington, June.

Khan, M. S., and C. Reinhart. 1990. “Private Investment and Economic Growth in Developing Countries.” World Development 18 (1): 19–27.

McGarvey, Craig. 2006. “Power Imbalance and the Program Work of Philanthropy.” Grant-Makers in the Arts Reader, 17 (3). http://www.giarts.org/article/power-imbalance-and-program-work-philanthropy

Molina-Gallart, Nuria. 2007. “Untying the Knots: How the World Bank is Failing to Deliver Real Change on Conditionality.” Eurodad Report, Brussels.

Molina-Gallart, Nuria. 2008. “Outcome-based Conditionality: Too Good to be True?” Eurodad Report, Brussels.

Molina-Gallart, Nuria. 2011. “Responsible Finance Charter.” Eurodad Report, Brussels.

Nelson, Jane. 2007. “The Operation of Non-governmental Organizations (NGOs) in a World of Corporate and Other Codes of Conduct.” Corporate Social Responsibility Initiative, Working Paper No.34. Cambridge, MA: John F. Kennedy School of Government, Harvard University.

Pedersen, Ebsen Raitbek, and Peter Neergaard. 2008. “From Periphery to Center: How CSR is Integrated in Mainstream Performance Management Frameworks.” Measuring Business Excellence 12 (1): 4–12. doi:10.1108/13683040810864341.

Reinert, Erik. 2007. How Rich Countries Got Rich... and Why Poor Countries Stay Poor. London: Constable.

Schiller, Ruth S., and Michal Almog-Bar. 2013. “Revisiting Collaborations between Nonprofits and Busineses: An NPO-Centric View and Typology.” Nonprofit and Voluntary Sector Quarterly 42 (5): 942–962. http://nvs.sagepub.com/content/42/5/942

Strandberg, Coro. 2002. “The Future of Corporate Social Responsibility.” Report for VanCity Credit Union, Vancouver.

World Bank. 2013. Global Economic Prospects. Washington, DC: World Bank.