

## Public-Private Partnerships in Global Governance: how are they legitimized?

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In 1996 the World Bank and the World Health Organization (WHO) started a partnership together with the pharmaceutical company Merck and a number of NGOs to defeat a disease wide spread through the African continent<sup>1</sup>: Onchocerciasis, also known as Riverblindness. "Riverblindness causes blindness, disfigurement, and unbearable itching in its victims, and has rendered large tracts of farmland in Africa uninhabitable"<sup>2</sup>. Due to its very serious manifestation the disease has led to increasing regional unproductivity and poverty: Riverblindness not only prevented the sick from working or otherwise pursuing a normal life, but also incapacitated their family members who were charged with tending the disabled.

This public-private partnership, that is the combination of the stakeholders' commitment and a structure that allowed each partner to contribute its particular strengths was extremely effective: Merck sponsored the medicines "for so many as needed and as long as it is needed" (costs per person is around 25 cents per annum), while NGOs organized the distribution of the medicine within local communities. This co-operative partnership effort has delivered impressive results: today, Riverblindness is almost defeated.

This is one example for a successful co-operation between public and private institutions. However, we also know of initiatives that have been highly criticized especially by NGOs. The Global Compact is such an example.<sup>3</sup> It was launched by the Secretary General of the United Nations in 1999 at the World Economic Forum in Davos. Since then so called public-private partnerships have played an increasing role on the agenda of international organizations. The Global Compact's objective is to shape a platform for the private sector to demonstrate best practices in corporate social behavior in development countries. Corporations commit themselves to a set of nine principles in the field of human rights, labor and environment. NGOs criticized that the principles embraced by the Global Compact were non-binding and claimed that they should be mandatory. They also strongly criticized the UN for co-operating with business, and have started to run a campaign for an "Alliance for a Corporate-Free UN"<sup>4</sup>.

How are public-private partnerships legitimized?

The Millennium Report of the Secretary General recognizes the need for the UN to consult and cooperate with NGOs and private sector companies, and offers a mandate to increase the role of partnerships.<sup>5</sup> Likewise Vice President of the World Bank Ian Johnson states: "We must embrace, not reject, market-based solutions but seek new ways of making markets longer, more capable of capturing non-market benefits, and more attuned to social realities. In short, we need a new public-private compact" (World Bank, 2001).

Many UN agencies including the World Bank Group have made structural changes within their organizations. They have established "Partnership Units" and hired "Partnership Officers" to

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<sup>1</sup> APOC was initiated in 1996, but evolved out of the Onchocerciasis Control Program (OCP) which was created as early as 1974.

<sup>2</sup> For more information on Riverblindness go to <http://www.worldbank.org/gper/>

<sup>3</sup> For more information on the Global Compact consult: [www.globalcompact.org](http://www.globalcompact.org)

<sup>4</sup> For critics see homepage of corporate watch: [www.corpwatch.org](http://www.corpwatch.org)

<sup>5</sup> Millennium Report of the Secretary General: "We the peoples. The United Nations in the twenty-first century." For the full text go the UN's website at: <http://www.un.org/millennium/sg/report/>

develop and manage projects with non-state actors. In most cases these units are located strategically within the organization. The Business Partnership and Outreach Group of the World Bank for example was established as strategic focal point to serve the World Bank, as well as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).<sup>6</sup> Workshops, briefing series and training sessions have been implemented to bring public and private partners together. Many international agencies have started working with the private sector in such different areas as health, infrastructure and environment.

These developments highlight not only the willingness, but also the importance that international organizations attribute to the participation of non-state actors, especially the private sector, in areas traditionally occupied uniquely by them.

While some actors have favored the integration of corporations into international development aid arguing that public-private partnerships will help to more efficiently and effectively alleviate poverty and other major crisis in the developing world (see, e.g. [www.worldbank.org/business](http://www.worldbank.org/business) ) others have argued that this will lead to a dependence of public institutions from financial contributions; that furthermore corporations will gain too much influence over public affairs and might want to “blue wash” inglorious activities (Bennis, 2001). Critics fear that by integrating the private sector into traditionally public areas corporations will play an increasing role in shaping the public agenda, and thus having a policy shaping role. Additionally, partnerships often lack legitimate representation and a legitimate process (Buse, 2000). Thus, most partnerships fail for instance to include low-income countries into their governance structure and “expert groups may be chosen from exclusive communities of expertise” (Buse, 2000).

