

Non-Governmental Organizations as Specialized Intermediaries in Global Environmental Protection

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This paper looks at changing roles of non-governmental organizations (NGOs) in the context of global environmental protection. The innovative nature of NGOs in this context is analyzed in view of the concept of “specialized intermediary”. Three elements of their activities, namely connecting the opinions of global citizens and international negotiations, organizing local environmental projects, and connecting emissions reducers and offset buyers through the market, are identified as new and significant contributions in global environmental context.

1. Specialized intermediary

The term “non-governmental organization (NGO)” refers to a wide variety of “voluntary group of individuals or orga-

nizations, formed to provide services or to advocate a public policy” (Encyclopedia Britannica). The expression “non-governmental” was first invented and defined by the United Nations Charter in 1945 to distinguish from governmental and inter-governmental organizations or private companies.

Although a number of NGOs, such as the Red Cross and Red Crescent Societies, already existed in the 19th century, it is since World War II, and more notably since the 1970s, that international NGOs have grown in number and scale. They address such a variety of issues as human rights, development assistance, provision of medicine, disaster relief, and protection of the environment.

Most NGOs are run by private donations from individuals, but many are also supported by governmental organizations. Big NGOs, such as Greenpeace and the Sierra Club, are managed internationally based on massive donation at an interna-

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tional scale, while others, such as the National Trust, are transnational federations of national groups managed nationally.

Environmental protection is an area where NGOs' activities have significant repercussions. Some NGOs, such as Worldwide Fund for Nature (WWF) and Greenpeace, have developed the financial basis to support substantial and influential projects, and sufficient technical basis to support global networks of information and expertise. To this end, these big NGOs (BiNGOs) have become equivalent to or even bigger players than intergovernmental organizations from both financial and information view-

points, as seen in Figure 1.

Those NGOs have their own unique approaches and activities in environmental protection: undertaking conservation programs alone or together with governments and local communities, collection and dissemination of information/expertise, and even such agreements as debt-for-nature swap with heavily indebted poor countries. Recent activities of NGOs extend to such new areas as market-based programs and carbon funds, and include a deepening involvement in the management of big private companies. A salient feature of these emerging types of activities is multi-faceted intermediation between stakeholders, poten-

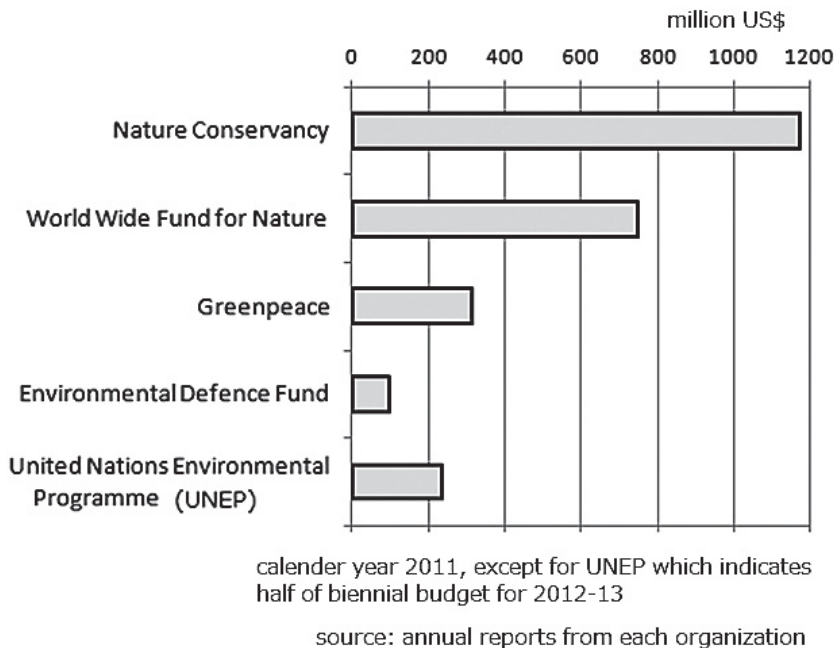


Figure 1 Comparison of annual budgets of selected international NGOs and UN agency

tial demands from the market and other unemployed resources in society.

