

**THE ECONOMICS AND
POLITICS OF
STATE-BUSINESS RELATIONS
IN AFRICA**

PRELIMINARY FINDINGS

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The IPPG Programme is a shorthand name for the Research Consortium on Improving Institutions for Pro-Poor Growth, based at the University of Manchester. The founding proposition of the IPPG Programme is that the interactions of economic, political, social and cultural institutions constitute a matrix that may either enhance or constrain pro-poor growth. The task of the Programme is then to identify historically and comparatively those institutional sets and contexts that enhance pro-poor growth, and – recognizing that the history of the evolution of institutions in any society reflects the changing bargaining power of different social groups – to show how such patterns of institutional interaction change or may be helped to change. Our further aim is to identify the conditions under which coalitions of stakeholders may be encouraged to adapt, adopt, negotiate and change institutional matrices that will be conducive to pro-poor growth.

The IPPG Programme aims to produce innovative research of the highest scholarly standards and to influence development policy and practice in the interests of the realization of the aims set out by the Millennium Development Goals. We will do this by engaging with different groups of actors concerned in economic development, including policy actors from political organizations, government bureaucracies, civil society organizations and the private sector, at regional, national and international levels, as well as other academics and researchers, interest groups in civil society and the wider public.



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INTRODUCTION

The study of state-business relations (SBRs) lies at the heart of the Research Programme Consortium on IPPG. The relations between states and business are usefully understood as giving rise to and reflecting both economic and political institutions. Economic, because SBRs embody formal and informal rules and regulations that are designed to perform economic functions such as solving information related market and co-ordination failures and hence will affect the allocative and dynamic efficiency of the economy. Political, because SBRs reflect the way in which power amongst different agents, elites and coalitions of interest are shared. This manifests itself in both formal and informal institutional arrangements between the private sector (e.g. business associations, including organized farmer groups,) and the public sector (e.g., different ministries or departments of state, politicians and bureaucrats). This volume contains a series of four papers highlighting economic and political approaches toward studying state-business relations.

The first paper, by Te Velde, suggests that so far we know actually very little about the growth effects of effective state-business relationships (SBR) and suggests this is in part because it is hard to measure. Nonetheless, it is suggested that effective SBRs can lead to a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles. While SBRs are being part of the governance literature, effective SBRs may also lead to and prioritize governance reforms. In-depth discussions of state-business relations have so far been largely limited to Asian countries such as Korea, Taiwan, Japan, Malaysia, Bangladesh and Thailand although there are political accounts in the case of Africa. Measurement, in particular, of state-business relations for sub-Saharan African countries has been patchy or absent, and the paper tries to address this question at the macro level by developing an index of SBRs.

The paper by Sen and Te Velde uses the macro index developed on the basis of measuring SBR (as detailed above) and estimates standard growth regressions in dynamic panel form for 20 African countries over the period 1970-2004, controlling for more conventionally used measures of institutional quality in the empirical literature. The show, using sophisticated econometric techniques, how state-business relationships contribute significantly to economic growth in Sub-Saharan Africa – countries which have shown improvements in state-business relationships have witnessed higher economic growth, controlling for other determinants of economic

growth. The index of SBRs has advanced significantly and began to improve before the pick up in growth (though different conditions applied in different countries).

The paper by Qureshi and Te Velde provides a micro econometric approach to essentially the same questions. A micro level indicator of state-business relations associated with good SBRs is an organized private sector, measurable as firm membership of business associations. Business associations provide different services. The World Bank investment climate questionnaire asks firms which services are perceived to be most important. Lobbying government and information on government regulations are on average the two most important services provided by business associations to the firms covered in the sample. The least important services are resolution of disputes (with officials, workers, or other firms) and accrediting standards or quality of products. Research also shows that business membership varies by sector and firm size; but all sectors and sizes are covered to some extent. The econometric approach estimates a production function on the basis of firms in seven African countries to examine how SBRs affect firm level productivity.

The paper by Chingaipe and Leftwich offers a political perspective on state-business relation, in the case of Malawi, and focuses more on what creates and sustains SBRs. They examine both the state and business side and the direct links between them. They adopt an historical institutionalist approach and examine the factors that have shaped SBRs including the level of capitalist development, the dominance of the state, and the way in which informal institutions have blurred the distinction between public and private sectors.

MEASURING STATE-BUSINESS RELATIONS IN SUB-SAHARAN AFRICA^A

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ABSTRACT

While many factors contribute to economic growth in a measurable way, this paper suggests that an effective state-business relationship (SBR) is one important underlying factor whose contribution has so far been difficult to measure. Effective SBRs lead to a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles. SBRs are linked to the literature on good governance and while being part of the governance literature, effective SBRs may also *lead to* and *prioritize* governance reforms. In-depth discussions of state-business relations have so far been largely limited to Asian countries such as Korea, Taiwan, Japan, Malaysia, Bangladesh and Thailand; measurement of state-business relations for sub-Saharan African countries has been patchy or absent.

The aim of this paper is to measure the key factors associated with effective SBRs for 20 sub-Saharan African (SSA) countries over the period 1970–2005. The key factors were based on theory and practice: an organized private sector vis-à-vis the public sector, an organized public sector vis-à-vis the private sector, an institutionalized mechanism of SBR, and absence of harmful collusive behaviour. We scored the 20 SSA countries over time on the basis of these factors and calculated a composite SBR time series for each country.

The new measure of SBR seems plausible: first, higher scores are associated with faster growth (though more precise regression work will be done in a second phase); secondly, the new measures correlate well with other governance indicators; and thirdly, they correlate with more operational investment climate data, such as fewer procedures when trading goods and services.

We suggest two ways forward: first, we need to measure the impact of SBR on economic performance using macro and micro level data, taking into account other causes of growth; we will undertake this in the next stage. Secondly, we need further detailed descriptions of state-business relations across African countries over time – for instance, there does not seem to be a simple correlation between a high SBR score and perceived effectiveness of the association (based on micro-level data), so this needs further attention. Going into further detail will enable us to measure more specificities of state-business relations and therefore evaluate which specific circumstances are associated with effective SBRs.

1. INTRODUCTION

Many factors contribute to economic growth in a measurable way, but the underlying drivers are more difficult to measure. This paper suggests that an effective state-business relationship (SBR) is an important underlying factor that drives a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles. The aim is to measure the key factors associated with effective SBRs for 20 sub-Saharan African countries over the period 1970–2005.

It is important to consider SBRs as underlying drivers of growth, because effective SBRs are likely to improve economic performance. This can be argued as follows: first, a role exists for the state because of the presence of market and co-ordination failures in allocating resources efficiently (e.g. firms underinvest in general worker skills due to a failure to appropriate the benefits), (see te Velde and Morrissey¹); important market failures include co-ordination failures which are often dynamic in nature. However, government and institutional failures are also prevalent (e.g. technology institutions in developing countries are often de-linked from what the private sector actually wants), and states often do not have the capacity to intervene and transform an economy, see Khan.² Hence, *appropriate* government capacity and policy is necessary to support the private sector, which can be enabled by good state-business relations (e.g. by matching and co-ordinating supply and demand in the market for skills).

The discussion on effective SBRs is linked to the literature on good governance.³ The term governance can be confusing and can mean very different things: it can refer to policy networks, public management, co-ordination of economic sectors, public-private partnerships, and corporate governance. Major donor countries advocate a 'good governance' approach, characterized by four aspects: (1) the rule of law, (2) predictability, (3) transparency, and (4) accountability. This governance structure assumes that the government needs to be fully accountable and needs to provide a sound institutional environment in which a rational private sector maximises profits; an agenda is broad in principle. Others suggest the use of the term 'good enough governance' which focuses on minimal conditions of governance necessary to allow political and economic development to occur,⁴ while Khan points to the importance of *feasible* reforms. Effective SBRs, being part of the governance literature itself, may also *lead to* and *prioritize* governance reforms.

In-depth discussions of state-business relations have so far

been largely limited to Asian countries such as Korea, Japan, Malaysia, Bangladesh and Thailand;⁵ the measurement of state-business relations in sub-Saharan Africa is nearly absent, despite its potential importance for economic development. Hyden et al. focus on 6 governance categories of which economic society is one; this includes (deliberately) subjective questions covering perceptions of state-business relations, over several developing – but only two African – countries. The Kaufman indicators have become frequently used, but are also about perceptions of governance variables such as government effectiveness and rule of law.⁶ Finally, while investment climate measures in the World Bank's *Doing Business Reports* are objective (e.g. number of procedures to obtain a licence) these are unlikely to be fundamental drivers of economic performance (in fact there is little theory surrounding regulation and development), and can rather be seen as outcomes of effective state-business relations. There is therefore, a lack of descriptions and comprehensive measurement of SBRs as potentially fundamental drivers of economic growth in sub-Saharan Africa – this paper tries to fill this gap. At a later stage we will assess the effects of different types of SBRs on economic performance in SSA countries.

The structure of this paper is as follows: section 2 reviews the importance of effective SBR, why they have the potential to promote the private sector, and what constitutes effective SBRs; section 3 suggests how to measure SBRs; section 4 provides the empirical evidence for 20 sub-Saharan African countries from 1970 to 2005, and creates a new governance indicator, with country specific information in Appendix B; the new indicator is analysed in Section 5; and section 6 concludes.

2. STATE-BUSINESS RELATIONS AND ECONOMIC PERFORMANCE

2.1 Why markets alone fail to achieve an optimal allocation of resources

Monopoly, interdependence of economic actors external to the market mechanism, public goods and common resources are general causes of market failure; there are also several examples of market failures in private sector development, in the area of capital, skills, technological development and crucially in the co-ordination amongst them.

Technological development: the process of technological development is associated with market failures in innovative activity and identification, and adoption of new technology. These market failures centre on the externalities of the learning process

and the public goods aspects of technological knowledge⁷: firstly, uncertainty and externalities among early users learning about the application of the new technology, while acquiring information, is costly to obtain and appropriate for individual firms; secondly, the codification and standardization of experience and knowledge can offer social benefits in that they permit rapid diffusion of the technology as well as knowledge about it, but individual firms will not be able to appropriate all benefits of developing a new standard; finally, network externalities arise when new users of technology depend on the existence of a large user and support staff base.

Skill formation: the following instances of market failures in the education and training system are common⁸: the *trainee* may: not recoup all benefits of educational investments; not be aware of future values and future need for certain educational investments; be excessively risk averse; lack access to certified training; and not access capital markets. *Firms* lack knowledge of best-practices in training and lack full appropriability of benefits of investing in transferable worker skills. The *education and training system itself* can lack information on educational needs in industry; and lack access to capital markets to fund the development of better standards.

Capital market imperfections: perfect capital markets will lend surpluses of savings to those with skills, talents and ideas for profitable projects; however, the market is associated with credit constraints caused by uncertainty surrounding the (future) profitability of projects, on which basis lenders determine the probability of repayments of their funds. High transactions costs arising from screening, monitoring and enforcement in the credit market create obstacles to lenders. The use of collateral might reduce such need for screening, monitoring and enforcement and hence reduce transactions costs; however, poor people, informal firms, small firms and start-ups may not be able to pledge capital or formal title rights to land and houses as collateral – this prevents them from financing profitable projects.

Co-ordination failures: co-ordination failures go beyond the static market failures and from crucial impediments to transforming economies into high-growth performers. Co-ordination failures operate between linked firms, in clusters of firms and relating to the economy as a whole. The failure of co-ordinating capacity amongst economic agents might prevent an economy from reaching a higher development path; countries can get stuck in a low-level equilibrium due to the nature of technology and markets, even when government policy does not penalise normal private sector activities.⁹ An often-mentioned example of co-ordination failure is that between training systems and technological development¹⁰; another example is

taken from the new trade theory. Without active co-ordination of human resources and investor needs, countries with few skills would be trapped in a low skill–low growth cycle, after opening up to investment¹¹ and trade¹² because of uneven specialization; this requires a consistent, strategic and market friendly human resource policy designed with the help of appropriate government capacities, though Khan (2002) argues that state capacities to encourage technology acquisitions have had little attention so far.

2.2 Why government involvement may fail to correct market failures

Despite a strong theoretical case for intervention or a co-ordinating role, public support may fail to correct market failures for several reasons: first, governments are unlikely to have perfect information and perfect foresight, which is needed to identify and overcome market failures; second, government intervention can suffer from moral hazard problems¹³ in that the private sector may not act once the government has provided an incentive; third, there can be private non-market means that can solve market failures. Joint action may raise collective efficiency, by internalizing externalities, and this could be more appropriate than state intervention. Fourthly, addressing national co-ordination failures based on scale economies is probably the most far reaching in scope and hence the most risky; such co-ordination failures go beyond the traditional market failures identified in the traditional service-delivery state, and move into the domain of the social transformation state, Khan (2002).

Finally, government intervention carries the risk of misallocation and rent-seeking behaviour. The reality in many (low-income) countries is that the assumption of an altruistic and non rent-seeking public sector incorrect; while the political economy in Korea and Singapore allowed minimal (or benign) rent-seeking behaviour, there are serious doubts about efficient and effective government intervention in countries with a higher degree of corruption.

2.3 The importance of effective state-business relations

Effective state-business relations can help to solve co-ordination failure, suggest a more appropriate allocation of resources, and provide checks and balances on government intervention. A more transparent way of sharing information will also increase the level of trust between the public and private sector. Hisa Hiro argues that various forms of information and resources, which are dispersed among entities in the public and private sector, need to be integrated in a more sophisticated way to jointly coordinate policies and provide better public services. It is this combination of insulation

and connectedness that minimises the risks and enhances the effectiveness of economic policies.

SBRs can help to address co-ordination failures as government action on its own is risky. Any intervention needs to be updated when new information becomes available, and it is therefore essential to consult the market using effective SBRs. Stiglitz argues that the flexibility of policy interventions is important in securing a positive outcome¹⁴ – East Asian governments adapted to changing economic conditions and withdrew policies if they did not work. Inflexible policies or inadequate institutions addressing market failures are unlikely to be relevant for private sector development in the long run.

2.4 What constitutes good state-business relations

John Harriss suggests that good SBRs are based on benign collaboration between business and the state (i.e. an embedded autonomy) with positive mechanisms¹⁵ that:

- make for the flow of accurate and reliable information, both ways, between business and government (i.e. there is *transparency*)
- mean that there is at least the likelihood of *reciprocity* between business and government (as, for example, when state actors have the capacity and the autonomy to secure improved performance in return for subsidies)
- mean that capitalists are able to believe what state actors say (they have *credibility*, in other words – and when they do command credibility then it is likely to be possible for them to respond flexibly to changing circumstances without losing the confidence of business people)
- establish high levels of *trust* (which really subsumes the foregoing points about transparency, reciprocity and credibility)‘.

Too close a collaboration between business and states amounts to collusive behaviour and potentially harmful rent-seeking behaviour and favouritism without transparent information sharing for all firms.

Practitioners have only recently begun to characterize what constitutes good public-private dialogue. There is a website <http://publicprivatedialogue.org/> with case studies for several countries including a few for Africa and there was a 2006 workshop in Paris that drew on expertise in DFID, the World Bank, IFC, and OECD Development Centre, resulting in a Charter of Good Practice in using Public-Private Dialogue for Private Sector Development, see Box 1.

Box 1 Charter for Good Practice in using Public-Private Dialogue for Private Sector Development

Source: <http://publicprivatedialogue.org/charter/>

PRINCIPLE I: MANDATE AND INSTITUTIONAL ALIGNMENT

A statement of objective is helpful for clarity. A formal or legal mandate can be an important help in some political and economic contexts, but mandates are never sufficient to establish good Public-Private Dialogue (PPD). Wherever hosted and whenever possible, PPD should be aligned with existing institutions to maximise the institutional potential and minimize friction.

PRINCIPLE II: STRUCTURE AND PARTICIPATION

PPD's structure should be manageable while flexible, enable participation to be both balanced and effective, and reflect the local private sector context.

PRINCIPLE III: CHAMPIONS

It is difficult to sustain dialogue without champions from both the public and private sectors, who invest in the process and drive it forward.

PRINCIPLE IV: FACILITATOR

A facilitator who commands the respect of stakeholders can greatly improve the prospects of PPD.