These arguments demonstrate that although business partnerships can bring value to development aid this new instrument is highly questioned. At the heart of partnership critics lies the question of legitimacy. In this chapter I therefore discuss how international organizations establish legitimacy within public-private partnerships. For this I will focus on World Bank partnerships. I argue that critics hold some truth, especially when it comes to questions of representation, participation and transparency, but that public partners have the primary authority in determining form, content and process of partnerships. The World Bank takes an active part in structuring the partnership environment, thus affecting directly private partners and shaping global governance.

I will start by giving a brief overview on partnerships within the World Bank. The following section provides a case illustrating how the Bank established its partnership rules. I will then turn to the micro level and address the question of governance in partnerships. The goal is to provide some insight into the Bank’s role in shaping global governance.

#### *Public Private Partnerships and international organizations*

The current paper draws on examples from the Private Sector and Infrastructure Network (PSI) within the World Bank.<sup>7</sup> Public- private partnerships or business partnerships, as called in the

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<sup>6</sup> See <http://www.worldbank.org/business>

<sup>7</sup> As the Bank is currently restructuring the private sector department no answers can be given on how many partnerships are currently implemented by the Bank. No material is currently available on the internet.

Bank, constitute “an agreement between a member of the World Bank Group and a private sector entity to work together, for a common purpose, with the parties committing resources (financial, technical, personnel or reputation) to agreed activities, to be implemented by the parties in accordance with the terms of agreement (BPOG, 2001).”<sup>8</sup> Partnerships resemble actors from different institutions and levels: private sector, civil society, international organizations, and national governments. Three forms of partnerships have been identified by the World Bank:

- **Dialogue**: partners work together to build relationships or foster international standards. The World Commission on Dams (WCD) or the Minerals, Mining and Sustainable Development Project (MMSD) are good examples for this type of partnerships.<sup>9</sup> They both deal with highly complex and controversial social issues associated with infrastructure projects such as dams and mining. Both the WCD and the MMSD were set up as multi-stakeholder processes resembling actors from all parts of society, experts, corporations, NGOs, and international organizations.
- **Knowledge sharing and learning**: those involved in a partnerships learn from each other, and can share expertise and resources (financial, technical, personnel or reputation). An example matching this definition is the Clean Air Initiative (CAI). CAI was established to share experiences among Latin American cities in order to exchange ideas and to foster innovation in the management of urban air. It raises awareness through technical assistance and capacity building.<sup>10</sup>
- **Shared responsibility**: actors establish partnerships to implement projects together, with the aim of achieving mutually beneficial results that could not be achieved by acting alone. The Business Partners for Development (BPD), a three year program, conceived in 1997 by the World Bank, is a good example for this type of partnership. Partnerships within this program resemble international organizations, business and NGOs “to explore whether tri-sector partnering could be a useful tool in development and at the same time bring business benefits.”<sup>11</sup> BPD focuses on: natural resources, water and sanitation, youth and global road and safety partnerships.

### *Operationalizing legitimacy*

As we have seen partnerships are entities involving different actors. As international organizations are involved the question of legitimacy is at stake since they are responsible towards their member states.

What exactly do I mean by legitimacy of partnerships? Legitimacy has been looked upon from two perspectives: input- and output oriented legitimacy. Output-oriented legitimacy aims at gaining legitimacy through “the provision of goods and services or by (welfarism) welfare enhancing interventions (utilitarianism).”<sup>12</sup> Output-oriented legitimacy would thus ask the question whether partnerships are successfully helping the poor. Has the expected outcome been achieved? If yes, one could argue that means, allying with corporations, would legitimize development objectives. We would have to look at transaction cost and results to see whether

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<sup>8</sup> Partnerships have been defined differently from different organizations. For definitions consult the websites of UNDP, the Prince of Wales Business Forum, or the World Resources Institute.