The concept of “specialized intermediary” was coined by Khanna and Palepu (1999) to explain the unique innovative potential of modern free markets. Their main question was on the rise and fall of conglomerates, namely, why they became outdated as markets become more efficient in advanced economies.

A century ago conglomerates dominated the economy in the United States with the biggest companies all being conglomerates, such as Morgan and Rockefeller, often established by “robber barons”. The same applies to Japan in which a few conglomerates, or “Zaibatsu”, were so dominant until the end of World War II that the economy was described as a “two-layered” structure, where the Zaibatsu could be distinguished from the rest of the economy.

Yet these conglomerates have become much less visible after the 1970s, with more focused and specialized companies becoming plentiful and dominant in most developed markets. Today, the value of conglomerates often has a lower market value than the sum of diversified operations, and stock markets may apply a “conglomerate discount” to their shares.

Khanna and Palepu (op. cit.) explain that this is largely because markets have be-

come more efficient than a century ago. Capital markets are better at allocating resources among different businesses than chief executives. Their point of argument is that the efficiency arises from the presence of specialized intermediaries. A specialized intermediary is a person, company or organization that links resources (person, money, knowledge, inventions, etc.) to their potential uses/users (entrepreneurs, companies, investors, etc.) with their specialized skills, accumulated knowledge and educated vision.

In the markets for capital, for example, specialized intermediaries include mutual funds, venture capitalists, equity analysts, auditors, and so forth. In the markets for labor, they may encompass executive-search firms, vocational and business schools, and certification agencies to recognize professional skills. In the markets for products and ideas, they may be intellectual-property lawyers and consumer activists.

The function of a specialized intermediary may be seen as a proxy to that of catalysis in a chemical reaction. In some chemical reactions, addition of a substance not consumed during the reaction may drastically accelerate the rate of reaction. Such a substance is called catalyst, and a biological catalyst is often called an enzyme. In a catalyzed reaction, the catalyst generally enters into

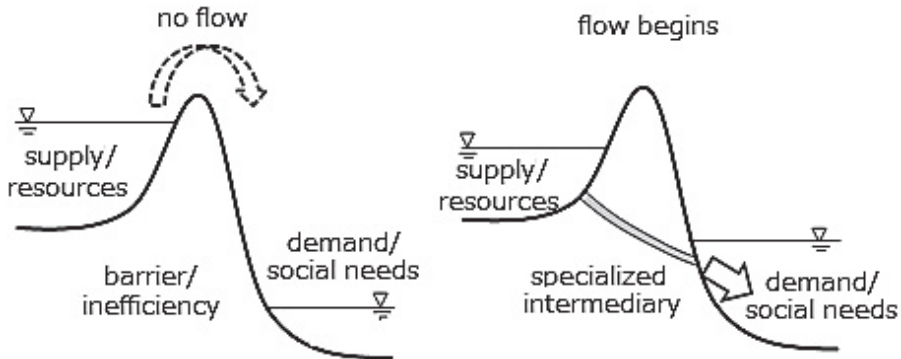


Figure 2 A model of the function of a specialized intermediary

chemical reaction either by helping contacts of reactants or by by-passing obstacles to the reaction (Figure 2). They are usually not consumed in the reactions themselves, so that they can be repeatedly used.

Specialized intermediaries in modern markets are similar to the catalyst in chemical processes. Specialized intermediaries bring together those who have a specific capacity (person, money, knowledge, inventions, etc.) and those who need such capacity, and urge the latter to achieve their own goals, thereby fulfilling their potential, which, without the catalyst would otherwise be hard to realize. Specialized intermediaries, such as brokers, consultants, market analysts, professional instructors, specialized lawyers and others, can repeatedly mediate such marriages among different business partners and stakeholders.

A possible objection to the explanation

about the fall of conglomerates with the concept of specialized intermediaries may arise from the fact that conglomerates are thriving in many emerging economies even after the wave of globalization. In Korea, for example, 80% of the largest 50 companies by revenue were conglomerates or “chaebol”, and their revenues grew on average by 11 % a year over the past decade. (The Economist, January 11th, 2014) In India, they share 90 % of the top 50 companies and the growth was 23 % a year (Ibid.).