PRINCIPLE V: OUTPUTS

Outputs can take the shape of structure and process outputs, analytical outputs or recommendations. All should contribute to agreed private sector development outcomes.

PRINCIPLE VI: OUTREACH AND COMMUNICATIONS

Enabling communication of a shared vision and understanding through the development of a common language is essential for building trust among stakeholders.

PRINCIPLE VII: MONITORING & EVALUATION

Monitoring and evaluation is an effective tool to manage the public private dialogue process and to demonstrate its purpose and performance.

PRINCIPLE VIII: SUB-NATIONAL

Public-private dialogue is desirable at all levels of decision-making down to the most local possible level, especially as this is likely to be more practically capable of involving micro-entrepreneurs, SMEs and other local stakeholders.

3. MEASURING STATE-BUSINESS RELATIONS

In order to measure SBRs and assess its importance for economic performance, we need to determine the essence of SBRs. As the practitioner's guide and literature in section 2 indicated, there are four main elements responsible for good SBRs:

- the way in which the private sector is organised vis-à-vis the public sector
- the way in which the public sector is organised vis-à-vis the private sector
- the practice and institutionalisation of SBRs
- the avoidance of harmful collusive behaviour.

3.1 How is the private sector organised vis-à-vis the public sector?

Good SBRs can not be sustained in the long run without effective private sector participation; Weiss indicates that the more firms are involved in business associations the easier it makes to co-ordinate policy between the government and business.¹⁶ The importance of business associations is further emphasized by Hisahiro (2005) who suggests they play a significant role in facilitating the formulation, implementation, and monitoring of economic policies and provision of feedback to the government. Against this there are questions raised as to whether there is a bias of business associations towards certain type of firms; a representative umbrella organization for all private sector associations is also present in some countries.

Some would argue that there is no business case for firms to organize themselves, as they could lobby government directly. Indeed, large natural resources firms might go directly to the government to negotiate new terms or address barriers in customs. We argue that business associations will help firms because

- organized associations can have a greater impact on government, because they can provide a more coherent and consistent case;
- it is cheaper by avoiding the need for firms to duplicate lobbying efforts.

However, even though governments concerned with overall development (not individual firm performance) may have an incentive to act on an organized business lobby, in practice firms may communicate with government in two ways: lobbying government through an association and alone. To check that this is indeed the case, and that an association is also used even though an individual firm is already bargaining and large, we examined survey data on firm's lobbying behaviour in Zambia: Table 1 shows for a survey of

firms in Zambia that the majority of both lobbying and non-lobbying firms is a member of an association, and this is even more likely for larger firms. This counteracts the hypothesis that larger firms do not find it necessary to bargain through an association – in fact larger firms are more likely to find the association effective than smaller firms (final set of columns and rows).

Table 1: Are firms that lobby themselves a member of a business association? The case of Zambia

	Firm member of association	Firm not a member of association	Perceived effectiveness of association (numbers of firms answering)				
	Number & percentage rows	adds over	No	Minor	Moderate	Major	Decisive
Firm does lobby	74 (82%)	16 (18%)	14	28	41	36	6
Firm does not lobby	69 (59%)	47 (41%)	8	8	12	8	5
Size 1–19	4 (50%)	4 (50%)	0	2	0	2	2
Size 20–100	42 (67%)	21 (33%)	11	9	20	9	1
Size >100	98 (72%)	38 (28%)	11	25	30	33	8

Source: Enterprise surveys, the World Bank Group

The measurement of the role of the private sector in state-business relations will examine:

- the number of private sector business organizations in a country;
- the prevalence of these organizations in the overall community;
- the presence and length of existence of any umbrella organization linking other businesses and associations together.

3.2 How is the government organized vis-à-vis the private sector?

The government faces numerous decisions on how it may organize itself to interact with business. An important measure is the presence and effectiveness of an investment promotion agency

(IPA) which could be seen as indicative for advocacy of private sector interests as a whole; another would be the presence of a governing unit specifically for the private sector. The overall direction of the government, the strength of the party in power, and the strength of the opposition may often be defining factors in the nature of the public sector, and such occurrences may also be captured. Weiss also thinks that the government is the 'senior partner' in the state-business relationship and claims the government directs the policy patterns, but stresses the interdependent nature of the state-business relationship.¹⁷

The measurement of the private sector in state-business relations will examine:

- the presence and length of existence of an investment promotion agency (IPA) to promote business
- Government institutions that interact with and provide support for business.

3.3 How do states interact with business?

Effective SBRs requires the co-operation of the public and private sector, but co-operation and willingness alone may not be enough for dialogue to be useful and effective. To examine these qualities, we can look at a number of factors: first, we can see if there is a mechanism of public-private dialogue; without a mechanism, usually in the form of a forum, it is more difficult for the state and the private sector to be on agreeable terms in a transparent way, and thereby avoiding harmful collusive behaviour. This mechanism can come in a number of different forms: it can be open to all and autonomous of government intervention as is the case with a formal existing body, or it can be an informal 'suggestive' body with no entrenched power. Forum statistics such as when it was founded and how often it meets, will provide an idea of the forum's strength.

The measurement of how the state interacts with business will examine:

- the format, frequency, and existence of state-business relations;
- the nature of state-business relations, formal or informal.

3.4 Mechanisms to avoid harmful collusive behaviour

Competition laws are created for the benefit of business competition and promoting the creation of new business; both the existence of such laws and the length of their existence will be used as initial indicators of a country's commitment to such competition policies, though it will also be important to consider whether the

laws have been effective.

The measurement of mechanisms to avoid collusive behaviour will examine the presence and length of existence of laws protecting business practices and competition

4. EMPIRICAL RESULTS FOR SUB-SAHARAN AFRICA

4.1 How is the Private Sector organized vis-à-vis the Public Sector

Table 2 describes the private sector in the studied countries: the first two columns listing the number of Private Sector Organizations (PSOs) and Developmental Organizations (DOs) are taken from Appendix A; column 4 is a simple ratio of column 2 (PSOs) to column 3 (DOs). Mauritius, Botswana, and South Africa all maintain PSOs/DOs ratios above the average of the rest of the countries; poor countries such as Eritrea and Ethiopia fall below the average, though Malawi is above the average; the largest ratio belongs to Madagascar. It is important to note that these are quantitative numbers that do not take into account the efficacy, size, or development of the organizations.

The next set of columns examines whether there is a private sector umbrella organization. This is a proxy for how the private sector as a whole is able to mobilise itself; the most developed countries in SSA have developed private sector umbrella organizations with history and standing dating back into the 1970s or earlier. Eritrea has no umbrella organization, while Ethiopia and Malawi each formed one in the last 15 years. The age of the institution should also be a rough indicator of how entrenched it is within the private sector, although some institutions might be dormant. This measure shows an improvement over time: in 1990, only 25% of the countries (5/20) in this study had an umbrella organization; by 2000, 55% (11/20) of the countries had umbrella organisations, and now that number is currently 70% (14/20).

Table 2: How is the Private Sector Organized?

Country	Private Sector Organizations	Total Development Organizations	Ratio	Private Sector Umbrella Organization		If yes...	
				Yes	No	Starting	Name
Benin	14	246	5.7%	1	0	1965	CCIB
Botswana	12	178	6.7%	1	0	1977	BFTU
Côte d'Ivoire	29	268	10.8%	0	1	N/A	N/A
Eritrea	4	115	3.5%	0	1	N/A	N/A
Ethiopia	20	469	4.3%	1	0	1992	ECC
Ghana	21	492	4.3%	1	0	1994	PEF
Kenya	37	945	3.9%	1	0	1965	KNCC
Madagascar	29	217	13.4%	0	1	N/A	N/A
Malawi	18	230	7.8%	1	0	2000	MCCI
Mali	13	456	2.9%	0	1	N/A	N/A
Mauritius	12	135	8.9%	1	0	1965	MCCI
Mozambique	12	294	4.1%	1	0	1999	CTA
Nigeria	21	616	3.4%	0	1	N/A	N/A
Rwanda	7	263	2.7%	1	0	1999	RPSF
Senegal	33	580	5.7%	1	0	1995	CDPS
South Africa	59	830	7.1%	1	0	1959	SAF/BL
Tanzania	19	434	4.4%	1	0	2000	TPSF
Uganda	44	638	6.9%	1	0	1995	PSFU
Zambia	29	344	8.4%	1	0	2003	ZBF
Zimbabwe	16	391	4.1%	0	1	N/A	N/A
Total	449	8141	5.5%	14	6		

4.2 How is the government organized vis-à-vis the private sector?

Table 3 shown below is used to describe the public sectors of the studied countries. The columns denote the presence of an IPA and some 90% of the countries within this study do in fact have an IPA (the two countries currently without a known IPA being Eritrea and Madagascar). The mere presence of an IPA, even for a long duration, is not enough for a country to be successful, as can be seen in the case of Tanzania; Tanzania has one of the second oldest IPAs in Africa (1986), second only to South Africa – IPAs are a relatively new phenomenon in the region as Tanzania and South Africa were the only countries with an IPA presence in 1990.

Table 3: Is there an Investment Promotion Agency (IPA)?

Country	Is there an Investment Promotion Agency (IPA)?		
	Yes	No	Starting Date
Benin	1	0	1996
Botswana	1	0	1997
Côte d'Ivoire	1	0	1993
Eritrea	0	1	N/A
Ethiopia	1	0	2002
Ghana	1	0	1994
Kenya	1	0	2004
Madagascar	0	1	N/A
Malawi	1	0	1991
Mali	1	0	1996
Mauritius	1	0	2001
Mozambique	1	0	1997
Nigeria	1	0	1995
Rwanda	1	0	1998
Senegal	1	0	2000
South Africa	1	0	1973
Tanzania	1	0	1986
Uganda	1	0	1991
Zambia	1	0	1991
Zimbabwe	1	0	1993
Total	18	2	1994 (avg)

Source: See Appendix B

4.3 How do states interact with business?

The first category in Table 4 examines whether institutionalized public-private dialogue (PPD) exists. Some 75% of the countries studied currently have such PPD in place; however, only one country, Mauritius, had any PPD in place before 1992. Eritrea, Madagascar, Rwanda, Ivory Coast, and Benin are amongst the countries without an institutionalized PPD system; the second column examines the number of meetings these institutions formally schedule. This number may be deceiving as nearly all of the institutions have the ability to call *ad hoc* meetings and/or also meet in smaller groups: Malawi leads the way with six institutionalized meetings per year and South Africa holds four.

Of the fifteen countries with PPD institutions, over half (8/15) are

formal. The most developed countries in the region hold formal PPD fora, including the long running Joint Economic Council of Mauritius (1970); of the eight formal PPD institutions, five (Botswana, Mauritius, South Africa, Zambia, and Zimbabwe) hold multiple meetings per year. Zimbabwe's PPD institutions are of low quality despite their formal status (Appendix B); meanwhile, Zambia's institutions are very recent, created in 2004.

Table 4: How are the State-Business Relations Organized?

Country	Institutionalized PPD		If Yes			If Yes: Formal or Informal	
	Yes	No	Name	Frequency (per year)	Starting Date	Formal	Informal
Benin	0	1	–	–	–	–	–
Botswana	1	0	HLCC	2	1996	1	0
Côte d'Ivoire	0	1	–	–	–	–	–
Eritrea	0	1	–	–	–	–	–
Ethiopia	1	0	PPDF	1	2002	1	–
Ghana	1	0	EF	2	2001	1	–
Kenya	1	0	NCWTO	not regular	1995	0	1
Madagascar	0	1	–	–	–	–	–
Malawi	1	0	NAG	6	2001	0	1
Mali	1	0	CNCE	2	1997	0	1
Mauritius	1	0	JEC	2	1970	1	0
Mozambique	1	0	PSC	1	1998	0	1
Nigeria	1	0	NESG	1	1996	1	0
Rwanda	0	1	–	–	–	–	–
Senegal	1	0	CPI	2	2002	0	1
South Africa	1	0	NEDLAC	4	1994	1	0
Tanzania	1	0	TNBC	1	2001	1	0
Uganda	1	0	NF	1	1992	0	1
Zambia	1	0	PSDF	2	2004	1	0
Zimbabwe	1	0	NECF	4	1997	1	0
Total	15	5				8	7

Boxes 2 and 3 are examples of the most developed and institutionalized state-business relations in sub-Saharan Africa: the JEC (Joint Economic Council from 1970) in Mauritius and NEDLAC (National Economic Development and Labour Council from 1994) in South Africa. Appendix B has further details such as on the High Level Consultative Council (HLCC) in Botswana.

Box 2 State-Business Relations in South Africa: NEDLAC

NEDLAC has four constituencies that meet to discuss and form consensus on social and economic policy:

(1) **The Government:** Departments of Labour, Finance, Public Works and Trade and Industry

(2) **Organized Business:** Under the umbrella of Business South Africa (BSA) and the National African Federated Chamber of Commerce (Nafcoc)

(3) **Organized Labour:** Under the umbrella of the Congress of South African Trade Unions (Cosatu), the National Council of Trade Unions (Nactu) and the Federation of Unions in South Africa (Fedusa);

(4) **The Community:** South African Youth Council, National Women's Coalition, South African National Civics Organisation, Disabled People of South Africa, and the National Co-operatives Association of South Africa.

All agreements and findings under NEDLAC are made public and tabled in Parliament. The NEDLAC Annual Summit brings together delegates representing over 300 constituencies.

Box 3 State-Business Relations in Mauritius: JEC

The primary institution for state-business relations in Mauritius is the the Joint Economic Council (JEC, 1970). The JEC meets with the prime minister on a regular basis and participates in budget proposals. The JEC of Mauritius is funded entirely by its members, which include

- Mauritius Chamber of Commerce and Industry
- Mauritius Chamber of Agriculture
- Mauritius Employers' Federation
- Mauritius Sugar Producers' Association
- Mauritius Export Processing Zone Association
- Mauritius Bankers' Association
- Mauritius Insurers' Association
- Association des Hôteliers et Restaurateurs de l'île Maurice
- Association of Mauritian Manufacturers

The Joint Economic Council is managed by a Council of 18 members, with a Chairman who rotates every two years and a full-time Director. As of 1999, the JEC's top goals are to ensure a stable macro economic environment, foster greater fiscal discipline, restore financial health, and integrate all sectors of the economy in order to reduce distortions and improve efficiency of investment.

4.4 Mechanisms to avoid harmful collusive behaviour

Table 5 examines the presence of competition laws protecting both consumers and businesses within the country. The most developed economies in sub-Saharan Africa have these laws in place, though in the case of Botswana and Mauritius, they have only come into being in the last ten years. Meanwhile, neither Eritrea nor Ethiopia has these laws in place. Again, there is a difficulty in measuring the gap between the presence of laws with the teeth and enforcement; despite this, it could be the case that weak competition laws will allow countries to perform better than no competition laws at all. It may also be the case that evidence comes to light that shows that the competition law is not biting.