<sup>9</sup> For more information see <http://www.dams.org/> and [www.mmsd.org](http://www.mmsd.org)

<sup>10</sup> <http://www.worldbank.org/cleanair/>.

<sup>11</sup> See Nigel Twose: developing countries and Corporate Social responsibility, round table, May 30, 2002, <http://www.bpdweb.org/>

<sup>12</sup> [www.1.worldbank.org/wbiep/decentralization/topic03.3htm](http://www.1.worldbank.org/wbiep/decentralization/topic03.3htm)

anticipated development gains merit the added costs for a partnership approach. However, partnerships constitute a relatively new phenomenon in international relations. The pool of completed partnerships is limited. Most partnerships only started a couple of years ago. In most cases we therefore do not have reliable results yet.

Therefore the focus of this analysis lies on input-oriented legitimacy. "Input-driven theories look at the way in which the wishes and resources of the individuals are being dealt with by the state."<sup>13</sup> It includes variables as the democratic process, representative institutions and transparent procedures and rule of law. One way to measure input-oriented legitimacy of partnerships is to examine whether the World Bank's mission acts in accordance with its rules applied for co-operations with business.. The Bank's mission reflects the role and normative understanding of public institutions. If rules established for business partnerships are in line with this understanding, the argument can be made that the Bank is well aware of its public role and keep a severe eye on business. So I will first demonstrate the rules applied by the World Bank for business partnerships, how they evolved and whether they are in line with general rules.

Secondly, I will examine how representation and participation is distributed in the governance structure and whether the process is transparent? In partnerships different actors form new entities that are linked to the partners' institutions, but act through separate established governance structures. In contrast to traditional arrangements where the Bank may invite external entities to contribute financial resources or to participate in policy-setting fora, in partnerships a non-Bank Group party may have an important say in the work program, i.e. involvement in the governance structure and decision-making process. As partnerships thus function at arms-length from traditional structures there is a concern over the loss of public control, weakened legitimacy and accountability. Taking a closer look at the governance structure of partnerships and its process can give us some insight on the role public and private partners play within the partnership.

Looking on legitimacy on these terms enables us thereby to draw conclusions on whether the current policy of one relevant and influential international organization, the World Bank, suffice to produce legitimacy or whether legitimacy gaps can be identified.

*Why is this question important for critical perspectives on global governance?*

Public-private partnerships constitute one actual practice of global governance. They are organized globally and partnership teams act globally. They include actors from the local, regional, national and international of the international system. Thus, they fulfill the criteria given by the Commission on Global Governance as they constitute a "process through which conflicting or diverse interests may be accommodated and co-operative action may be taken."

Little or no work has done to analyze legitimacy within business partnerships. Buse and Walt have pointed out that:" Although many analysts have drawn attention to the extent to which international agenda-setting and the formulation of policy are controlled by transnational policy elites, the implications of the increasing role of the private sector in such policy networks have barely been explored."

But the question is important in another respect. As we have seen partnerships are often criticized. The main argument is that public and private interests simply don't match. Private

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<sup>13</sup> [www.1.worldbank.org/wbiiep/decentralization/topic03.3htm](http://www.1.worldbank.org/wbiiep/decentralization/topic03.3htm)

actors merely respond to market signals. Their objective is to make profit. The public objective is to care for the public good. As demonstrated in the example of Riverblindness this view is too short sighted. Public and private actors can successfully work together. The simple question is just: what is the legitimate way to do so?

In addition, we can draw conclusions whether business partnerships should play a more important role in development aid or whether the influence of the private sector should be increasingly limited. It might indicate whether partnerships will play an increasing role or if they should remain one instrument out of many on the public agenda.

And finally, this practitioner's point of view delivers some insight for theory building. Is his thinking and acting in line with our understanding of legitimacy?

### *World Bank rules and the Deutsche Post Partnership (DPAG)*

By using an example from the early era of partnerships, I will show how the rules for working with private partners evolved within the World Bank according to their general mission and objectives.