To verify these points, Khanna and Palepu (op. cit.) investigated conglomerates of India and Brazil as samples of emerging economies, and found that conglomerates in the two economies have acted as their own intermediaries.

In those countries, conglomerates can use their brand value in absorbing the best and brightest from the younger people by assuring stability and prestige in

their careers, give them expert training in different specialized areas, and manage those expertise among different subsidiaries by transferring them from one business to another. In the same token, conglomerates can make full use of their brand value for business assurance and continuity in societies with poor legal infrastructure. In short, conglomerates in emerging economies are exploiting the underdeveloped markets by filling their “institutional void”.

However, such advantages of conglomerates may not last forever, as they did in the United States and Japan. Internal capital markets may turn into hidden cross-subsidies, internal human resource pools into cronyism and corruption, and complexity becomes synonymous with opacity that hinders transparency at which investors in the global market take a close look.

This concept of specialized intermediary may be useful to explain the innovative nature of recent NGOs’ functioning in environmental protection and policy. In the following section, we will look at functions of NGOs from three aspects.

2. Linking public opinion and diplomacy

Diplomatic negotiations, either bilateral or multilateral, are often considered as one of the least democratic among all the

political processes. Diplomatic delegates are usually not chosen through democratic elections but picked up either from professional diplomats or bureaucrats from concerned administrative departments. Substantial parts of negotiations among those delegates are often hidden behind closed doors, while official debates and dialogues stay largely formal and ceremonial (details are discussed in Takao, 2014). On the other hand, the voice of citizens is seldom heard or reflected in such official or unofficial negotiations.

If any such voice of the citizenry was to possibly reach those venues of negotiation, it is via the activities of NGOs. It has become quite usual that many international conferences are targeted by action-oriented NGOs, which often surround these venues with massive demonstrations, loudly appealing their slogans, or even attempting eye-catching performances. But other NGOs act more gently, by disseminating their policy proposals, contacting key delegates and trying to persuade them.

One of the most notable success of such quiet effort is the case of the movement of the International Campaign to Ban Landmines (ICBL), which resulted in adoption of the Anti-Personnel Mine Ban Treaty (Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on

their Destruction, or simply, the Ottawa Treaty).

In October 1992, ICBL was founded by peace-activist Jody Williams with an international coalition of more than 1,400 NGOs from more than 70 countries, including the Human Rights Watch and Vietnam Veterans of America Foundation. Its campaign urged the international community to entirely ban anti-personnel land mines and increased funding for mine clearance and victim assistance.

The campaign won assistance from the Canadian government, which hosted the negotiation of the convention until the adoption of the Treaty, which is now known as the Ottawa Process. The process yielded an unusually cohesive partnership between NGOs, the United Nations, international organizations and governments (Short, 1999). The Ottawa Treaty was finally adopted by 122 countries in Ottawa in December 1997.

Following the implementation of the treaty and the launch of landmines eradication programs, the number of people (mostly civilians) maimed or killed by antipersonnel land mines was soon reduced from about 18,000 to roughly 5,000 per year. Trade in land mines had virtually disappeared, more than 40 million stockpiled mines had been destroyed, and the number of mine-producing states

had dropped from 54 to 13 (Encyclopedia Britannica, *op. cit.*).

The role of ICBL may be characterized by both that of advocacy that brings an issue to the attention of the general public and that of policy formulation that proposes a specific policy to address the issue and urges the decision-makers to move toward its adoption. Such dual roles of NGOs may also be observed in global campaigns against slavery, the trade in ivory, violence against women, apartheid in South Africa and the proliferation of nuclear weapons.

A significant track that may empower NGOs to pursue such policy-related roles is through the involvement in the United Nations conferences and meetings. Article 71 of the UN Charter authorized the Economic and Social Council (ECOSOC) to grant consultative status to NGOs. As of 2012, there are 148 organizations in general consultative status, 2,608 in special consultative status and 979 on the Roster. These NGOs are automatically granted the right to participate in conferences, although specific rules of participation are considerably different among conferences. NGOs occasionally hold parallel forums in conjunction with official inter-governmental ones.