Table 5: Competition Laws

Country	Are there Competition Laws?		If Yes...
	Yes	No	Starting Date?
Benin	1	0	2003
Botswana	1	0	1996
Côte d'Ivoire	1	0	1997
Eritrea	0	1	N/A
Ethiopia	0	1	N/A
Ghana	0	1	N/A
Kenya	1	0	1989
Madagascar	0	1	N/A
Malawi	1	0	1998
Mali	1	0	1992
Mauritius	1	0	2003
Mozambique	0	1	N/A
Nigeria	0	1	N/A
Rwanda	0	1	N/A
Senegal	1	0	1995
South Africa	1	0	1979
Tanzania	1	0	2003
Uganda	0	1	N/A
Zambia	1	0	1994
Zimbabwe	1	0	1996
Totals	12	8	

Source: see Appendix B

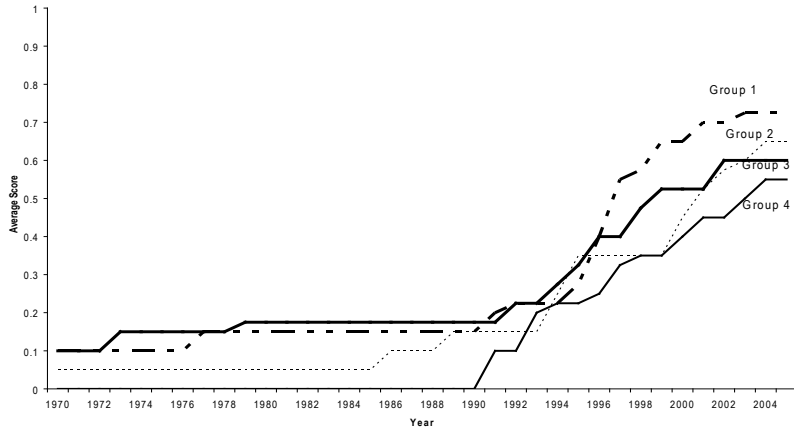
4.5 Summarizing results by country for the period 1970–2005

The above sections showed that it is possible to measure aspects of SBRs, according to four indicators of good SBRs:

- The way the *private sector* is organized, a score of 0 for each country in a given year if it did not have a private sector umbrella organisation, 1 if it did (e.g. Malawi is 0 for 1970–1999 and 1 for 2000–2005).
- The way the *public sector* is organized, score 0 for each country in a given year if it did not have an IPA, 1 if it did (e.g. Botswana created BEDIA – a public sector organization addressing investor promotion – in 1997, so the sub-variable Public Sector would get a score 0 until 1997 and 1 afterwards).
- The practice and *institutionalization* of SBRs, score 0 for each country in a given year if it did not have an institutionalized PPD, 0.5 if it did but with frequency of 1 meeting or less, and 1 if it did and with a frequency of 2 meetings or more.
- The presence of *anti-collusive behaviour*, score 0 for each country in a given year if it did not have a competition policy in place, 0.5 if it did have a policy in place but not effective (due to evidence), and 1 if it did and it was effective.

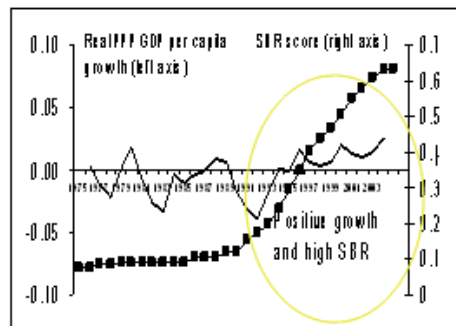
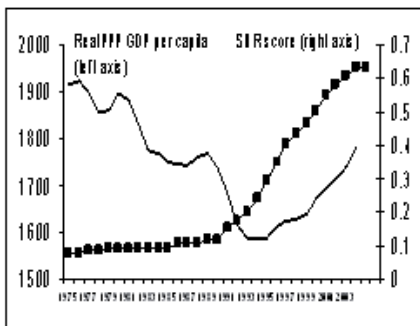
This leads to four, time-varying indicators per country and in order to obtain a composite measure, we have taken the average of the above indicators (this is crude as it attaches the same weight to each indicator); Appendix D shows the raw data for country-specific averages. Chart 1 plots the averages for four groups of countries, ranging from the fastest growing groups over 1970–2005 (group 1) to the slowest growing group (group 4); as expected, country groups with higher SBR scores grow faster. Chart 2 shows that faster growth has followed institutional development for state-business relations over the past decade, though this is indicative of a simple and very crude correlation. The right panel shows that positive growth coincided with a higher SBR.

Chart 1: Higher SBR scores for groups of faster growing countries



Notes: Group 1 = Botswana, Mauritius, Uganda, Mozambique, Mali; Group 2 = Tanzania, Ghana, Eritrea (part), Senegal, Kenya; Group 3 = Benin, Ethiopia, South Africa, Nigeria, Rwanda; Group 4 = Malawi, Zimbabwe, Madagascar, Zambia, Cote d'Ivoire. Groups based on PPP GDP per capita growth rates over 1980–2004.

Chart 2: Average GDP per capita (growth) and SBR



scores for Sub Saharan Africa

Source: WDI 2006 and text

5. COMPARING WITH OTHER GOVERNANCE MEASURES

It will be important to test whether the SBR measure is correlated with other governance indicators. Many governance indicators, such as the World Bank's 'Kaufmann Governance Indicators', are based on perceptions of government effectiveness, rule of law, etc.; our measure is based on an objective description of the institutional set-up to support and conduct effective SBRs – nevertheless, it

could be a useful comparison. It is also instructive to compare the SBR measure with other, more operational, investment climate measures and finally, we will compare the measures with indicators obtained from Enterprise Surveys, by the World Bank Group.

Table 6 presents Pearson correlations between the SBR measure and other governance indicators for 20 SSA countries, for one year at a time. It shows no significant correlation with control of corruption and political stability, but a significant correlation with the indicators 'Voice and Accountability', 'Government Effectiveness' and 'Regulatory Quality' in most of the years and a significant correlation with rule of law for 2 of the years. Hence, there is a reasonable correlation across countries between SBR and perceptions of governance variables relevant for private sector development.

Table 6: Correlations between SBR measures and Kaufmann indicators across countries, by year

	1996	1998	2000	2002	2004
Voice & Accountability	0.452 (0.046)	0.432 (0.057)	0.432 (0.058)	0.550 (0.012)	0.540 (0.014)
Political Stability	-0.041 (0.865)	0.106 (0.658)	0.117 (0.622)	0.199 (0.4)	0.273 (0.244)
Government Effectiveness	0.580 (0.007)	0.147 (0.536)	0.359 (0.120)	0.530 (0.016)	0.495 (0.026)
Regulatory Quality	0.512 (0.021)	0.479 (0.033)	0.281 (0.231)	0.475 (0.034)	0.374 (0.104)
Rule of Law	0.437 (0.054)	0.450 (0.047)	0.264 (0.260)	0.374 (0.104)	0.454 (0.044)
Control of Corruption	not available	0.346 (0.136)	0.301 (0.198)	0.201 (0.396)	0.301 (0.197)

Source: SBR for 20 SSA countries, see text; others, World Bank Kaufmann indicators

Note: Significance levels between parentheses (significant at 5% if < 0.05).

Table 7 presents correlations over time, that is, it relates changes over time in the SBR variable with changes in the other indicators over the same period. The first column examines short differences of two-year intervals, while the final columns examine changes over the entire period. It shows that the correlation with SBR over time is very weak, particularly in the case of short-run changes, though this might be expected since changes in perceptions can occur rapidly, while changes in institutional set-ups (SBR) occur more gradually.

Table 7: Correlations between SBR measures and Kaufmann indicators over time

	2004–1996 (short differences)		2004–1996 (long differences)	
	Co-efficient	Significance	Co-efficient	Significance
				(<0.05)
Voice & Accountability	0.015	0.894	0.23	0.33
Political Stability	0.029	0.799	0.331	0.154
Government Effectiveness	0.047	0.682	0.357	0.122
Regulatory Quality	0.143	0.205	0.36	0.119
Rule of Law	0.095	0.403	0.19	0.43
Control of Corruption	0.059	0.61	N/A	N/A

Source: SBR for 20 SSA countries, see text; others, World Bank Kaufmann indicators

It is also possible to compare the SBR variable with the various 'Investment Climate Indicators' contained in the World Bank's *Doing Business Reports*. These indicators describe the difficulties faced by normal business operations, such as the number of procedures it takes to obtain licences, etc., export goods and services; although some procedures are likely to be necessary, others could be streamlined. The hypothesis relevant for this paper is whether higher scores on SBR would lead to a more streamlined administration (i.e. fewer regulations and time wasted when trading); Table 8 shows that this is indeed the case for a cross section of the 20 SSA countries in 2005 (there is too little information to get a reasonable variation across time).

Table 8 Correlations between SBR measures and Investment Climate indicators: Trading Across Borders

	Co-efficient	Significance
(<0.05)		
Documents (Exports)	-0.339	
0.143		
Signatures (Exports)	-0.395	
0.085		
Time (Exports)	-0.462	0.04
Documents (Imports)	-0.397	
0.083		
Signatures (Imports)	-0.383	
0.096		
Time (Imports)	-0.471	0.036

Source: Text for SBR, 2003, and the World Bank's *Doing Business Report* 2006

Table 9 Evidence on State-Business Relations from Enterprise Surveys

Year of Data	SBR Score	Member of Private Sector Organization				Does Association Lobby Government?				Is Association Effective in Lobbying?				
Country		Yes	No	%Yes	%No	Yes	No	%Yes	%No	0	1	2	3	4
Benin	2004	110	84	56.7	43.3					N/A	20	7	12	5
Ethiopia	2002	222	143	60.82	39.18					55	35	29	35	28
Kenya-Man	2003									31	25	50	79	22
Madagascar	2005	151	132	53.36	46.64					24	23	27	16	2
Mali	2003	95	45	67.86	32.14									
Mauritius	2005	120	83	59.11	40.89									
Mozambique	2002	91	92	49.73	50.27	65	39	62.50	37.50					
Senegal	2004	57	189	23.17	76.83									
South Africa-Man	2003	361	238	60.27	39.73					159	80	62	35	16
Tanzania	2003	113	138	45.02	54.98	129	33	79.63	20.37	26	28	50	32	18
Uganda-Man	2003	176								21	33	39	45	24
Zambia	2003	141	62	69.46	30.54	128	12	91.43	8.57	14	30	45	23	15
Other Questions														
		Did you use the private sector association services?												
Country		Yes	No	%Yes	%No									
Benin	2004	20	90	18.18	81.82									
		Did your firm seek to lobby Government/to otherwise influence laws?												
		How much influence do business associations have on impacting regulation affecting your business? 4 = Most Impact 0/1 = Least Impact												
Country		Yes	No	%Yes	%No									
South Africa	2003	113	487	18.83	81.17									
Zambia	2003	87	115	43.07	56.93									
		Source: Enterprise Surveys, the World Bank Group												

Table 9 presents a comparison between the value of the SBR measure with membership and perceptions of private sector organizations on the basis of Enterprise Surveys conducted by the World Bank Group. It shows the percentage of firms belonging to a private sector organisation, whether the association lobbies the government and whether the association is considered effective; there does not seem to be a simple correlation between a high SBR score and perceived effectiveness of the association, so this needs further attention. A further benefit of micro level data is that it is possible to disaggregate views on state-business relations by state, sector and size of firm and Table 10 shows the value of business associations in different areas, by three firm size categories. One of the most striking findings for both South Africa and Zambia is that smaller firms attach less value to the business association in terms of lobbying the government than do larger firms.

Table 10 Business Association, Mean Value to Firm, by Firm Size Category

		South Africa			Zambia		
		Size 1 (0-10): 4 Obs.	Size 2 (11-50): 73 Obs.	Size 3 (51+): 281 Obs.	Size 1 (0-10): 3 Obs.	Size 2 (11-50): 38 Obs.	Size 3 (51+): 89 Obs.
a) Lobbying government	0.2500	0.8195	1.1341	1.0000	1.7632	2.0787	
b) Resolution of disputes	1.0000	0.7857	0.8199	1.0000	2.4667	1.5588	
c) Information and/or contacts on domestic products and input markets	0.5000	1.0411	1.1957	2.0000	2.0000	1.9048	
d) Information and/or contacts on international product and input markets	0.7500	1.0411	1.1044	2.5000	1.9048	1.8572	
e) Accrediting standards or quality of products; reputational benefits	0.0000	0.6713	0.9783	1.5000	2.0000	1.6098	
f) Information on government regulations	1.0000	1.4932	1.6726	2.6667	2.1936	2.2706	

Note: value ranges from 0 (no value) to 3; size is based on number of employees in private sector firms

6. CONCLUSIONS

While many factors contribute to economic growth in a measurable way, this paper suggests that an effective SBR is one of the important underlying factors which has so far been difficult to measure. Effective SBRs drive a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles.

Effective SBRs are linked to the literature on good governance; while being part of the governance literature, effective SBRs may also *lead to* and *prioritise* governance reforms.

In-depth discussions of state-business relations have so far been largely limited to Asian countries such as Korea, Taiwan, Japan, Malaysia, Bangladesh and Thailand. Measurement of state-business relations for sub-Saharan African countries has been patchy or absent.

The aim of this paper was to measure the key factors associated with effective SBRs for 20 sub-Saharan African countries over the period 1970–2005. These key factors were based on theory and practice: an organized private sector, an organized public sector, an institutionalized mechanism of SBR, and absence of harmful collusive behaviour. We scored 20 countries over time on the basis of these factors and calculated a composite SBR indicator.

The new measures seem plausible: first, higher scores are associated with faster growth (though more precise work will be done in a next phase); secondly, the new measures correlate well with other governance indicators (though with different interpretations); and thirdly, they correlate with more operational investment climate data, such as fewer procedures when exporting goods and services.

We suggest two ways forward: first, we need to measure the impact of the variable SBR on economic performance using macro and micro level data, taking into account other causes of growth; we will undertake this in the next phase. Secondly, we need further detailed descriptions of state-business relations across African countries over time – for instance, there does not seem to be a simple correlation between a high SBR score and perceived effectiveness of the association, so this needs further attention; going into detail will enable us to measure more specificities of state-business relations and therefore evaluate which specific circumstances are associated with effective SBRs.

APPENDIX A

DEVELOPMENT ACTORS IN SUB-SAHARAN AFRICA

The Directory of Developmental Organizations (DDO) creates an annual list of now over 47,000 known developmental organizations, which does not claim to be exhaustive, but it seems comprehensive enough to be a good representation for each country. The DDO lists organizations by country and then by sector into one of the following nine categories: international organizations; government; private sector support organizations; finance institutions; training and research organizations; civil society organizations; development consulting firms; information providers; and grantmakers. Table A1 lists the quantitative count of these categories for each country; Table A1 provides the same breakdown for two developed countries (United States, United Kingdom) as well as two big developing countries (China, India).

The following are some examples of the organizations classified in one of the nine categories:

- *International Organizations*: including for example UN organizations, World Bank, IMF, IADB, AfSB, AsDB.
- *Government*: ministries, government institutions, planning agencies.
- *Private Sector Support Organizations*: chambers of commerce and industry, fairtrade organizations, trade promotion organizations for SMEs.
- *Finance Institutions*: central banks, national development banks, commercial banks, credit unions, microfinance institutions, finance houses.
- *Training and Research Organizations*: universities, research centres and institutions, training institutes.
- *Civil Society Organizations*: development foundations and associations, membership development organizations, microfinance institutions, faith-based development organizations, development programmes and projects.
- *Development Consulting Firms*: including job opportunities and vacancy announcements.
- *Information Providers*: development newsletters/journals, development publishers, web resources, databases.
- *Grantmakers*: fundraising, charity and philanthropic organizations.

Table A1 How can Development Associations be Categorized?

Country Organizations	International Institutions	Government Sector	Private Institutions and Support	Finance Society	Training Consulting Research Centres	Civil Providers	Development Providers Firms	Information	Grantmakers	Total
Benin	18	25	14	24	22	140	0	3	0	246
Botswana	22	23	12	11	23	81	3	3	0	178
Côte d'Ivoire	46	23	29	43	30	91	1	5	0	268
Eritrea	23	18	4	4	5	58	1	2	0	115
Ethiopia	55	37	20	34	52	262	3	6	0	469
Ghana	38	39	21	146	63	174	6	3	2	492
Kenya	73	40	37	65	131	571	13	11	4	945
Madagascar	30	34	19	19	19	69	2	5	0	217
Malawi	27	29	18	20	26	101	2	6	1	230
Mali	35	43	13	43	43	271	5	3	0	456
Mauritius	12	52	12	12	17	25	2	3	0	135
Mozambique	46	29	12	22	26	152	4	3	0	294
Nigeria	41	29	21	79	86	351	2	6	1	616
Rwanda	31	35	7	14	14	156	1	5	0	263
Senegal	50	48	33	84	74	281	3	7	0	580
South Africa	58	100	59	88	157	280	27	29	32	830
Tanzania	49	42	19	44	47	214	12	5	2	434
Uganda	45	54	44	78	64	340	11	2	0	638
Zambia	35	58	29	22	35	149	11	5	0	344
Zimbabwe	45	29	16	22	49	215	8	7	0	391
Others										
India	73	88	49	231	348	641	28	22	8	1488
China	50	43	49	20	74	176	11	12	3	438
USA	50	90	107	155	437	1067	159	237	175	2548
UK	17	35	71	46	208	442	147	113	28	1107

Source: 2006 Directory of Developmental Organization (<http://www.devir.org/>).