The Deutsche Post Aktien Gesellschaft (DPAG), the German postal service system, initiated a partnership with the World Bank Group in 2000.<sup>14</sup> A functioning postal service system world-wide helps to increase reliability between postal partners and guarantees quality for customers. It thus lay in the interest of the Deutsche Post to support developing and transitional countries to develop and modernize their postal service system. As the DPAG only recently transformed itself into a private actor, it was also interested in fostering its image as an international company.

The World Bank on the other hand recognized that postal services in developing countries as part of a country's information and communication infrastructure are often not used to their full potential. Postal services can offer not only traditional services, but e.g. banking services through e-commerce. The Bank entered a partnership with the Deutsche Post with the objective of

- Promoting the development and modernisation of postal service systems including the privatization of public postal authorities
- enhancing and expanding the Bank's capacity to respond to requests from client countries for assistance with the development and modernisation of their postal service systems

Objectives were achieved through

- a Trust Fund that has been established between the Bank Group and the German Post. This was formalised in an agreement to set up the Postal Service Sector Trust Fund. The usage of the Fund's monies were outlined in the agreement. They were intended to finance e.g. cost of evaluation of postal service sectors or compiling best practice data.

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<sup>14</sup> For full information, see: World Bank, BPOG, Briefing note: Building and Safeguarding Relationships: A Partnership for Postal Reform, 2001.

- technical assistance provided by the private partner. The Framework Agreement for the Provision of Technical Assistance in the Postal Service Sector lay the bases for technical co-operation, i.e. the use of in-kind resources as computers, data or experts.

The private partner was interested in not only giving money to a fund managed by the Bank, but also leveraging the partnership by providing technical expertise, e.g through secondment in World Bank projects.

To set up a fund by a private actor was an innovation within the Bank. Funds are set up by governments. Thus a number of concerns had to be discussed between the partners. Two issues appeared especially crucial for both partners: the issue of unfair advantage and conflict of interest arising with the Trust Fund monies and the technical assistance. The Bank would for example give an unfair advantage to the DPAG if letting the DPAG participate in so called up-stream projects and at the same time in down-stream work. This means the DPAG would be involved in the partnership or a program and at the same time intends to bid for a tender procuring goods and services for the Bank and its clients. On the other hand, for the DPAG it would be an unfair disadvantage: it would contribute to a fund and preventing itself to bid to provide services for the Bank. The Bank solved these risks by outlining a number of control mechanisms in the two agreements. Hence a procurement and a legal expert of the Bank assists the DPAG when the Bank requests technical assistance from the DPAG. Also technical assistants provided by the Bank will serve as World Bank staff, thus being subject to the Bank rules and policies.

The example of the Deutsche Post demonstrates, that procedures have been lengthy at the beginning of the involvement of the private sector and the World Bank has been very legalistic in its approach. Due to high bureaucracy and lacking rules this partnerships nearly failed. However, this example highlights how the Bank succeeded in establishing its standards towards business and at the same time respecting the legitimate interests of business.

The DPAG contributed to establish a number of rules within the WBG. Summarized these are (full text: Partnerships with the private sector. Assessment and approval, WBG 2001):

**Reputational risk issues:** appropriate partners and partnership activities should be selected that do not damage the reputation or credibility of those involved. For example: is the company looking solely for PR opportunities in aligning itself with the WBG? Is the company involved in the manufacture or sale of firearms or narcotics?

**Conflict of interest risk:** care must be taken to ensure that those involved do not gain unfair advantage in relation to work that may flow from the activity of the partnership. and the company only or primarily looking for procurement opportunities or money from the WBG

**Unfair advantage risk:** publicity for a partnership should not confer an unfair advantage on those involved in other areas of that partner's activity, e.g. is the company willing to engage with the WBG in a transparent manner without expecting an exclusive relationship (i.e. barring competitors)?