An important channel of NGOs to convey public opinions to and from the official policy processes is through the dissemi-

nation of their newspapers and newsletters inside and outside of the venues. Newsletters, such as the “Earth Summit Times” which was issued daily during the Rio Earth Summit (U.N. Conference on Environment and Development, Rio de Janeiro, Brazil, 1992) and its preceding meetings, covers widely the topics of the global environmental negotiations, like the status-quo of the conference and new opinions and proposals. The internet revolution has enabled the spread of such news far more quickly and freely to the general public, and the same applies to the reaction from the public as feedback to the negotiation.

In other cases, NGOs may act as sources of new policy proposals, encompassing new ideas and innovative solutions to the issues of the political negotiation. For example, during the deliberation of the Clean Air Act at the US Congress in 1989, it was Environmental Defense Fund (EDF) that proposed the emissions trading system, then a new approach virtually unknown outside the academia, to alleviate acid rain, a focal issue that devastated wide areas of north-eastern United States and Canada. The proposal quickly attracted attention and support, passed the Congress, and became the Title IV, commonly known as the Acid Rain Program, of the Clean Air Act Amendment of 1990. The Acid Rain Program was the first full-scale application of emissions trading policy, and had been

quickly recognized as “one of the most successful environmental policies in the US” (Ellerman, 2000).

NGOs’ other policy-related roles also include provision of technical information and expertise to governments and international organizations on various policy issues, often supplying local information unavailable to them. Some NGOs continuously monitor the status quo of environmental quality, watch illegal activities at a global scale and bring matters to the attention of the international community, thereby helping it to make appropriate decisions and policies.

In sum, NGOs’ roles of specialized intermediation in policy negotiation may be categorized into four elements, ie.,

- Conveying public voices into official negotiation venues
- Disseminating news on the development of the global policy negotiation to the general public
- Input of new ideas including those from the academia to decision-makers
- Monitoring the global environment and destructive activities (watchdog function)

3. Linking stakeholders of environmental projects

NGOs, particularly smaller ones, are fre-

quently involved in various types of environmental projects, including conservation of particular ecosystems, protection of biological diversity, and others. In those projects, NGOs may play an initiative role to plan and finance them, or secondary roles, say as technical advisors, coordinators, teachers and advertisers.

In addition, NGOs' emerging roles include that of specialized intermediaries, bridging the governments, individuals, local communities and other stakeholders, and assisting in the planning and management of their environmental projects. Following is an example of mangrove rehabilitation projects, conducted through the cooperation of local and central governments, the local community, NGOs and others in Central Java, Indonesia.

Mangrove is a common flora in tropical areas, usually in dense thickets or forests along tidal estuaries, in salt marshes and on muddy coasts. According to FAO (2007), Indonesia has the largest percentage, 19%, of world mangrove area, but the area fell 29% between 2000 and 2007 to 7.6 million hectares (ha). This has been due to the exploitation and conversion of mangrove forest into other uses, most notably for fish and shrimp aquaculture and for manufacturing industries.

In the coast of Semarang City, mangrove

forest has also decreased from 325 ha to only 15 ha by the end of the 20th century (Damanti 2011). Disappearance of mangrove has resulted in coastal erosion, increased flood risk, and severe deterioration of water quality.

Efforts of mangrove rehabilitation have begun since the mid-1980s by individuals, communities, local governments and some NGOs. These projects have had mixed outcome from environmental, economic and social points of view. Figure 3 illustrates the interactions among stakeholders involved in three mangrove projects in the study area. Scores shown below indicate the result of comprehensive evaluation taking into account their economic, social and environment changes to the inhabitants.

