



State-business relations and economic performance in sub-Saharan Africa

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When the state and business interact effectively, they can promote a more efficient allocation of scarce resources, appropriate industrial policy and a more effective and prioritised removal of key obstacles to growth, than when the two sides fail to cooperate or engage in harmful collusion. A major challenge that the Research Programme Consortium on Institutions and Pro-Poor Growth (IPPG) cluster of research on state-business relations (SBRs) has addressed involves understanding the relationship between SBRs and economic performance. This note discusses the findings of four African case studies in this regard: Ghana, Mauritius, South Africa and Zambia.¹ These use different methods and methodologies but all cover four broad areas, to varying degrees: 1) the drivers of SBRs; 2) measures of SBRs; 3) economic functions of SBRs; and 4) effects of SBRs. Table 1 below provides a summary of the case study approaches implemented.

The studies include a number of important findings, reflected in Table 2. One headline message is that formalised SBRs do matter. For example, the Joint Economic Council (JEC) is an influential private sector actor in SBRs in Mauritius, and measured SBRs led to higher growth in a regression over the period 1970-2005. Budget proposals, which include suggestions for better industrial policies, are frequently taken up by government budgets (Table 3). This constitutes an important economic function of effective SBRs.

However, effective formalised SBRs cannot simply be put in place, and not all formal institutions matter to the same extent. The South Africa case study found that the National

Economic Development and Labour Council (Nedlac) did not represent a real consensus-seeking forum, owing to defections by key labour organisations and differences of approach and priorities among key state organisations (Treasury and Ministry of Labour), despite some early success in industrial policy.

Formal consultative forums can perform useful functions that help business at macro level. The Zambia case study provides an analysis of new, transparent mechanisms to channel budget proposals and suggests that business organisations and actors have influenced budget outcomes (especially when using civil servants to shepherd proposals), more than other stakeholders such as non-governmental organisations (NGOs).

Beyond formal SBRs, there are also informal SBRs. The Ghana case study shows that more developed social networks (politicians, civil servants) of firms (in a sample of 256) lead to better firm performance. Such informal SBRs may provide a stepping stone towards formalisation. Business association membership is frequently associated with better firm performance. In several African case studies, membership leads to better firm performance by reducing policy uncertainty and lobbying, although individual lobbying remains important.

The studies have a number of takeaway messages. For academics, the case studies have provided new ways (methods and methodologies) of examining growth by including SBRs (empirical examinations rooted in theory). For government policymakers, informal networks matter but

Table 1: Country case study methods and approaches to the study of SBRs

| | Drivers of SBRs | Measures of SBRs | Economic functions of SBRs | Effects of SBRs on growth performance |
|--------------|---|----------------------------|--|---|
| Ghana | Historical institutionalist inductive theories | Existing datasets | | Micro econometrics |
| Mauritius | Analytical and historical account | Survey of firms | Effect of SBRs on budget policy proposals | Micro econometrics/ firm performance/ macro economics |
| South Africa | Tracing history of state- business organisation, exploring nature of SBRs | Descriptions | | |
| Zambia | | Measuring budget proposals | Effect of SBRs on allocation of pro-poor public spending | |

source: IPPG SBRs workshop, Nairobi, July 2008.

Table 2: Country case study descriptive results

| | Drivers of SBRs | Measures of SBRs | Economic functions of SBRs | Effects of SBRs on growth performance |
|--------------|--|---|--|--|
| Ghana | Politics matters for determining forms of SBRs | Number of known politicians and bureaucrats, but formalised SBRs evolving rapidly | | Informal networks with civil service and politicians matter, but questions on importance of formalised SBRs remain |
| Mauritius | Long history of co-habitation (though disputed) | Proposals taken over by budgets (new measure) | SBRs affect government budgets (via JEC) | SBRs associated with growth |
| South Africa | Informal networks (politicians and big business) prevail | Historical accounts of SBRs | Not significant | No debate within Nedlac |
| Zambia | | Budget proposals submitted by various groups | Effect of SBRs on allocation of pro-poor public spending | |

source: Country case studies.

Table 3: Budget proposals of JEC (2006/07) and implementation status in Mauritius

| | Fully implemented | Partly implemented | Not implemented |
|---|-------------------|--------------------|---------------------------------|
| 1. The transformation of Mauritius into one seamless and integrated business platform | | X | |
| 2. The adoption of transparent, simple and minimum procedures to start and operate businesses | X | | |
| 3. The establishment of a competitive air access policy | | X | |
| 4. The introduction of competitive pricing policies for international bandwidth | X | | |
| 5. The establishment of an open policy to import high skills | | | X |
| 6. Operationalising of the Public-Private Partnership (PPP) legislation and the mainstreaming of SMEs in the new economic model | | | X (initiated in 2008/09 budget) |
| 7. Transforming the labour environment into a more flexible one | X | | |
| 8. Establishing the right balance between legislative control and 'space' for investment | | | X |

source: Rojidi et al. (2010).

formalised ways of engaging with business can also be useful for economic development. For business leaders, engaging in a well-informed democratic conversation with government helps (and pays for itself): small and medium-sized enterprises (SMEs) often feel underrepresented in meetings with government. And for donor agencies, it is important to consider SBRs in advice on economic development and in governance indices.

The studies have a number of more specific policy implications:

- Build capacity to conduct SBRs. For example, business and other actors were more successful in the budget process in Zambia when government officials had

sufficient capacity.

- Ensure buy-in from all actors to the effective functioning of SBRs. This requires above all a strong state that is committed to SBRs and convinced of the economic case. This can be quite hard, especially when different parts of government have different policy views (South Africa). Further support could be helpful here so that official bodies are not sidelined.
- Put the spotlight on informal SBRs where they are not functioning well (e.g. Zambian mining). This action would not be akin to intervening, which would run the risk of changing a complex political process. It would merely identify possible problems that could be solved by the players itself, which could be supported further.

Endnotes:

1. This review is based on four IPPG discussion papers: Ackah et al. (2010) for Ghana; Bwalya et al. (2009) for Zambia; Natrass and Seekings (2010) for South Africa; and Rojidi et al. (2010) for Mauritius. They can be downloaded from www.ippg.org.uk.

Discussion Paper 35. London: IPPG.

Bwalya, S.M., Phiri, E. and Mpembamoto, K. (2009) 'How Non-State Actors Lobby to Influence Budget Outcomes in Zambia.' Discussion Paper 27. London: IPPG.

Natrass, N. and Seekings, J. (2010) 'State, Business and Growth in Post-Apartheid South Africa.' Discussion Paper 34. London: IPPG.

Rojidi, S., Seetannah, B. and Shalin, R. (2010) 'Are State Business Relations important to Economic Growth? Evidence from Mauritius.' Discussion Paper 36. London: IPPG.

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Ackah, C., Aryeetey, E., Ayei, J. and Clotney, E. (2010) 'State-Business Relations and Economic Performance in Ghana.'

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