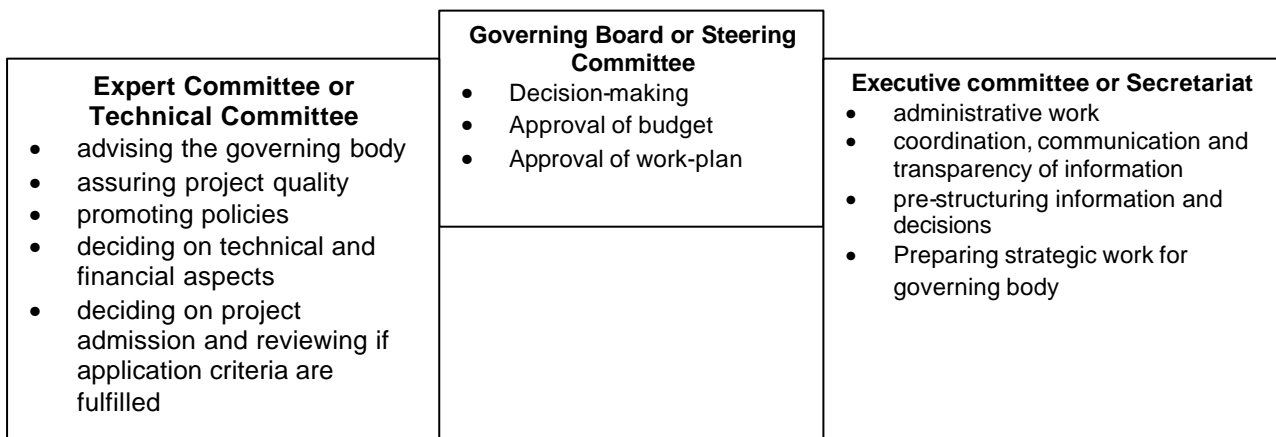
**Governance risk:** the governance structures should mitigate risk. Designing the partnership's governance structure in a way that does not mitigate potential conflicts

between the interests of the Bank and those of individual private sector partners, or which does not mitigate the reputational risk of sharing governance with certain private sector parties.

Partnerships within the PSI must guarantee that they act in accordance with the Bank's ultimate goal of poverty reduction. They are subject to continuous review. Thus, all partnerships undertaken by PSI are approved in conformity with the Bank's procedures described in official Bank documents.<sup>15</sup> Proposal have to be submitted for approval to the Vice President. Red flags are issued when necessary for any of the above mentioned categories.

*Governance structure*

As demonstrated the World Bank established rules to mitigate risks arising with private sector cooperation. We will now take a closer look at different partnership governance arrangements. Governance deals with co-ordinating, managing, and controlling objectives and strategy. The governance structure of a partnership should be supportive for the goals and anticipate potential conflicts between partners. At the heart of the structure lies the governing body. Other bodies can include a secretariat and expert or technical committee. They differ according to objectives and involvement of partners.



The governing entity is responsible for: Decision-making, Strategic directions, policy directions, approval of budget, approval of work plan, review of achievements, approval of secretariat staff. Further responsibility can include: supervision function like the review of performance or overseeing technical or experts boards, approval of new memberships, approval of inclusion of new countries, beneficiaries, appointment of expert committee members.

The governing body thus plays a key role in the partnership process. In my analysis I take a closer look on: the chair, membership and representation of the governing entity.

For this undertaking I have selected a number of Bank partnerships. Selection criteria included:

- partnerships were selected out of the Private Sector Infrastructure Network (PSI) within the World Bank as material on these partnerships was available

<sup>15</sup> World Bank, Partnership Oversight and Selectivity, 2000 (not available).

- partnerships had to match the Bank's definition of partnerships
- selected partnerships had to provide a transparent governance structure

Partnership Governing body	Chair	Private involvement on governing board	Public involvement on governing board	NGO representation on governing board	Number members
Clean Air Initiative Steering Committee	Held by a public partner	4 companies	6 City governments 9 development banks and agencies	3 NGOs	22
InfoDev Donors' committee	Held by the World Bank	5 companies with observer status	13 bilateral and multilateral agencies/donors	–	18
ProVention Consortium Steering Committee	Held by the World Bank	Representation through IFC	12 bilateral and multilateral agencies/donors, development banks	5 NGOs <sup>16</sup>	18
Global Road Safety Partnership Steering Committee	Held by a private partner	5 companies	11 Bi/multi-lateral development organizations	8 NGOs <sup>17</sup>	25
Water and Sanitation Cluster Steering Committee	Co-convened by Générale des Eaux/Vivendi, WaterAid and the World Bank	7 companies	5 bilateral and multilateral agencies/donors, development banks	5 NGOs	17
Global Partnership for Youth Development	Co-convened by World Bank, Kellogg Company, International Youth Foundation	13 companies	3 development agencies	5 NGOs	21
Natural Resources Cluster	BP, WMC Resources, CARE	9 corporations + International Council on mining	2 development agencies	1 NGOs	13 <sup>19</sup>