APPENDIX B

STATE-BUSINESS RELATIONS BY COUNTRY

African countries in this study include: Benin, Botswana, Côte d'Ivoire, Eritrea, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe.

Benin

The Private Sector

The private sector began to organize itself through public sector action. By government mandate, the *Chambre de Commerce et d'Industrie du Benin* (CCIB) was created in 1965 to serve business interests,¹⁸ the government also declared all women, must join the *Union Nationale des Commerçantes du Benin* (Unacobe, 1973).¹⁹ By 1985, Unacobe functioned semi-autonomously for business interests and throughout the 1970s and 1980s, traders in Benin formed an organised association to combat authoritarian regimes. Leaders of business associations in 1990 campaigned and entered the new government through democratic elections, increasing the voice of business.

The Public Sector

Benin became independent in 1960; it was known as Dahomey prior to 1975. Dahomey went through a series of military coups before settling in 1972 as a Marxist state under Mathieu Kerekou; this government fell in 1990 due to a fiscal collapse; with global aid, the new government collaborated with business and citizens to create new ways of reform.²⁰ Benin established an investment promotion agency, the *Centre de Promotion des Investissements* (CPI), in 1996.

Collusive Behaviour

Under Kerekou (1972–1990), business associations battled government officials who extorted bribes and tributes for themselves. Kerekou returned to power through democratic elections in 1996, though tampering has been alleged.²¹ Benin has no competition laws.²²

Defining Moments in Benin SBR's since the 1970s

- 1972: Kerekou establishes Marxist state
- 1973: Unacobe established
- 1985: Unacobe becomes semi-autonomous
- 1990: Fiscal collapse, elections held and Kerekou ousted
- 1996: Kerekou returns to power
- 1996: CPI established

Botswana

The Private Sector

Organized business in Botswana got its first major start with the Botswana Federation of Trade Unions (BFTU) in 1977. Presently, the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) is the largest and most representative body in the private sector and has had a major role in the development of these two structures. BOCCIM was founded as the Botswana Employers' Federation (BEF) in 1971 before changing its name to BOCCIM in 1988;²³ the private sector also meets with the government through ad hoc meetings.²⁴ A further potential contributor to Public-Private Dialogue (PPD) is the Exporters' Association of Botswana (EAOB); though in the government's view, the private sector representatives have not taken advantage of the opportunities given to them, and the PPD fora are being used to reconcile these differences.²⁵

BOCCIM²⁶

BOCCIM meets most of its costs from membership fees and fund-raising activities. It no longer receives financial support from an external donor; nearly its entire budget is derived from its 400 largest members. Also, the executive council operates entirely on a voluntary basis.

BOCCIM currently has more than 1,600 members, but the secretariat itself is a small unit with members from the sectoral and regional councils. There are 18 sector councils and 14 regional councils, each with its own appointed representatives.

Small businesses, with between 1 and 25 employees, make up approximately three-quarters of the membership, while just under 18% of the membership comprises medium-sized businesses (25–100 employees) and a little over 6% are large businesses (more than 100 employees). Qualified members can be asked to participate in working groups, review documents and prepare papers for discussion with government.

The Public Sector

Botswana has a record of a well managed economy and an open political culture;²⁷ however, it took many years for the government to recognise private sector representatives.²⁸ There are two major public/private consultative structures: a biennial conference, the National Business Conference (NBC), and the High Level Consultative Council (HLCC). The NBC was founded in 1988 to facilitate economic participation by the private sector; the HLCC, established in 1966, was created to support the NBC.²⁹ The HLCC now works jointly with BOCCIM and is a formal institution of PPD. In 1997, Botswana passed the Botswana Export Development and

Import Authority Act (BEDIA), creating an investment promotion agency within the country. The Department for International Trade is the primary public institution that takes account private sector interests, primarily through ad hoc meetings. There have been issues over a high turnover rate for ministers potentially affecting PPD negatively.³⁰ In 2004, under a wing of BEDIA, the National Committee on Trade and Policy Negotiation was established as a formal PPD forum for private and public sector interests.

Collusive Behaviour

Botswana is still in the process of adopting competition laws under Section 48 of the 1996 Telecommunications Act and Section 69 of the Industrial Properties Act; Botswana does not have an enforcement agency for this act.³¹

Defining Moments in Botswana SBR's since the 1970s

- 1971: BEF founded
- 1988: BEF becomes BOCCIM
- 1988: NBC occurs for first time
- 1996: Competition laws passed
- 1996: HLCC, formal PPD forum
- 1997: BEDIA founded
- 2004: BEDIA's National Committee founded as formal PPD forum

Côte d'Ivoire (Ivory Coast)

The Private Sector

Some describe the Ivory Coast system as a patronage system: business associations within industries have failed to emerge; and in addition, most of the businesses operating in the Ivory Coast system are not Ivorian, and thus lack the political stakes.³²

The Public Sector

According to Catherine Boone, the Ivory Coast's ability to structure access to opportunities for accumulation in the commercial sector was an important force shaping the development of local business groups. Facing a major recession, the Ivory Coast accepted a World Bank SAP in 1984;³³ the Ivory Coast also has an investment promotion agency, the Centre de Promotion des Investissements en Côte d'Ivoire (CEPICI), founded in 1993.

Collusive Behaviour

The Ivory Coast passed new legislation to amend a 1991 Competition Policy Act with the Loi No. 97-10 de 6 Janvier 1997. The country has two dedicated bodies, the Competition Commission and the Department of Competition, to prevent and deter collusion;³⁴ however, Ivorian governments 'have been able to absorb local business groups into patron-client networks that underpin the political status quo, and to canalize local business into

rentier activities mediated by the state.³⁵

Defining Moments in Ivory Coast SBR's since the 1970s

- 1984: Ivory Coast undergoes Second SAP
- 1991: Competition policy initially passed
- 1993: CEPICI founded
- 1997: Competition policy amended

Eritrea

The Private Sector

Eritrea has very tight restrictions on private enterprise, and military and party owned enterprises have been expanding.³⁶ The economy is undergoing privatization slowly because the domestic economy has proven unable to absorb a faster process.³⁷

The Public Sector

The government currently has no investment promotion agencies. Due to disputes with Ethiopia, Eritrea spends a greater percentage of its GDP on military than any other country (17.7%)³⁸ – thus the battle for independence along with border disputes have stunted Eritrea's growth.

Collusive Behaviour

Eritrea currently has no competition laws.³⁹

Defining Moments in Eritrean SBR's since the 1970s

- 1993: Achieved independence from Ethiopia
- 1998: War over borders with Ethiopia lasts until 2000

Ethiopia

The Private Sector

The Ethiopian Chamber of Commerce (ECC) is the primary private sector actor, it was originally founded in 1943, but has since undergone many changes; in 1974, the government nationalised part of the chamber, and it lost its private autonomy until a 1992 shift in government philosophy; however, this change was not official until 2003.

The Public Sector

The Ethiopian Investment Commission (EIC, 2002) operates to promote investment; the Ministry of Trade and Industry (MOTI) in conjunction with the ECC formed the Public-Private Dialogue Forum, but it is seen as highly ineffective,^{40 41} though as stated in its Sustainable Development and Poverty Reduction Program (SDPRP) of 2002/2003, the government is committed to PPD.⁴²

Collusive Behaviour

Ethiopia has no competition laws yet in force.⁴³

Defining Moments in Ethiopian SBR's since the 1970s

- 1974: Government nationalises ECC

- 1992: ECC regains private sector autonomy
- 2002: EIC established
- 2002: PPDF established
- 2003: Ethiopia states commitment to PPD

Ghana

The Private Sector

The private sector of Ghana has struggled to make an impact, with one of the challenges long facing the businesses of Ghana being a populist government based on anti-business rhetoric.⁴⁴ The Private Enterprise Foundation was founded in 1994 by four major business associations, the Association of Ghana Industries, Ghana National Chamber of Commerce, Ghana Employers' Association, and the Federation of Association of Ghana Exporters. The National Economic Forum, operating under the PEF's umbrella, focuses on supporting the views of small and medium enterprises (SMEs).

The Public Sector

Years of military rule and public distrust of business have allowed the public sector to reign in economic affairs. However, since accepting the foreign aid that came with the World Bank's Structural Adjustment Program in 1983, Ghana has slowly changed its relation with the private sector; the Ghana Investment Promotion Centre (GIPC) established in 1994 was created by the government to encourage private investment, and in 2001, the Ghana Export Promotion Council (GEPC) established an Exporter's Forum (EF), through which the private sector could interact with its primary counterpart, the Ministry of Trade and Industry. The private sector currently interacts primarily with the Ministry for Private Sector Development, which was created in 2004.

Collusive Behaviour

The Ghanaian government was under military rule until 1992 – from 1981 until this time, opposition political parties were banned – according to Handley, the government 'tried to build patronage ties to select elements of the business community'.⁴⁵ The first elections were marked with protest and political violence; scepticism was also raised when numerous officials from the PNDC, Rawlings' military regime were reappointed by a presidential order.⁴⁶ However, the 2000 peaceful transition from National Democratic Congress's Jerry Rawlings to New Patriotic Party's John Kufuor signals improved prospects for Ghanaian relations. Ghana has no current competition laws.⁴⁷

Defining Moments in Ghanaian SBR's since the 1970s

- 1981: Rawlings suspends constitution and forms military regime
- 1983: Rawlings accepts World Bank aid, and economic reforms

that come with SAP

- 1992: Constitution adopted, democratic elections, and first notable PPD
- 2000: Rawlings leaves power after serving 2-term maximum limit; opposing party peaceably takes power
- 2001: EF established
- 2004: MPSD founded to aid relations with private sector

Kenya

The Private Sector

The Kenyan private sector is hindered by rivalry amongst indigenous groups, though the Kenya National Chamber of Commerce (KNCCI) was originally founded in 1965 and plays an important role in supporting private sector interests. The most successful Kenyan entrepreneurs have connections to key state institutions,⁴⁸ but despite government intervention on their behalf, indigenous Kenyans compose a minimal part of the industrial sector due to a lack of management skills.⁴⁹

The Public Sector

Kenya adopted the Export Processing Zones Authority (EPZA), in 1990; however, the programme was not enacted until 1993. As a founding member of the WTO, Kenya established the Permanent Inter-Ministerial Committee (PIMC) in 1995 to advise on WTO matters. The PIMC was re-branded as the National Committee on WTO (NCWTO) in 1997 and includes members from the private sector – it is notable that the NCWTO does not have any legal status, and can thus be ignored.⁵⁰ Additionally, Kenya established its Investment Promotion Centre, Kenya Investment Authority (KIA), in 2004; the stated goal of the KIA is to promote both foreign and local investment in Kenya.

Collusive Behaviour

In 1967, Kenya passed a Trade Licensing Act which excluded non-Africans from trading in non-central areas. Kenya passed the Restrictive Trade Practices, Monopolies, and Price Control Act in 1989 to encourage competition in the economy.⁵¹

Defining Moments in Kenyan SBR's since the 1970s

- 1989: Kenya passes competition laws
- 1990: Kenya adopts the EPZA (enacted, 1993)
- 1995: PIMC established
- 1997: PIMC changed to NCWTO and incorporates private and civil sectors
- 2004: KIA established

Madagascar

The Private Sector

The organized private sector presence in Madagascar is very weak, though it does exist, as in the case of Groupement des Aquaculteurs et Pêcheurs de Crevettes de Madagascar (GAPCM), a collection of fishing enterprises. The President Marc Ravalomanana rose to prestige through successful business enterprise, and was expected to champion capitalism.⁵²

The Public Sector

Madagascar was plagued with nepotism during its one party rule era (1975–1992) and still faces a pervasive spoils system.⁵³ The Ravalomanana government has carryover linkages with his business enterprise. Ravalomanana was elected amidst a great deal of controversy in 2002 over the incumbent, contributing to a significant immediate fall in GDP. Much of Madagascar's economy is in recovery, and infrastructure improvements are needed.⁵⁴

Collusive Behaviour

Madagascar currently has no competition laws.⁵⁵

Defining Moments in Madagascan SBR's since the 1970s

- 1975: Single party rule (socialism)
- 1992: Free elections held
- 2002: Ravalomanana wins election

Malawi

The Private Sector

The Malawi Chamber of Commerce and Industry (MCCI) has been in existence since 1892, and undergone many transformations leading to the current model, established in 2000. In 2001, a National Private Sector Workshop led to the creation of the National Action Group by the government. Many members of the private sector are believed to want a formal mechanism of PPD that is not currently in place.⁵⁶

The Public Sector

The government formed the Malawi Investment Promotion Agency (MIPA) in 1991 to promote private sector development. Malawi has a dedicated ministry for the private sector in the Ministry for Trade and Private Sector Development (MTPSD). The National Action Group (NAG) was formed in 2001 and has been an effective forum, but it lacks a formal status.⁵⁷ Two years later, the private and public sectors joined together to issue the Malawi Economic Growth Strategy (MEGS, 2003).⁵⁸

Collusive Behaviour

Prior to 1990, government enterprise dominated the economy; until 1994, Malawi was a one-party state, which led to

privileged ownership and monopolistic behaviour.⁵⁹ Malawi passed the Competition and Fair Trading Bill in 1998 to encourage free trade and entrepreneurship.⁶⁰

Defining Moments in Malawian SBR's since the 1970s

- 1991: MIPA founded
- 1994: Multi-Party system introduced
- 1998: Competition Bill passed
- 2000: MCCI redesigned
- 2001: National Private Sector Workshop
- 2001: NAG formed
- 2003: MEGS issued through joint public-private effort

Mali

The Private Sector

Two primary business associations exist in Mali, the *Fédération Nationale des Employeurs du Mali* and the *Chambre de Commerce et d'Industrie du Mali*, representing the employer's association and general business interests, respectively. SME's have had difficulty gaining access to credit and developing a voice within government fora.

The Public Sector

Mali has an investment promotion agency, *Centre National de Promotion des Investissements (CNPI)*, which was formed in 1996. In 1997, the Malian government founded the *Comité National de Co-ordination Économique (CNCE)*, through which the various ministries interact with the private sector, though its role is ambiguous.⁶¹ More recently, Mali launched a *Presidential Investor's Council (CPI, 2004)* to promote and interact with the private sector; to date, the CPI has been considered a very positive forum but lacks a sufficient funding base.⁶²

Collusive Behaviour

The government of Mali issued *L'Ordonnance No. 92* in April of 1992 to oversee competitive practices.⁶³ Complaints over government transparency have remained an issue, even within the CPI. Additionally, the bureaucracy within the country is often criticised as being corrupt; the government is split into more than 100 political factions.⁶⁴

Defining Moments in Malian SBR's since the 1970s

- 1992: Mali issues *L'Ordonnance No. 92* for competition policy
- 1996: CNPI created
- 1997: CNCE founded as PPD mechanism
- 2004: CPI formed

JEC^{66 67}

The JEC of Mauritius is funded entirely by its members, which include:

- Mauritius Chamber of Commerce and Industry
- Mauritius Chamber of Agriculture
- Mauritius Employers' Federation
- Mauritius Sugar Producers' Association
- Mauritius Export Processing Zone Association
- Mauritius Bankers' Association
- Mauritius Insurers' Association
- Association des Hôteliers et Restaurateurs de l'île Maurice
- Association of Mauritian Manufacturers

The Joint Economic Council is managed by a Council of 18 members, with a Chairman who rotates every two years and a full-time Director. As of 1999, the JEC's top goals are to ensure a stable macro economic environment, foster greater fiscal discipline, restore financial health, and integrate all sectors of the economy in order to reduce distortions and improve efficiency of investment.

Mauritius

The Private Sector

Mauritius has deep private sector roots, dating back to 1850 with the founding of the Chamber of Commerce. The Chamber of Commerce re-established itself as the Mauritius Chamber of Commerce and Industry (MCCI) in 1965, and in 1967, the Mauritius Export Processing Zone Association (MEPZA) was formed within the private sector. The primary actor for the private sector within Mauritius is the Joint Economic Council (JEC, 1970);⁶⁵ the JEC meets with the prime minister on a regular basis and participates in budget proposals.