The score was the highest for case 1, which involves more stakeholders than others, while case 3 involves only local community and government. A NGO has been deeply involved in the case 2, playing a dominant role urging the community and government to act, but the score was rather mediocre. In contrast, in the case 1, a NGO called LEPAAS plays coordinator's role, orchestrating numerous stakeholders involved in the project. The score was the highest for this case. It was found that NGO's bridging and coordinating role is more crucial in carrying out successful projects to obtain favorable economic, social and environmental

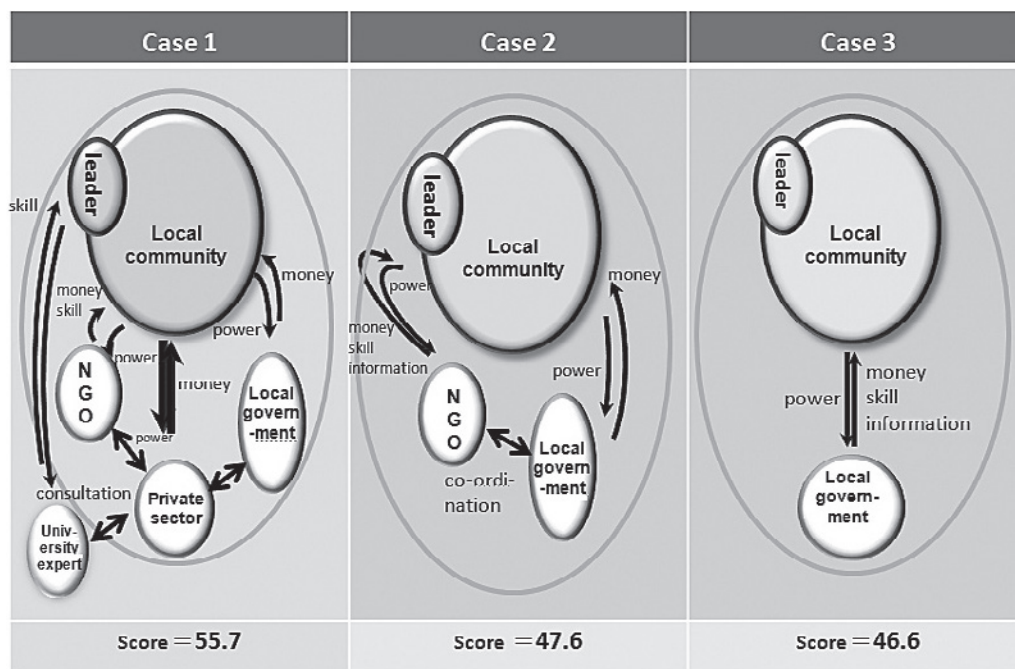


Figure 3 Interaction among stakeholders in three mangrove rehabilitation projects
 Source: Damanti, 2011.

outcomes.

4. Market-based intermediation

For long, companies have occasionally been under attack from “hostile” NGOs, such as Greenpeace and Sea Shepherd Conservation Society, on such issues as the destruction of rain forests, marine mammals or other creatures and ecosystems. However, other NGOs may be rather friendly and have become increasingly so. At the other end, an increasing number of companies find it more beneficial for them to work with NGOs rather than to fight with them.

MacDonald’s and Wal-Mart, for example, started to co-operate with Environmental Defense Fund (EDF) to reduce solid wastes from their chains, according to the Economist (The Economist Intelligence Unit, 2010). Worldwide Fund for Nature (WWF) is also known to work with more than 100 companies, including IKEA, Coca Cola, and Carrefour, in their corporate social responsibility (CSR) programs.

Such partnerships between NGOs and for-profit companies often bear favorable outcomes to both sides. For NGOs, deeper commitment into corporative management processes enables NGOs to influ-

ence actual corporate behavior, rather than just to speak out environmental slogans. For companies, partnerships may reduce the risk of unexpected attacks or hostile reactions from both environmental groups and the public.

On top of this, a number of NGOs find private markets a new field that may help them pursue their own environmental missions. The most notable example is the voluntary carbon market, in which a number of NGOs, together with other types of special intermediaries like market analysts, consultants and brokers, play the pivotal roles in creating new “merchandises” that might convey environmental benefit.

The voluntary carbon market is a market in which the reduction of carbon dioxide or other greenhouse gases (GHGs) are traded. If a private company, individual or other organization undertakes a project to reduce their emission of GHGs on a voluntary basis, i.e., not under governmental regulations, it can bring resulting reduction, in tons of CO₂ equivalent, to a certifying agency. The agency investigates and verifies the reduction, and, if the reduction is found real and additional, the agency issues certificates, called offset or credit, which can be traded to any companies or individuals.