<sup>16</sup> This includes scientific institutes in the counting like the Asian Disaster Preparedness Center and the Disaster Management Division.

<sup>17</sup> This includes institutes and centers like the National Highway Traffic Administration (USA) and the Transport Research Laboratory.

<sup>18</sup> ICMM's mission: "To be the clear and authoritative global voice of the world's mining and metals industries, developing and articulating their sustainable development case, discovering and promoting best practice on sustainable development issues within the industries and acting as the principal point of engagement with the industries for stakeholders at the global level. To assist the industries to align their economic, social and environmental goals so as to maximize their contribution to meeting the challenges of sustainable development"

	International and the World Bank Group provide strategic direction to the work of the cluster Secretariat (CARE)	and minerals (ICMM) <sup>18</sup>			
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This analysis allows us to draw four conclusions with regard to representation and participation, influence and transparency.

My *first* conclusion is that in the partnerships analyzed public partners play a leading and structuring role. The public partner for example is always involved in holding the chair of the governing board. It is often a Vice President of the World Bank. In some cases as in the Global Road and Safety Partnerships as well as in the Water and Sanitation Cluster the private partner participates in the chair. If we look at the **proportion** public vs. private and assume that NGOs are mostly pledging for the public case we can conclude that in five partnerships out of seven public partners and NGOs hold the majority. Exceptions are the Global Partnership for Youth and the Natural Resources Cluster.

*Secondly* I conclude that there is hardly no official **representation** and **participation** of members of Southern developing countries. Structures are donor-oriented. Although most partnerships include NGOs on the governing board to reach the poor the question needs to be raised whether developing countries should have a more important say on the governing board.

*Finally*, information on governance structures and their functioning is sparsely available. Some partnerships have made their governance structures available on the internet, others could only be reconstructed through interviews. Thus **transparency** seems to be one issue that is underdeveloped in Bank partnerships.

*What do Bank partnerships tell us about global governance?*

I have argued that partnerships play an important role in global governance, and taken a critical look on how they are legitimized within the World Bank. What does evidence from this chapter suggest for the question of global governance?

The example of public-private partnerships has shown that public interests are well represented through international organizations. The public sector plays a leading role in setting standards and rules. International organizations not only have set a frame for cooperation with private actors but also mechanisms for steering them (governing role). An effective policy of international bureaucracies is in place and actors in international organizations possess what we could call a public responsibility mind set that consists in controlling, overseeing and safeguarding public principles.

However, this analysis also suggests that global governance in the case of partnerships lacks participation and representation from South developing countries. It is striking that international organizations talk about letting the private sector in and have begun re-structuring the policy of international development aid for private partners, but that discussions about participation of South developing states is merely an issue. True, NGOs are getting more and more involved to

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<sup>19</sup> Up to December 2001 this was the full list of members.

include the regional level. However, they also create a kind of dependency and as experience shows actors need to be involved to accept outcomes and to have sustainable effects. The German Parliament's Enquête Commission on the Globalization of the World Economy has stressed that global governance could turn into an autocratic expert movement.<sup>20</sup>

Finally, the example of partnerships highlights the lack of transparency in processes of global governance. Global decision-making procedures and participation of actors in global projects are hard to reconstruct for outsiders. Thus, it makes it difficult to understand policies and to form opinions about global policy issues.

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<sup>20</sup> Deutscher Bundestag (Hrsg.): Schlussbericht der Enquête-Kommission: Globalisierung der Weltwirtschaft, Opladen 2002.