The Public Sector

Mauritius formed an investment promotion agency, Board of Investment (BOI) in 2001 to finance and promote investment throughout the country. The public sector supports Mauritius' key industries such as sugar, and interaction with the private sector is highly institutionalized through the aforementioned JEC.⁶⁸

Collusive Behaviour

Eliminating corruption is a high priority within the government, as evidenced by the 2002 Prevention of Corruption Act.⁶⁹ Mauritius passed The Competition Bill in 2003, but it does not have an institution enabled to uphold its provisions yet.⁷⁰

Defining Moments in Mauritian SBR's since the 1970s

- Pre-1970: MCCI (originally 1850/1965) and MEPZA (1967) founded

- 1970: JEC founded
- 2001: BOI founded
- 2003: Competition Bill passed

Mozambique

The Private Sector

The primary means of business interaction is the Confederation of Mozambican Business Associations (CTA), founded in 1999 and encompassing more than 3000 firms. All other consultations are ad hoc.⁷¹

The Public Sector

Mozambique spent years under internal struggle, including a 15 year civil war shortly after its 1975 independence, hindering its economic growth.⁷² The Mozambican public sector suffers from poor intergovernmental co-ordination and training, though it is improving. In 1997, Mozambique established an investment promotion center, Centro de Promocao de Investimentos (CPI) and with the help of foreign aid, Mozambique was able to found an annual Private Sector Conference in 1998 within which the Ministry of Industry and Trade interacts with the CTA.⁷³

Collusive Behaviour

Mozambique has no current competition policy, but is seeking help in developing one.⁷⁴

Defining Moments in Mozambican SBR's since the 1970s

- 1975: Independence from Portugal
- 1977–1992: Civil War
- 1989: Marxism abandoned
- 1997: CPI established
- 1998: Private Sector Conference established
- 2004: Peaceful governmental transition

Nigeria

The Private Sector

The largest private sector organization is the Nigerian Association of Chambers of Commerce, Industry, Mines, and Agriculture (NACCIMA, 1960). Within NACCIMA, the Lagos Chamber of Commerce and Industry (LCCI, 1888) is the oldest and most influential; another long standing private sector venture is the Manufacturing Association of Nigeria (MAN, 1971). NACCIMA and the business associations of Nigeria as a whole enjoy a strong relationship with the government and are seen as very well organized and influential. However, firms outside of NACCIMA and MAN were left with little influence in the governmental sphere.⁷⁵

The Public Sector

The 1972 Nigerian Enterprises Promotion Decree forced nearly all non-Nigerian business owners to sell their businesses. The Nigerian government formed Nigerian Investment Promotion Centre (NIPC) in 1995 to promote investment and act as a liaison for policy advice; a year later, the Nigerian Economic Summit Group (NESG, 1996) was founded as an annual formal PPD mechanism.

Collusive Behaviour

Nigeria has gone through cycles of civil and military rule, finally settling in civilian rule in 1999. Throughout the 1970s, the government often undertook rent-seeking behaviour; Nigeria was very protective of its industry and often shut off potential imports into the country.⁷⁶ Between 1980 and 1991, Nigeria was taken to court three times for WTO and GATT violations by the United States, Norway, and the Ivory Coast.⁷⁷ There are no competition laws currently in place, though efforts are being put in place through legislation.⁷⁸

Defining Moments in Nigerian SBR's since the 1970s

- Pre-1970: NACCIMA founded (1960)
- 1971: MAN founded
- 1972: Nigerian Enterprises Promotion Decree
- 1995: NIPC founded
- 1996: NESG founded
- 1999: Return to civilian rule

Rwanda

The Private Sector

The primary private sector actor in Rwanda is the Rwanda Private Sector Federation (RPSF), which is a coalition of primarily small business founded in 1999; they help private sector growth but are poorly funded. The private sector has run into problems of power distribution, as the top 13 companies in Rwanda are responsible for 80% of the taxes.⁷⁹

The Public Sector

In 1998, the government formed the Rwandan Investment Promoting Agency (RIPA), but changed its name six years later to Rwanda Investment and Export Promoting Agency (RIEPA, 2004). This semi-autonomous agency has made great strides in working with the private sector and gaining its input on reform measures.⁸⁰

Collusive Behaviour

Rwanda currently has no competition policy in place. Rwanda formerly had problems with government shut down of businesses unable to pay taxes, but the RRA seems to be ahead of its predecessors in terms of limiting collusion and corruption.⁸¹

Defining Moments in Rwandan SBR's since the 1970s

- 1998: Rwanda starts RIPA
- 1999: Rwandan businesses respond with RPSF
- 2004: RIPA changes name to RIEPA to emphasise investment and exports

Senegal

The Private Sector

The private sector has two primary business associations, the Conseil Nationale du Patronat (CNP, 1987) and the Confederation Nationales des Employeurs du Senegal (CNES, 1993). In general, the CNP represents big business while the Confederation represents SMEs. Two years after the creation of the CNES, the Co-ordination Patronale du Sénégal (CDPS, 1995) was formed, linking nearly all the unions and professional organizations within the country.⁸²

The Public Sector

Senegal's earliest efforts of dialogue with the private sector stemmed from political favours and power exchanges between state agents and businesses.⁸³ This changed in 1986, when the government adopted the World Bank SAP under the name of the New Industrial Policy, ignoring private sector objections.⁸⁴ In 2000, the government introduced the Investment Promotion and Major Works Agency (APIX) to promote investment and shortly thereafter, Senegal launched the Presidential Investor's Council (CPI, 2002), a biannual PPD forum. The CPI has been considered a success; one estimate indicated as many as 70% of laws passed by Parliament were due to CPI efforts.⁸⁵

Collusive Behaviour

Prior to the SAP reforms, state power was used to insert favoured local constituencies. By 1995, Senegal passed the Decree on Price, Competition and Economic Contentious to prevent the commerce industry from colluding;⁸⁶ however, more recent anti-corruption laws proposed by CPI, while accepted, have been accused of being 'watered-down' by Parliament.⁸⁷

Defining Moments in Senegal SBR's since the 1970s

- Mid 1980s: Senegal undergoes Structural Adjustment Program
- 1986–1988: New Industrial Policy experiment
- 1987: CNP formed
- 1993: CNES formed
- 1995: CDPS formed
- 1995: Senegal passes competition laws
- 2000: Government forms APIX, investment promotion agency

- 2002: CPI formed, President meets with private sector regularly

South Africa

The Private Sector

The private sector has historically been dominated by big business – in 1995, five business groups owned 70% of the Johannesburg Stock Exchange.⁸⁸ Both small and large firms have representation; the small firms collaborate through the South African Chamber of Businesses (1990), whereas big business operates under the Business Leadership lobby, formerly South African Foundation, founded in 1959. 'Big business' also formed the Business Trust in 1999, an endeavour aimed to further government and business relations by pledging significant amounts of money to the areas of education and job creation. The private sector communicates with

NEDLAC⁸⁹

NEDLAC has four constituencies that meet to discuss and form consensus on social and economic policy:

1) The Government: Departments of Labour, Finance, Public Works and Trade and Industry;

2) Organized Business: Under the umbrella of Business South Africa (BSA) and the National African Federated Chamber of Commerce (Nafcoc);

3) Organized Labour: Under the umbrella of the Congress of South African Trade Unions (Cosatu), the National Council of Trade Unions (Nactu) and the Federation of Unions in South Africa (Fedusa);

4) The Community: South African Youth Council, National Women's Coalition, South African National Civics Organization, Disabled People of South Africa, and the National Co-operatives Association of South Africa.

All agreements and findings under NEDLAC are made public and tabled in Parliament. The NEDLAC Annual Summit brings together delegates representing over 300 constituencies.

the public sector through NEDLAC, a formal PPD institution.

The Public Sector

Labour in South Africa is particularly strong; the Congress of South African Trade Unions (1985) is the second strongest partner in the post-apartheid, tripartite government. The government has long-standing ties dating to 1988, when the Consultative Business Movement (CBM) met with the currently empowered African National Congress, led by Nelson Mandela. After a false start with the National

Economic Forum (1992), the 1994 National Economic Development and Labour Council (NEDLAC) succeeded the NEF as a lasting, formal PPD institution. South Africa also has several investment promotion agencies, including Invest North West (1973), Trade and Investment KwaZulu-Natal, and Trade and Investment Limpopo.

Collusive Behaviour

The aforementioned early state-government relations and high concentration of power casts suspicion on big business; additionally, apartheid (first democratic elections – 1994) clearly affected some potential business owners. However, competition rules have been in place for a significant period of time (1979, then recreated 1998, amended 2000). The latter pair of competition regulations have proven effective immediately upon implementation,⁹⁰ while the tripartite government keeps governmental interests constantly in check.

Defining Moments in South African SBR's since the 1970s

- 1988: CBM meets with ANC
- 1992: NEF founded
- 1994: NEF replaced by NEDLAC
- 1994: Nelson Mandela elected, apartheid ended
- 1997: Truth and Reconciliations Committee attacks business, damages SBR⁹¹
- 1999: Business Trust initiative revives SBR
- 1999: Thabo Mbeki takes over for Mandela without incident

Tanzania

The Private Sector

The leading business association in Tanzania is the Tanzania Chamber of Commerce and Industry Association (TCCIA, 1988), which it often represents business interests in local constituencies. Additionally, the CEO Roundtable is an informal association of around 20 leading CEOs who now meet with the president on an annual basis. More recently, the Tanzania Private Sector Foundation was established as a branch to help companies reach consensus on private sector issues;⁹² the private sector is troubled by both a lack of local involvement either directly with the government or within industries.⁹³

The Public Sector

Tanzania has founded two investment promotion agencies, the Zanzibar Investment Promotion Agency (ZIPA, 1986) and the Tanzania Investment Centre (TIC, 1997), the latter being established to be the primary agency on Tanzanian investment. Tanzanian National Business Council (TNBC, 2001) was created through a presidential order in an effort to bring private sector

interests into public policy through a formal institution. Just one year later, the president added the Investors' Roundtable under the TNBC's umbrella.

Collusive Behaviour

Local businesses were sceptical of government intentions and suspicious of the secretive nature of the IRT, and were allowed to create a Local IRT. The Local IRT met once and failed due to individual interests taking precedence over community interests.⁹⁴ The Tanzanian government passed The Fair Trade Practices Act in 2003 to protect consumers from unfair pricing.⁹⁵

Defining Moments in Tanzanian SBR's since the 1970s

- 1986: ZIPA formed
- 1997: TIC created
- 2001: TNBC announced and formed by president
- 2002: IRT meets for the first time

Uganda

The Private Sector

The private sector is dominated by the Ugandan Manufacturers' Association (UMA), which was re-established 1988 after previously being established in the 1960s. The Economic Council, which includes heads of many private sector industries is seen as an ineffective actor in policy decisions,⁹⁶ but the Private Sector Foundation Uganda (PSFU, 1995) was formed to serve as an umbrella for private sector interests and support their improvement. The primary mechanism for PPD is the National Forum (1992), which was a private sector initiative with government co-operation. The private sector has no formal meetings with the president, but there is legislation which would potentially formalise the National Forum's status.⁹⁷

The Public Sector

Uganda has an investment promotion agency, the Uganda Investment Authority (1991). While the government participates in the National Forum, the forum is not under the government control, but was supported by the President Museveni at its founding.⁹⁸ The Presidential Investors' Roundtable (PIRT) was formed in 2004, by the President, as a task force for policy advice from experts and the private sector.⁹⁹

Collusive Behaviour

Uganda has no regime governing competition laws,¹⁰⁰ however, the Investment Code does protect both foreign and domestic investors. Uganda suffers from disproportionate political strength for its largest actors, like the UMA, which hurts the country's overall growth prospects.¹⁰¹

Defining Moments in Ugandan SBR's since the 1970s

- 1986: Museveni takes power

- 1988: Uganda Manufacturers' Association re-established after decade of dormancy
- 1992: Private sector initiates government with National Forum
- 1995: Private sector organises with Private Sector Foundation Uganda
- 2000: Government adopts Regulatory Best Practices initiative
- 2004: Museveni creates Presidential Investors' Roundtable to recognise private sector interests.

Zambia

The Private Sector

The Zambian Business Forum (ZBF), a group of the 5 main business associations in Zambia, was formed in late 2002; at its first scheduled meeting in 2003, the ZBF degenerated early into private interests.¹⁰² The ZBF remains the only significant private sector mechanism.

The Public Sector

The Zambian Parliament formed the Zambian Investment Centre in 1991 to attract investment. The Tripartite Consultative Labour Council (TCLC) was established two years later in 1993 by government, as a forum for labour, business, and government though its efforts were unsuccessful.¹⁰³ The government of Zambia utilises the Zambia International Business Advisory Council (ZIBAC, 2003) to provide the president with impartial advice. The Private Sector Development Forum (PSDF, 2004) was formed out of private sector suspicion of closed door meetings between ZIBAC and the president, the PSDF facilitates discussion between the ZBF and the president as well as ZIBAC.¹⁰⁴

Collusive Behaviour

The Competition and Fair Trading Act was enacted in 1994 and oversees price-fixing, monopolistic, and other non competitive behaviour.¹⁰⁵ Corruption is seen as a major problem in Zambian government; the Zambian government has formed an Anti-Corruption Commission to weed it out. Results are limited; as recently as 2003 the information secretary announced, 'Corruption in Zambia has spread like cancer infecting the whole body'.¹⁰⁶ ZIBAC is criticised for lacking transparency.

Defining Moments in Zambian SBR's since the 1970s

- 1991: ZIC founded to attract investment
- 1993: TCLC formed
- 1994: Competition and Fair Trading Act
- 2002: Five business associations join to form ZBF
- Early 2003: President meets with ZBF

- Late 2003: President forms ZIBAC
- 2004: PSD Forum links ZBF, President, and ZIBAC

Zimbabwe

The Private Sector

The Zimbabwean labour unions have significant power, as the Zimbabwe Congress of Trade Unions (ZCTU, 1981) is now the main political opposition. Business in Zimbabwe joined forces with labour and created the National Economic Consultative Forum (NECF, 1997) and then later the Tripartite Negotiating Forum (TNF) as an offshoot. With Zimbabwe facing economic crisis, the private sector has been urged to take advantage of negotiated trade agreements, having faced accusations of failing to do so in the past.¹⁰⁷

The Public Sector

Zimbabwe has one investment promotion agency, the Zimbabwe Investment Centre (ZIC, 1993); among its functions is advising the government on policies relating to the private sector. Both the NECF and TNF were sponsored by the government in 1997, but analysis in 2001 deemed the institutions 'politically tainted' and 'rendered useless'.¹⁰⁸ The government is starting to interact with the private sector again through a Zimbabwe Economic Development Strategy (ZEDS, 2006) – this strategy being a medium term economic blueprint for the country.¹⁰⁹

Collusive Behaviour

Zimbabwe created the Competition Act in 1996, lowering its internal protection;¹¹⁰ also in 1996, due to economic faltering, increasing pressure was placed on an administration seen as corrupt and ineffective.¹¹¹ Critics argue the government interaction with the NECF and TNF is more controlling than consultative; agreements reached through the TNF are put in action directly by the executive, undermining any parliamentary power.¹¹²

Defining Moments in Zimbabwean SBR's since the 1970s

- 1981: ZCTU re-formed
- 1993: ZIC founded
- 1996: Competition Act welcomes market-based economics
- 1997: NECF formed

APPENDIX C

ASSOCIATIONS AND ACRONYMS WITH WEB ADDRESSES

Benin:

Centre de Promotion des Investissements (CPI):

<http://www.cpi-benin.org>

Chambre de Commerce et d'Industrie du Benin (CCIB):

<http://www.ccib.bj/>

Ministère de l'Industrie, du Commerce et de la Promotion de l'Emploi (MICPE):

<http://www.gouv.bj/en/ministeres/micpe/>

Botswana:

Botswana Export Development and Investment Authority (BEDIA):

<http://www.bedia.co.bw>

Ministry of Trade and Industry (MTI): <http://www.mti.gov.bw/>

Exporters' Association of Botswana (EAOB):