There are about a dozen certifying agencies that have voluntary offset programs

to verify and issue voluntary offsets. Each program has its own rules and standards in authorizing the reduction and managing offsets.

Certifying agencies are largely classified into three categories; i.e., business-, government-, and NGO-based, with the last one including non-profit organizations (NPOs). Business-based programs are those established by private companies or their coalition to take opportunity of the new market and to seek profit, such as the Chicago Climate Change (CCX) which maintains its own voluntary trading scheme. Government-based programs are those established by governmental or intergovernmental organizations mostly to support their own voluntary emissions trading programs, such as the Climate Action Reserve launched by the State of California.

Among certifying agencies, NGOs/NPOs largely lead the market in terms of transacted volumes and prices, as shown in Figure 4. Voluntary Carbon Standard (VCS), which was founded by the International Emission Trading Association and the World Economic Forum, is currently leading in transacted volume. The VCS is followed by the Gold Standard, a business-based one established by WWF and others, and Chicago Climate Exchange, a business-based one.

Since a ton of CO₂ has the same effect to

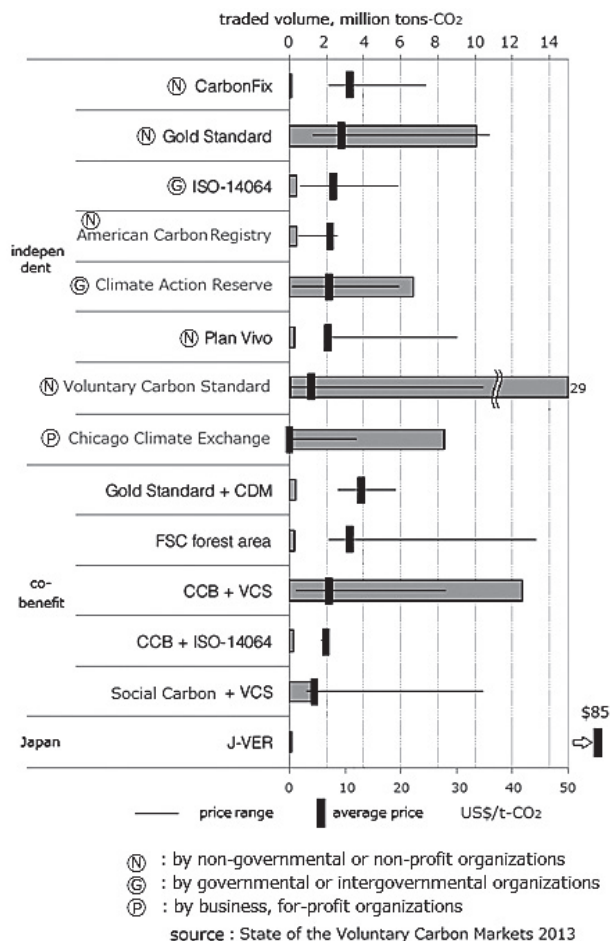


Figure 4 Trade volume and price of voluntary carbon, by major programs, 2012

(Source: State of Voluntary Carbon Markets 2013)

the global climate regardless of types and locations of emission sources, the price of carbon offset should, in theory, be identical across any sources. But, as shown in Figure 4, prices of voluntary carbon offset vary widely, depending on types of the project and offset programs. The figure indicates that offsets from NGO-based programs, such as Carbon Fix and the Gold Standard, have consid-

erably higher prices than those from business-based ones, such as Chicago Climate Exchange.

An explanation to the higher prices for NGO-based programs may be that the market seems to reckon them as relatively free from doubts on opaque reduction practices and risks associated with social, environmental and cultural side ef-

fects. Market surveys found that the majority of end-users of voluntary offsets are private companies looking for environmental contribution in the context of their corporate social responsibility (CSR) programs. (The State of the Voluntary Carbon Markets 2013) They are interested in not just cheaper prices of offsets, but also their quality and value-added in terms of favorable public images on environmental friendliness of the reduction projects.