<http://www.exporters.bw/>

The Botswana Confederation of Commerce, Industry and Manpower (BOCCIM):

<http://www.boccim.co.bw/>

Botswana Federation of Trade Unions (BFTU): No website

High Level Consultative Council (HLCC): No website

Côte d'Ivoire (Ivory Coast):

Centre de Promotion des Investissements en Côte d'Ivoire

(CEPICI): <http://www.cepici.net>

Ethiopia:

Ethiopian Investment Commission (EIC):

<http://www.investethiopia.org/default.aspx>

Ethiopian Chamber of Commerce (ECC):

<http://www.ethiopianchamber.com/>

Ghana:

Ghana Investment Promotions Centre (GIPC):

<http://www.gipc.org.gh/>

Ghana Investors' Advisory Council (GIAC):

<http://www.giacghana.org/>

National Economic Forum (NEF): No website

Private Enterprise Foundation (PEF): <http://www.pefghana.org/>

Ghana Export Promotion Council (GEPC):

<http://www.gepcghana.com/>

Kenya:

Export Processing Zones Authority (EPZA):

<http://www.epzakenya.com>

Investment Promotion Centre (KIA):

<http://www.investmentkenya.com/>

Kenya National Chamber of Commerce and Industry (KNCCI):

<http://www.kncci.org>

National Committee on WTO (NCWTO): No website

Malawi:

Malawi Investment Promotion Agency (MIPA): <http://www.mipa.malawi.net> (dead link)

Malawi Chamber of Commerce and Industry (MCCI):

<http://www.mccci.org/index.asp>

Ministry for Trade and Development:

<http://www.malawi.gov.mw/Trade/Home%20%20Trade.htm>

National Action Group (NAG): No website

Malawi Economic Growth Strategy: No website

Mali:

Centre National de Promotion des Investissements (CNPI):

<http://www.cnpi-mali.org>

Fédération Nationale des Employeurs du Mali (FNEM)

Chambre de Commerce et d'Industrie du Mali (CCIM)

Comité National de Co-ordination Économique (CNCE)

Mauritius:

Board of Investment of Mauritius (BOIM):

<http://www.boimauritius.com>

Export Processing Zone Development Authority (EPZDA):

<http://epzda.intnet.mu/>

Mauritius Export Processing Zone Authority (MEPZA):

<http://www.mepza.org/index.asp>

Joint Economic Council (JEC): <http://www.jec-mauritius.org/>

Mozambique:

Centro de Promocao de Investimentos (CPI): <http://www.cpi.co.mz>

Confederation of Mozambican Business Associations (CTA):

<http://www.cta.co.mz>

Nigeria:

Nigerian Investment Promotion Commission (NIPC):

<http://www.nipc-nigeria.org>

Nigerian Economic Summit Group (NESG):

<http://www.nesgroup.org/>

Nigerian Association of Chambers of Commerce, Industry, Mines, and Agriculture (NACCIMA):

<http://www.naccima.com/>

Manufacturing Association of Nigeria (MAN):

<http://www.manufacturersnigeria.org/>

Lagos Chamber of Commerce (LCCI):

<http://www.lagoschamber.com/>

Rwanda:

Rwanda Investment and Export Promoting Agency (RIEPA):

<http://www.rwandainvest.com>

Rwanda Private Sector Federation (RPSF): No website

Rwanda Revenue Authority (RRA): <http://www.rra.gov.rw/>

Senegal:

Investment Promotion and Major Works Agency (APIX):

<http://www.apix.sn>

Conseil Nationale du Patronat (CNP): <http://www.cnp.sn/>

Confederation Nationales des Employeurs du Senegal (CNES):

<http://www.cnes.sn/>

Co-ordination Patronale du Sénégal (CDPS): No website

South Africa:

Business Leadership (BL, formerly SAF - South African Foundation):

<http://www.businessleadership.org.za/>

South African Chamber of Business (SACOB):

<http://www.sacob.co.za/>

Business Trust (BT): <http://www.btrust.org.za/index.aspx>

Congress of South African Trade Unions (COSATU):

<http://www.cosatu.org.za/>

Invest North West (INW): <http://www.inw.org.za>

Trade and Investment KwaZulu-Natal (TIKZN):

<http://www.tikzn.co.za/>

Trade and Investment Limpopo (TIL): <http://www.til.co.za/>

National Economic Development and Labour Council (NEDLAC):

<http://www.nedlac.org.za/>

Tanzania:

Zanzibar Investment Promotion Agency (ZIPA):

<http://www.investzanzibar.org>

Tanzania Investment Centre (TIC): <http://www.tic.co.tz>

Tanzania Chamber of Commerce and Industry Association

(TCCIA): <http://www.tccia.co.tz/>

Tanzania National Business Council (TNBC):

<http://www.tnbctz.com/>

Investors' Round Table (IRT): <http://www.tnbctz.com/irt.htm>

Uganda:

Uganda Investment Authority (UIA):

<http://www.ugandainvest.com>

Uganda Manufacturers' Association (UMA):

<http://www.uma.or.ug/htdocs/>

Private Sector Foundation Uganda (PSF Uganda):

<http://www.psfuganda.org/>

Presidential Investor's Roundtable (PIRT): No website

National Forum (NF): No website

Zambia:

Zambia Investment Centre (ZIC): <http://www.zic.org.zm>

Zambia International Business Advisory Council (ZIBAC): No website

Tripartite Consultative Labour Council (TCLC): No website

Zambia International Business Advisory Council (ZIBAC): No website

Zambia Business Forum (ZBF): No website

Zimbabwe:

Zimbabwe Investment Centre (ZIC): <http://www.zic.co.zw>

Zimbabwe Congress of Trade Unions (ZCTU):

<http://www.zctu.co.zw/>

National Economic Consultative Forum (NECF):

<http://www.necf.org.zw/>

APPENDIX D

Country Specific Data for the SBR Variable

	Benin	Botswana	Côte d'Ivoire	Eritrea	Ethiopia	Ghana	Kenya
1970	0.25	0	0	0	0	0	0.25
1971	0.25	0	0	0	0	0	0.25
1972	0.25	0	0	0	0	0	0.25
1973	0.25	0	0	0	0	0	0.25
1974	0.25	0	0	0	0	0	0.25
1975	0.25	0	0	0	0	0	0.25
1976	0.25	0	0	0	0	0	0.25
1977	0.25	0.25	0	0	0	0	0.25
1978	0.25	0.25	0	0	0	0	0.25
1979	0.25	0.25	0	0	0	0	0.25
1980	0.25	0.25	0	0	0	0	0.25
1981	0.25	0.25	0	0	0	0	0.25
1982	0.25	0.25	0	0	0	0	0.25
1983	0.25	0.25	0	0	0	0	0.25
1984	0.25	0.25	0	0	0	0	0.25
1985	0.25	0.25	0	0	0	0	0.25
1986	0.25	0.25	0	0	0	0	0.25
1987	0.25	0.25	0	0	0	0	0.25
1988	0.25	0.25	0	0	0	0	0.25
1989	0.25	0.25	0	0	0	0	0.5
1990	0.25	0.25	0	0	0	0	0.5
1991	0.25	0.25	0	0	0	0	0.5
1992	0.25	0.25	0	0	0.25	0	0.5
1993	0.25	0.25	0.25	0	0.25	0	0.5
1994	0.25	0.25	0.25	0	0.25	0.5	0.5
1995	0.25	0.25	0.25	0	0.25	0.5	0.625
1996	0.5	0.625	0.25	0	0.25	0.5	0.625
1997	0.5	0.875	0.375	0	0.25	0.5	0.625
1998	0.5	0.875	0.375	0	0.25	0.5	0.625
1999	0.5	0.875	0.375	0	0.25	0.5	0.625
2000	0.5	0.875	0.375	0	0.25	0.5	0.625
2001	0.5	0.875	0.375	0	0.25	0.75	0.625
2002	0.5	0.875	0.375	0	0.625	0.75	0.625
2003	0.5	0.875	0.375	0	0.625	0.75	0.625
2004	0.5	0.875	0.375	0	0.625	0.75	0.875
2005	0.5	0.875	0.375	0	0.625	0.75	0.875

Madagascar	Malawi	Mali	Mauritius	Mozambique	Nigeria	Rwanda
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0	0	0.5	0	0	0
0	0.25	0	0.5	0	0	0
0	0.25	0	0.5	0	0	0
0	0.25	0	0.5	0	0	0
0	0.25	0	0.5	0	0	0
0	0.25	0	0.5	0	0.25	0
0	0.25	0.25	0.5	0	0.375	0
0	0.25	0.5	0.5	0.25	0.375	0
0	0.375	0.5	0.5	0.375	0.375	0.25
0	0.375	0.625	0.5	0.625	0.375	0.5
0	0.625	0.625	0.5	0.625	0.375	0.5
0	0.875	0.625	0.75	0.625	0.375	0.5
0	0.875	0.625	0.75	0.625	0.375	0.5
0	0.875	0.625	0.875	0.625	0.375	0.5
0	0.875	0.625	0.875	0.625	0.375	0.5
0	0.875	0.625	0.875	0.625	0.375	0.5

	Senegal	South Africa	Tanzania	Uganda	Zambia	Zimbabwe
1970	0	0.25	0	0	0	0
1971	0	0.25	0	0	0	0
1972	0	0.25	0	0	0	0
1973	0	0.5	0	0	0	0
1974	0	0.5	0	0	0	0
1975	0	0.5	0	0	0	0
1976	0	0.5	0	0	0	0
1977	0	0.5	0	0	0	0
1978	0	0.5	0	0	0	0
1979	0	0.625	0	0	0	0
1980	0	0.625	0	0	0	0
1981	0	0.625	0	0	0	0
1982	0	0.625	0	0	0	0
1983	0	0.625	0	0	0	0
1984	0	0.625	0	0	0	0
1985	0	0.625	0	0	0	0
1986	0	0.625	0.25	0	0	0
1987	0	0.625	0.25	0	0	0
1988	0	0.625	0.25	0	0	0
1989	0	0.625	0.25	0	0	0
1990	0	0.625	0.25	0	0	0
1991	0	0.625	0.25	0.25	0.25	0
1992	0	0.625	0.25	0.375	0.25	0
1993	0	0.625	0.25	0.375	0.25	0.25
1994	0	0.875	0.25	0.375	0.375	0.25
1995	0.375	0.875	0.25	0.625	0.375	0.25
1996	0.375	0.875	0.25	0.625	0.375	0.375
1997	0.375	0.875	0.25	0.625	0.375	0.625
1998	0.375	1	0.25	0.625	0.375	0.625
1999	0.375	1	0.25	0.625	0.375	0.625
2000	0.625	1	0.5	0.625	0.375	0.625
2001	0.625	1	0.625	0.625	0.375	0.625
2002	0.875	1	0.625	0.625	0.375	0.625
2003	0.875	1	0.75	0.625	0.625	0.625
2004	0.875	1	0.75	0.625	0.875	0.625
2005	0.875	1	0.75	0.625	0.875	0.625

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STATE-BUSINESS RELATIONS AND
ECONOMIC GROWTH IN SUB-SAHARAN AFRICA

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ABSTRACT

This paper examines the effect of effective state-business relations on economic growth in Sub-Saharan Africa. We use a measure proposed by te Velde (2006) that can capture the various dimensions of effective state-business relations to estimate standard growth regressions using dynamic panel data methods, along with the more conventionally used measures of institutional quality such as degree of executive constraints, the rule of law, the degree of corruption and the quality of the bureaucracy. Our results show that effective state-business relations contribute significantly to economic growth in a panel of nineteen Sub-Saharan African countries over the period 1970–2004 – countries which have shown improvements in state-business relations have witnessed higher economic growth, controlling for other determinants of economic growth and independent of other measures of institutional quality.

1. INTRODUCTION

There is close to an intellectual consensus that political institutions of limited government which provide for secure property rights for producers in the economy are fundamental determinants of differences in living standards across countries (Hall and Jones [1999], Acemoglu, Johnson and Robinson [2001 and 2002], and Subramanian, Rodrik and Trebbi [2004]). However, this view of the primacy of institutions that constrain the power of the executive in explaining economic growth has been not without criticism. Firstly, Glaeser et al. (2004) argue that neoclassical accounts of economic development that stress the primacy of human and physical accumulation provide a better explanation of economic growth than those accounts based on the quality of institutions. They show that initial levels of constraints on the executive do not predict subsequent economic growth, once one controls for initial levels of human capital. Secondly, Sachs (2003) argues that it is difficult to disentangle geography as an independent determinant of economic growth from institutions since countries with poor institutions are also countries that suffer from weak geographical factors. He shows that the disease environment as measured by the risk of malaria is a predictor of economic growth, even when including institutional quality as an explanatory variable. Finally, there is criticism of the econometrics that underpins most of the empirical studies in the literature. These studies commonly use cross-country cross-sectional regression methods and there is concern that these methods do not adequately control for the possibility of reverse causality of economic development leading to the development of good quality institutions and that the empirical studies are not able to incorporate innate differences in cultural attributes and initial conditions that are unobservable to the econometrician but that may be important determinants of economic growth (Kenny and Williams 2001).

A further limitation of the literature on institutions and growth is that its view of political institutions is essentially that the role of the state is predatory. According to this literature, economic growth occurs in contexts where the state respects the property rights of private producers and where it does not expropriate property or allows others to do so. This view is principally informed by the neoclassical perspective on the state where its role should be confined to providing public goods (law and order, infrastructure, macroeconomic stability, etc.) and not to intervene directly in the activities of private producers. However, as has been witnessed in East Asia, economic growth has occurred in contexts where the

state has intervened in the economy so as 'to provide incentives to private capital and to discipline it' (Harriss, 2006). In contrast to the state's predatory role highlighted in the recent empirical literature on institutions and growth, there has been less recognition in this literature of the state's developmental role and the impact it may have on economic growth. In this paper, we are particularly interested in the growth implications of effective state-business relations – 'the maintenance of benign collaboration between the agents of the state and business' (ibid.). We examine the impact of effective state-business relations on economic growth for a panel of nineteen Sub-Saharan African countries over the period 1970–2005. Previous empirical studies that have addressed the causes of growth in Sub-Saharan African context such as Sachs and Warner (1997) have found institutional quality (as measured by the rule of law or risk of expropriation, for example) to be an important determinant of economic growth. However, these studies have not examined the specific role of effective state-business relations in Sub-Saharan Africa's growth experience.

In-depth discussions of state-business relations have so far been largely limited to Asian countries such as Korea, Japan, Malaysia, Bangladesh and Thailand.¹ The measurement of state-business relations in sub-Saharan Africa is nearly absent, despite its potential importance for economic development. Hyden et al. focus on six governance categories of which economic society is one; this includes (deliberately) subjective questions covering perceptions of state-business relations. It covers several developing countries, but only two African countries. The Kaufman indicators have become frequently used, but are also about perceptions of governance variables such as government effectiveness and rule of law.² Finally, while investment climate measures in the World Bank's *Doing Business Reports* are objective (e.g. number of procedures to obtain a licence) these are unlikely to be fundamental drivers of economic performance, and can rather be seen as outcomes of effective state-business relations. There is therefore a lack of descriptions and comprehensive measurement of SBRs as potentially fundamental drivers of economic growth in sub-Saharan Africa.

Given the significant scale of poverty in Sub-Saharan Africa, it is an important to understand whether effective state-business relations also have a role to play in reducing poverty and inequality. We also undertake an exploratory analysis of the relations between effective state-business relations on one hand and inequality and poverty on the other in the Sub-Saharan African context.

The second contribution the paper makes is methodological. In contrast to much of the literature on institutions and economic growth which use cross-sectional regression methods, we use

dynamic panel data estimation procedures proposed by Arellano and Bond (1991). By limiting our sample to Sub-Saharan African countries, we are able to a significant extent isolate the effects of institutions on economic growth as distinct from geographical factors, both due to the fact that our measure of institutions is time-varying while geographical factors are not, and that the variation in geographical factors in Sub-Saharan Africa found to be important for economic growth is less than what one may observe in a sample of all developing countries (e.g. distance from the equator and the presence of a tropical climate). Also, we control for time-invariant country-specific factors by the use of the Arellano-Bond dynamic panel Generalised Method of Moments (GMM) estimator which difference the data to get rid of country specific effects. This enables us to meet the criticism that cross-sectional regression methods that do not allow for innate unobservable differences in cultural attributes and initial conditions may be inappropriate in studying the determinants of economic growth. Finally, we can address to a large extent the problem of 'weak instruments' that is endemic in the studies that use cross-country cross-sectional regression methods by the instrumentation of right hand side variables with their lags in levels and differences. This eliminates the inconsistency arising from the endogeneity of the explanatory variables – in particular, institutional quality.

The remainder of the paper is organised as follows. Firstly, in Section 2, we provide a brief overview of the empirical literature on institutions and growth, pointing out its major shortcomings. We then follow this in Section 3 with a discussion of the theoretical basis of why effective state-business relations matters for economic growth. In Section 4, we describe our measure of effective state-business relations (SBR) and provide estimates of it for a set of nineteen Sub-Saharan African countries where we have the necessary data for the period 1970–2004. In Section 5, we discuss our empirical specification, the data used in the regressions and the econometric methodology. Section 6 presents the findings of the estimation of the SBR-growth relationship. Section 7 undertakes an exploratory data analysis of the SBR-poverty and SBR-inequality relations. Section 8 concludes.

2. THE EMPIRICS OF INSTITUTIONS AND GROWTH – A CRITICAL OVERVIEW

There is a long-standing tradition in the empirical growth literature to incorporate various measures of the quality of institutions as determinants of economic growth across countries. The seminal

study has been Acemoglu, Johnson and Robinson (henceforth AJR, 2001) where a serious attempt was made to control for the possibility of reverse causality in establishing a causal role for institutions in economic development.

To estimate the impact of institutions on economic performance that does not lend itself to interpretations of reverse causality, AJR need a source of exogenous variation in institutions. To do this, they propose a theory of institutional differences among countries colonized by Europeans, and exploit this theory to derive a possible source of exogenous variation. Their theory rests on three premises. Firstly, there were differences in colonization policies which created different sets of institutions. At one extreme, European powers set up 'extractive' institutions, exemplified by the Belgian conquest of the Congo. These institutions did not introduce much protection for private property, nor did they provide much checks and balances against government expropriation. The main purpose of these extractive institutions was to transfer as much of the resources from the colony to the colonizer. These institutions were detrimental to investment and economic development. At the other extreme, many Europeans migrated and settled in a number of colonies, where they tried to replicate European institutions, with strong emphasis on private property and checks against government power. These institutions enforced the rule of law and encouraged investment. Primary examples of this include Australia, Canada, New Zealand, and the United States. Secondly, the colonization strategy was influenced by the feasibility of settlements. In places where the disease environment was not favourable to European settlement, the formation of extractive institutions was more likely. The final premise of AJR's theory was that the colonial state and institutions persisted after independence. This is because the political elite that came to power at independence in the previously colonized countries had a strong self-interest in maintaining the extractive institutions established during colonial times and the access to revenues obtained from the control of these institutions.

AJR validate their theory by regressing current economic performance (log GDP per capita in 1995) against current institutional quality (the average protection against expropriation risk for the period 1985–1995), and by the instrumentation of the latter by the settler mortality rate during the colonial period compiled by the historian, Philip Curtin. The settler mortality rate is an indirect measure of the disease environment in the colonies, and thus, measures the likelihood of Europeans settling in a particular colony and setting up institutions of private property. AJR find that there is a high correlation between the mortality rates faced by soldiers, bishops and sailors in the colonies and European settlements and

early measures of institutions, and between early institutions and current institutions. AJR estimate large effects of institutions on per capita income using this source of variation. They also find that this relationship is not driven by outliers, and is robust to controlling for latitude, climate, current disease environment, religion, natural resources, soil quality, ethno-linguistic fragmentation, and current racial composition.

Rodrik, Subramanian and Trebbi (henceforth RST, 2004) take the AJR results forward in two ways. Firstly, they introduce a third determinant of economic performance – integration. International trade as a driver of productivity change is often seen as playing an important causal role with respect to economic growth, independent of geography and institutions. RST take geography, institutions and integration to be the three ‘deep determinants’ of economic prosperity across countries. The second contribution of their paper is that they embed the three explanations of economic performance within a broader framework that allows for reverse causality from growth to trade, from growth to institutions, and for the indirect effects of geography on incomes through integration and institutions. RST use AJR’s settler mortality rate as an instrument for institutional quality and an instrument for trade proposed by Frankel and Romer (1999) – the trade/GDP ratio constructed on the basis of a gravity equation for bilateral trade flows.

RST first estimate their model of economic growth (with the linkages between integration, geography and institutions as described above) first using the 64 country sample of AJR 2001, then a 79 country sample which is largest sample that can be used while retaining the AJR instrument, and finally a 137 country sample, where the instrument for institutional quality is the fraction of populations speaking English and Western European languages (taken from Hall and Jones, 1999). RST find that institutions overwhelmingly trump integration, and do slightly better than geography in explaining cross-country variations in income per capita.

However, there has been criticism of the nature of the instrumental variable for institutional quality used in the AJR and RST studies. Albouy (2005) finds that the settler mortality data that forms much of the basis of the cross-country work on institutions is partly flawed and that when the AJR equations are estimated with revised mortality data, their results turn out to be less robust, less significant and suffering from ‘weak instrument’ pathologies.³ Olsson (2005) argues that AJR’s approach of treating the heterogeneous colonisation experiences of non-Western countries within a single historical framework is problematic, and finds that once the AJR sample of countries is disaggregated into a Latin American, African and a combined Asian and Neo-European sub samples, the

hypothesis of a link between disease environment and institutions is weak or rejected for the Latin American and African sub samples but works well for the other remaining former colonies. Olsson argues that the reason the disease environment does not seem to have a clear negative relationship with institutional quality for the Latin American and African countries is because in the first case, when colonization occurred in the sixteenth and seventeenth centuries, institutions of private property had not yet been established in the colonist countries – Spain and Portugal in this case. Thus, for the mainly Spanish and Portuguese colonies, the choice between extractive and productive institutions does not seem to have been in place. In the second case, with the African countries, colonization occurred after 1885 when medical advances such as the use had dramatically reduced settler mortality in malaria and yellow fever and thus diminished the importance of disease environment for colonial policy.

A second limitation of the AJR and RST studies is that they are not able to disentangle the effects of geography from the effects of institutions on economic growth since the instrument that they use for institutional quality – settler mortality rates – is also correlated with geographical factors. Settler mortality rates will be high in countries with the disease environment led to higher mortality rates as a whole. Sachs (2003) shows that the geography does pretty well as an independent explanatory of income differences across countries if the risk of malaria is used as an instrument of malaria prevalence, in regressions where institutional quality is also included.

A third weakness of these studies is that cross-country regression analysis find it difficult to control for unobserved country specific attributes that are relevant in understanding the heterogeneous growth experiences of developing countries (Kenny and Williams, 2001). As RST themselves note, 'desirable institutional arrangements have a large element of context specificity arising from differences in historical trajectories, geography, political economy or other initial conditions' (pp. 22). The considerable variations among developing countries in relation to various structural features and historical aspects that have a direct bearing upon the impact of institutions on the growth process imply that attempts to characterize the 'average' developing country in terms of a cross-country regression is unlikely to yield sensible results.

In our paper, we propose to address these methodological limitations of the empirical literature on institutions and growth by using dynamic panel estimators which allow for innate differences in initial conditions across countries and which are less subject to the 'weak instrument pathologies' of the studies in the AJR genre. By

confining our sample to Sub-Saharan Africa, and by using a time-varying measure of institutions, we can better isolate the effects of institutions on economic growth over geographical factors.

3. WHY DO STATE-BUSINESS RELATIONS MATTER FOR ECONOMIC GROWTH?

Effective state-business relations or public-private sector dialogue are important determinant of economic growth at the macro-level. State-business relations affect growth through a number of routes. First they can help to solve information related market and co-ordination failures in areas such as skill development or infrastructure provision. For instance, business associations or government departments may co-ordinate disperse information amongst stakeholders.

Secondly, SBRs provide a check and balance function on government policies and tax and expenditure plans; thus SBRs may help to ensure that the provision of infrastructure is appropriate and of good quality. The design of effective government policies and regulations depends, among other things, on input from and consultation with the private sector. Regular sharing of information between the state and businesses ensures that private sector objectives are met with public action and that local level issues are fed into higher level policy processes (OECD, 2006). The private sector can identify constraints, opportunities, and possible policy options for creating incentives, lowering investment risks, and reducing the cost of doing business. More efficient institutions and rules and regulations might be achieved through policy advocacy which could reduce the costs and risks faced by firms and enhance productivity.

Finally, effective state-business relations and membership of business association may help to reduce policy uncertainty. Firms operate in an uncertain environment and frequently face risk and resource shortages. They undertake decisions concerning technology, inputs, and production facilities based on anticipated market conditions and profitability. Uncertainty can have significant negative effects on investment, when investment involves large sunk and irreversible costs and there is the option to delay the decision to make the investment until further information becomes available (Dixit and Pindyck, 1994). Businesses that have a better relation with government may be able to anticipate policy decisions.

Harriss (2006) suggests that good SBRs are based on benign collaboration between business and the state with positive mechanisms that enable *transparency*, that is, the accurate and

reliable information flow between business and government; ensure the likelihood of *reciprocity* (as, for example, when state actors have the capacity and the autonomy to secure improved performance in return for subsidies); increase *credibility* of the state among the capitalists, and establish high levels of *trust* between public and private agents. They provide a transparent way of sharing information, lead to a more appropriate allocation of resources, remove unnecessary obstacles to doing business, and provide checks and balances on government intervention.

Hisahiro (2005) argues that various forms of information and resources, which are dispersed among entities in the public and private sector, need to be integrated in a more sophisticated way to jointly co-ordinate policies and provide better public services. It is this combination of insulation and connectedness that minimises the risks and enhances the effectiveness of economic policies. Hence, appropriate government capacity and policy, which is necessary to support private sector development and promote economic growth, can be enabled by good state-business relations and productive public-private sector dialogue.

4. MEASURING STATE-BUSINESS RELATIONS

Testing the effects of state-business relations depends on a good measurement of state-business relations. This is a complex issue (see Te Velde, 2006). We suggest to follow the literature above (section 3) to score the factors associated with effective SBRs. There are four main elements responsible for good SBRs:

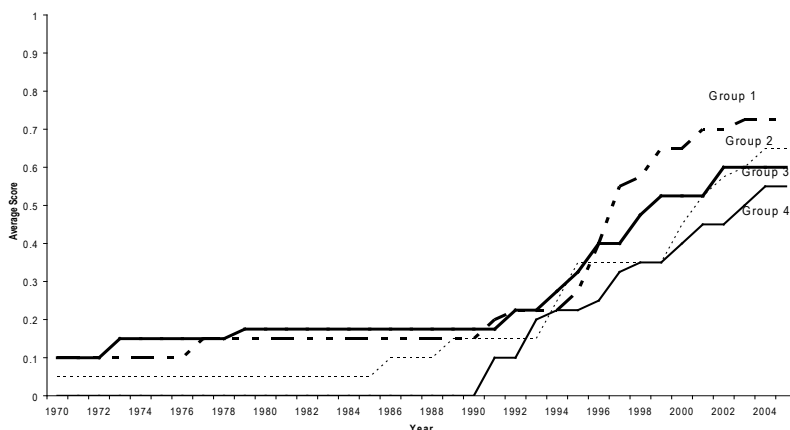
- i the way in which the private sector is organised vis-à-vis the public sector
- ii the way in which the public sector is organised vis-à-vis the private sector
- iii the practice and institutionalisation of SBRs
- iv the avoidance of harmful collusive behaviour.

The measurement of the role of the private sector in state-business relations is based on the presence and length of existence of an umbrella organisation linking businesses and associations together. The measurement of the private sector in state-business relations is based on the presence and length of existence of an investment promotion agency (IPA) to promote business. Effective SBRs requires the co-operation of the public and private sector, and we examine a number of factors. This mechanism can come in a number of different forms: it can be open to all and autonomous of government intervention as is the case with a formal existing body,

or it can be an informal 'suggestive' body with no entrenched power. The measurement of how the state interacts with business is based on the format, frequency, and existence of state-business relations. Finally, the presence and length of existence of laws protecting business practices and competition measures the mechanisms to avoid collusive behaviour will examine.

Each of the four factors can be measured for a number of African countries over time. We focus on 20 countries for which we have data on each of the four indicators. This leads to four, time-varying indicators per country. In order to obtain a composite measure, we take the average of the above indicators (attaching the same weight to each indicator). Te Velde (2007) shows the raw data for country-specific averages. Chart 1 plots the averages for four groups of countries, ranging from the fastest growing groups over 1970–2005 (group 1) to the slowest growing group (group 4). As expected country groups with higher SBR scores grow faster.

Chart 1: Higher SBR scores for groups of faster growing countries



Notes: Group 1 = Botswana, Mauritius, Uganda, Mozambique, Mali; Group 2 = Tanzania, Ghana, Eritrea (part), Senegal, Kenya; Group 3 = Benin, Ethiopia, South Africa, Nigeria, Rwanda; Group 4 = Malawi, Zimbabwe, Madagascar, Zambia, Cote d'Ivoire. Groups based on PPP GDP per capita growth rates over 1980–2004.

5. EMPIRICAL SPECIFICATION, DATA AND ECONOMETRIC METHODOLOGY

In this section, we first discuss the specification to be used in the estimation of the determinants of economic growth. We then describe the data used in the regressions, followed by a brief exposition of the econometric methodology.

Empirical Specification

Our objective in this paper is to examine the effect of effective state-business relations, SBR (as captured in our proposed measure discussed in the previous section) independent of other factors that have been found to determine economic growth across countries and over time. We start with the formulation of a growth regression in panel data form, with SBR as an additional explanatory variable:

$$Y_{it} = a_0 + a_1 Y_{it-1} + a_2 X_{it} + a_3 SBR_{it} + v_i + u_t + e_{it} \quad (I)$$

Where i is country, t is time, and Y is GDP per capita.

X is a vector of standard macro control variables. As is standard in the literature, we use Government Consumption (as a ratio of GDP), Inflation (per cent) and Open-ness to trade, measured by Exports plus Imports as a ratio to GDP (Barro, 1994).

The error terms v_i and u_t capture the time-invariant and country-invariant components of the error term, while e_{it} is the white noise component of the error term.

The presence of the lagged GDP term, Y_{it-1} , is important for two reasons. Firstly, it captures path dependence in growth experiences as has been found to be the case in most historical accounts of economic growth (Rodrik, 2003). Secondly, it captures the conditional convergence hypothesis predicted by the neoclassical theory of economic growth - a negative and significant coefficient on the lagged GDP term indicates that countries relative to their steady-state output level are experiencing a slowdown in economic growth (Caselli et al., 1996).

Given our discussion in Section 4, we postulate that a_3 is positive and is statistically significant.

We would also like to examine whether effective state business relations matter for economic growth independent of other measures of institutional quality that have been found to be important in the cross-country empirical literature on growth. This also allows us to ascertain whether our measure of effective state-business relations is simply capturing other institutions that seem to matter for economic

growth – respect for property rights or the effectiveness of the bureaucratic quality, for example. We have argued in Section 3 that effective state-business relations capture an important *independent* dimension of the role of the state in economic growth that has not been adequately addressed in the cross-country empirical growth literature– the state’s ability to both facilitate and harness the activities of the private sector so as to maximise the wealth-creating possibilities of the latter. Previous empirical studies of the role of institutions in growth measure institutional quality by the rule of law index (Keefer and Knack [1994], Sachs and Warner [1997]), the risk of expropriation (AJR, 2001), government repudiation of contracts (Keefer and Knack [1994], Sachs and Warner [1997]), bureaucratic quality (Keefer and Knack [1994], Sachs and Warner [1997]), incidence of corruption (Mauro, 1995) , and constraints on the executive (Glaeser et al., 2004). As we have argued earlier, several of these measures principally capture the state’s ability in protecting property rights. To see whether our measure of state-business relations, SBR, can explain economic growth independent of these other institutional variables, we will augment equation (I) by these measures and test for the significance of SBR in the presence of these variables.⁴

Thus, our augmented regression is:

$$Y_{it} = a_0 + a_1 Y_{it-1} + a_2 X_{it} + a_3 SBR_{it} + a_4 LAW_{it} + a_5 BQ_{it} + a_6 CORR_{it} + a_7 XC_{it} + v_i + u_t + e_{it} \quad (II)$$

where LAW measures the rule of law and reflects the degree to which citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes; BQ is the bureaucratic quality index and measures autonomy from political pressure and strength and expertise to govern without drastic changes in policy or interruptions in government services; CORR is the corruption in government index and measures whether illegal payments are generally expected throughout government in the form of bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans; and XC is a measure of extent of institutionalised constraints on the decision making powers of chief executives. For all these variables, higher values imply greater institutional quality (that is, higher values of LAW, BQ, CORR and XC imply higher prevalence of the rule of law, better quality of the bureaucracy, lower corruption and greater constraints on the executive). Clearly, the coefficients a_4 , a_5 , a_6 , and a_7 are expected to be positive and significant. Our

interest is to determine whether α_3 remains positive and significant in the presence of the alternate measures of institutional quality.