In this aspect, NGOs not only offer types of offset with favorable public images, but also have taken major part in creating the new offset market from the very beginning, in cooperation with other

specialized intermediaries of venture-minded brokers and consultants. WWF, for example, designed offset program called the Gold Standard, which laid the market infrastructure, including instruments of recording, verifying and reporting emissions and of tracking offset.

We may view those activities of NGOs and other specialized intermediaries both from the “specialized” and “intermediary” aspects (Figure 5). First, specialized knowledge, particularly those of NGOs on emissions reduction in both developed and developing countries, and in variety of types such as improved forest management and small hydropower gen-

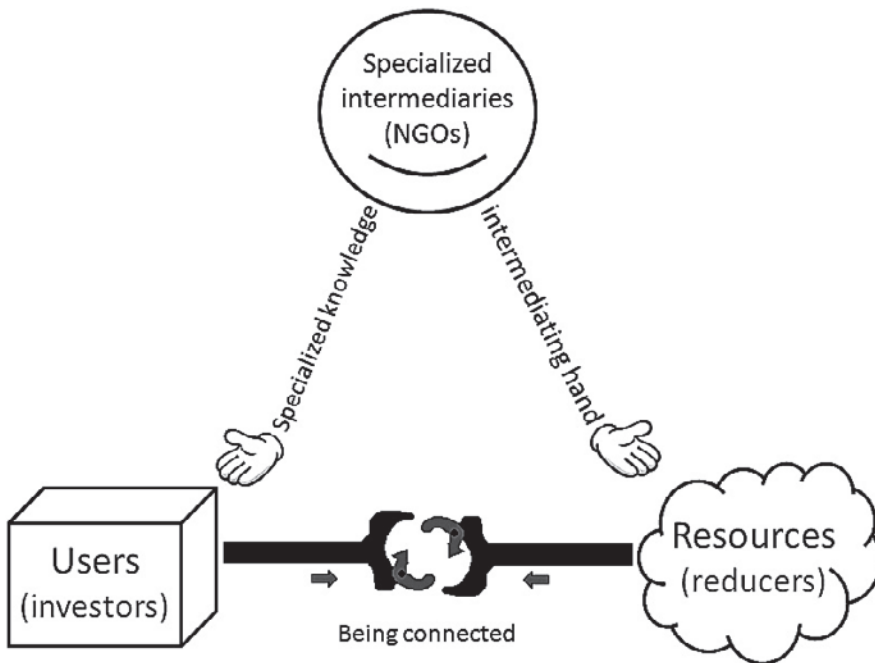


Figure 5 The role of specialized intermediaries, with NGOs as an example

Non-Governmental Organizations as Specialized Intermediaries in Global Environmental Protection
eration, played a significant role in designing the new markets.

Second, NGOs played intermediary functions in combining links between emissions reducers and offset buyers, in such situations as helping conservation groups and private companies to find potentially profitable projects and guiding them into the offset market.

In this context, NGOs' roles of specialized intermediation extend to those similar to the one described in the earlier section. NGOs often take advantage of their expertise and experience in looking after individuals and local groups and connecting them to governmental agencies, private companies, public supporters and other potential stakeholders. In such projects as REDD+ (Reducing emissions from deforestation and forest degradation), social aspects of forest management are the essential elements for which NGOs have unique expertise.

5. Final remarks

In this short essay, we have discussed roles of specialized intermediaries in modern markets and viewed activities of environmental NGOs from this aspect. Three typical roles were found, namely in connecting the opinions of global citizens and international negotiations, in organizing local environmental projects, and in connecting emissions reducers

and offset buyers through the market.

It may be worth mentioning that specialized intermediaries functions of environmental NGOs had been remarkably innovative. The voluntary carbon markets, for example, have created new flow of money estimated as US\$ 523 million in 2012 (State of the Voluntary Carbon Markets 2013), which were nonexistent a decade ago. It seems that NGOs have yet further possibility to develop their "specialized" and "intermediary" capacities, and to contribute to a better environment for future generations.

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