Data

Economic growth is measured by the year to year changes in GDP per capita, where the latter is in 1980 constant price local currency.⁵ Data on GDP per capita along with government consumption (GC), inflation (INFL) and open-ness (OPEN) are obtained from the World Bank's *World Development Indicators*. Data on bureaucratic quality (BQ), rule of law (LAW), and corruption (CORR) are obtained from the International Country Risk Guide published by Political Risk Services (PRS). These measures were originally constructed by the Centre for Institutional Reform and the Informal Sector (IRIS) (see Knack and Keefer [1994] for further details). The variables are only available for the period 1984–2004. Data on executive constraints (XC) are obtained from the on-line database of the Polity IV project hosted by the Centre for International Development and Conflict Management in the University of Maryland. This variable is available for the entire period 1970–2004. We use a panel of nineteen Sub-Saharan African countries for the period 1970–2004.⁶

Summary statistics of the variables to be used in the regressions are presented in Table 1. We see wide variation in our sample in our dependent variable – income per capita – and some of macro control variables – inflation and open-ness – and the measure of executive constraints, and less so in our measure of state-business relations and in measures of the rule of law, bureaucratic quality and corruption.

We also compute correlation coefficients between the variables of interest in Table 2 to assess the strength of association between each pair of variables that we will be using later in the econometric analysis. The correlation coefficients are quite low in most cases, suggesting that we should not expect multi-collinearity between the SBR measure and the macroeconomic variables, and between the SBR measure and the other measures of institutional quality. The latter is an interesting finding as it suggests that the SBR measure do not seem to be capturing the aspects of institutional quality that are incorporated in the standard measures of institutions. However, there is a strong correlation between the bureaucratic quality measure and the corruption measure.

Table 1. Summary Statistics

Variables	Mean	Maximum	Minimum	Standard Deviation
Log Y	10.12	14.64	5.29	2.37
SBR	0.225	1.000	0.000	0.271
INF	17.46	350.18	-14.17	29.31
GC	14.65	34.33	5.86	4.92
OPEN	58.68	164.24	6.32	26.27
XC	0.35	7.00	-88.00	16.24
LAW	3.00	5.00	0.00	1.16
BQ	2.28	6.00	0.00	1.33
CORR	2.91	6.00	0.00	1.01

Notes: Log Y = Logarithm of Real GDP per capita in local currency, SBR = State Business Relationship Score, GC = Government Consumption / GDP, INF = Inflation Rate (per cent), OPEN = Exports + Imports / GDP, XC = Polity IV score of Executive Constraints, LAW = PRS Measure of Rule of Law, BQ = PRS Measure of Bureaucratic Quality, CORR = PRS Measure of Corruption.

Table 2. Correlation Coefficients

Variables	Log Y	SBR	INF	GC	OPEN	XC	LAW	BQ	CORR
LOG Y	1.00								
SBR	-0.01	1.00							
INF	0.01	-0.09	1.00						
GC	-0.22	0.21	-0.03	1.00					
OPEN	-0.04	0.25	-0.03	0.38	1.00				
XC	0.09	0.09	0.03	0.16	0.15	1.00			
LAW	0.01	0.20	-0.31	0.09	0.24	0.14	1.00		
BQ	-0.04	-0.02	-0.02	0.30	0.09	0.08	0.01	1.00	
CORR	0.13	=0.07	-0.17	0.07	-0.02	0.07	0.19	0.54	1.00

Notes: Log Y = Logarithm of Real GDP per capita in local currency, SBR = State Business Relationship Score, GC = Government Consumption / GDP, INF = Inflation Rate (per cent), OPEN = Exports + Imports / GDP, XC = Polity IV score of Executive Constraints, LAW = PRS Measure of Rule of Law, BQ = PRS Measure of Bureaucratic Quality, CORR = PRS Measure of Corruption.

Econometric Methodology

With the presence of the lagged GDP term in equation (1) and the possible correlation between this term and country-specific time-invariant effects (fixed effects), the preferred estimator is the GMM estimator proposed by Arellano and Bond (1991) which differences the data to get rid of country specific effects or any time invariant country specific variable (such as initial conditions and cultural

attributes and time-invariant geographical factors such as distance from the equator and climatic factors). This also eliminates any endogeneity that may be due to the correlation of the country specific effects and the independent variables. The estimator also allows for possible endogeneity of the independent variables, by using two period lags of the right hand side variables as instruments for the possible endogenous variables. Thus, the GMM estimator allows for the possibility that some of the independent variables in equations (1) and (2) such as our SBR measure and other measures of institutional quality, and open-ness are endogenous to economic growth. To test whether the Arellano-Bond GMM estimator is correctly specified, three diagnostic statistics are normally reported – the Sargan test for over-identifying restrictions, and tests for first and second order serial correlation. The GMM estimator is appropriately specified if the over-identifying restrictions are not rejected, the test for first order serial correlation cannot reject the null on no correlation, but the test for second order serial correlation does reject the null of no correlation by any standard levels of significance.

6. FINDINGS ON THE SBR – GROWTH RELATIONSHIP

Table 3 presents the dynamic panel GMM results. We initially included two lags of the dependent variable; however, the second lag was found to be insignificant and was consequently omitted. We treat all our explanatory variables as potentially endogenous and use lags of these variables as instruments for current values. In Col. (1), we present the results of the basic specification, with the SBR measure and the macro controls included, but not the other institutional quality variables. In Col. (2), we include XC, and in Cols (3) to (5), the other institutional quality variables, LAW, BQ and CORR included one by one. Finally, in Col (6), we estimate equation (2) with all measures of institutional quality included. In the case of the latter three variables, we have data for the period 1987–2004, so the time-series dimension of the panel is greatly reduced for this augmented model which includes all the measures of institutional quality for which we have relevant data.

All the diagnostic statistics reported in the table are satisfactory in all cases. The Sargan test does not reject the over-identification restrictions, the absence of first order serial correlation is rejected and the absence of second order serial correlation is not rejected. Among the macro controls, only the coefficient on inflation is statistically significant and of the right sign (negative) in all the six estimates. The coefficient on Government consumption is negative and statistically significant for all the estimates where we have

included measures of institutional quality as additional controls. The coefficient on open-ness is positive and significant (at the 10 per cent level) only for the estimates presented in Col. (5). Thus, the results suggest that higher values of inflation and government consumption as a ratio of GDP lead to lower growth.

Among the conventional measures of institutional quality, the coefficient on executive constraints is positive and significant in the estimates presented in Cols (2) to (6), and the coefficient on the rule of law is positive and significant when the variable is included singly or with the other variables of institutional quality drawn from the same PRS data-base (bureaucratic quality and corruption). However, neither bureaucratic quality nor corruption re found to be important determinants of per capita GDP, with the values of the coefficients for these variables below conventional levels of significance. The striking result is that the coefficient on SBR is positive and significant at the 5 per cent level or less for all six estimates presented in Cols (1) to (6). The value of the coefficient on the SBR variable is in the range of 0.03 to 0.04 in all the six estimates, and the magnitude of SBR's impact on per capita income is remarkably robust to different specifications of the growth equation. The significance of the SBR variable remains even when the more commonly used measures of institutional quality are included, such as the degree of executive constraints, the rule of law, corruption and the quality of the bureaucracy. This suggests that our measure captures a different dimension of institutional quality from those ordinarily studies in the literature on institutions and growth. Our results present strong support for the proposition that effective state-business relations matter for economic growth in Sub-Saharan Africa, independent of other measures of institutional quality and macroeconomic factors.

7. DO MORE EFFECTIVE STATE-BUSINESS RELATIONS LEAD TO A DECLINE IN POVERTY?

As we have argued in Section 3, there are clear theoretical arguments that link effective state-business relations to economic growth. However, from a theoretical perspective, it is less clear why a synergistic relationship between the state and the private sector should necessarily lead to a decline in poverty. For example, Qureshi and te Velde (2007) find that small firms benefit the most in terms of higher productivity by joining a business association. Large firms may not need to use business associations for lobbying the government for a more conducive investment climate if they have other and more informal ways of doing so. In this case, effective state-business relations will impact on the positive growth of small

Table 3. Growth Regressions

	Col. (1)	Col. (2)	Col. (3)	Col. (4)	Col. (5)	Col. (6)
GDP (-1)	0.94 (63.39)***	0.94 (63.17)***	0.91 (39.29)***	0.91 (38.94)***	0.91 (38.86)***	0.91 (38.29)***
SBR	0.03 (2.51)**	0.03 (2.95)***	0.03 (2.80)***	0.04 (3.07)***	0.03 (2.77)***	0.03 (2.02)**
Inflation	-0.0003 (3.95)***	-0.0003 (3.91)***	-0.0002 (3.00)***	-0.0002 (3.97)***	-0.0003 (4.06)***	-0.0002 (3.13)***
Govt. Consumption	-0.001 (1.52)	-0.001 (1.63)*	-0.001 (1.73)*	-0.001 (1.96)**	-0.001 (1.98)**	-0.001 (1.77)*
Open	0.0003 (1.61)	0.0003 (1.44)	0.0001 (0.95)	0.0003 (1.56)	0.0003 (1.69)*	0.0001 (1.04)
Executive Constraints	- - -	0.0003 (1.54)	0.0003 (2.24)***	0.0003 (2.63)***	0.0003 (2.72)***	0.0003 (2.26)**
Law	- - -	- - -	0.006 (2.12)**	- - -	- - -	0.007 (2.16)**
BUC Quality			- - -	0.001 (0.41)	- - -	0.0004 (0.12)
Corruption			- - -	- - -	-0.002 (0.74)	-0.004 (1.12)
Sargan Test (p value)	472.5 (0.99)	470.45 (0.99)	311.44 (1.00)	311.76 (1.00)	311.61 (1.00)	309.17 (1.00)
First Order Serial Correlation test (p value)	-9.29 (0.00)	-9.29 (0.00)	-7.28 (0.00)	-7.27 (0.00)	-7.29 (0.00)	-7.29 (0.00)
Second Order Serial Correlation test (p value)	-1.50 (0.13)	1.22 (0.22)	0.29 (0.77)	0.40 (0.69)	0.48 (0.63)	0.38 (0.71)
Cross-sections Included	19	19	19	19	19	19
Number of Observations	560	313	313	313	313	313

firms relative to large firms, and may have a positive effect on poverty both by increasing the rate of economic growth and reducing inequality. On the other hand Rodrik and Subramanian (2004) and Kohli (2006) make the argument that it is the formal manufacturing sector that benefit the most from a pro-business attitude of the government, since the transactions costs of anti-business attitude of the state is the largest in this sector. In this case, a more effective relationship between the state and the business sector may lead to an expansion of the formal manufacturing sector. Given that incomes tend to be higher in the latter as compared to the agricultural and informal manufacturing sector, it is likely that with the growth of the formal manufacturing sector, inequality will increase for some time (in a standard dual economy model, with a perfectly elastic supply of labour curve to the formal manufacturing sector in the initial stages of industrialisation, the expansion of the latter will not have a strong positive effect on wages in agriculture and the informal manufacturing sector in the transition stage). Even with strong economic growth driven by the formal manufacturing sector, the impact on poverty is not clear (especially in a relative sense) with the increase in income inequality. Thus, whether effective state business relations lead to lower poverty or not is an empirical issue.

We provide summarized information on measures of poverty and inequality changes in the countries in our sample for which we have data, along with the absolute change in our SBR measure. The data on poverty and inequality is only from mid 1980s to the mid 1990s so we restrict our calculation of the change in the SBR measure to this period (1985–1995). We present the three standard measures of poverty: the head count ratio, the poverty gap index and the squared poverty gap index; along with a measure of inequality (the Gini) and a measure of growth in income – the change in the mean consumption for all households.

We observe that among the ten countries for which we have data on poverty and inequality over time, Kenya, Senegal, Tanzania and Uganda are the star performers with declines in *both* inequality and poverty. On the other hand, Mali, Nigeria and Zambia have witnessed an increase in both inequality and poverty. Ivory Coast and Ghana have seen a fall in inequality but an increase in poverty. Botswana has seen an increase in inequality but a fall in poverty (and an extremely high rate of growth of mean consumption). What do these figures suggest about the SBR-poverty and SBR-inequality links? From the limited number of observations on which Table 4 is based, we do find that an improved state-business relationship leads to a decline in inequality and poverty – the correlation coefficient between the SBR measure and the Gini is a negative 0.54 and the

correlation coefficient between the SBR measure and the head-count ratio is a negative 0.72. This is also clearly seen from two country examples – Mali has seen **no** improvement in the SBR score in 1985–1995 and has the highest increase in poverty and inequality, and Uganda has the most improved SBR score for 1985–1995 and has seen significant declines in poverty for the period 1989–1996. Therefore, the data seems to suggest that more effective state-business relations lead not only to higher rates of growth, but also to higher rates of pro-poor growth.

Table 4. The Relationship between SBRs and Measures of Poverty and Inequality

Countries	Percentage change in:					Absolute change in SBR
	Gini	Head Count Ratio	Poverty Gap	Squared Poverty Gap	Mean Consumption	
Botswana	16.3	-6.0	-3.9	-2.8	54.0	0.375
Ivory Coast	-11.0	103.4	77.1	56.8	-41.9	0.25
Ghana	-15.3	22.5	50.5	77.7	13.4	0.5
Kenya	-21.9	-37.2	-51.8	-60.3	-7.6	0.5
Mali	38.3	377.8	808.9	1270.0	-57.7	0
Nigeria	30.7	6.0	18.1	25.0	9.2	0.25
Senegal	-23.7	-43.7	-64.4	-74.8	6.5	0.375
Tanzania	-35.4	-61.6	-79.1	-86.6	10.6	0.25
Uganda	-15.4	-43.3	-60.5	-69.9	16.0	0.625
Zambia	8.9	12.1	8.8	3.7	-1.5	0.375

Source: Kraay (2006) and te Velde (2006)

Notes: Period covered for the poverty/inequality data: Botswana – 1985–1993, Ivory Coast – 1985–1995, Ghana – 1987–1999, Kenya – 1992–1997, Mali – 1989–1994, Nigeria – 1985–1997, Senegal – 1991–1994, Tanzania – 1991–1993, Uganda – 1989–1996, Zambia – 1991–1998.

8. CONCLUSIONS

So far, the literature on institutions and economic growth has focused its attention primarily on the predatory role of the state. The main finding of the empirical studies that for the basis of this literature is that economic growth has occurred in contexts where the state has respected the property rights of private producers and where it did not expropriate property or allows others to do so. However, these empirical studies have been subject to criticism in not being able to adequately isolate the effect of institutional quality from that of geography, to take into account innate country-specific differences in culture and initial conditions, and to satisfactory address the possibility of reverse causality from

economic development to improvements in institutional quality.

In this paper, we address an over-looked aspect of institutional quality in the empirics of economic growth – the effectiveness of the relationship between the state and the business sector – which we argue can play a decisive role in economic growth, independent of other factors that have been found to be important in explaining economic growth across countries... We propose a measure that can capture the four dimensions of effective state-business relations: i) the way in which the private sector is organized vis-à-vis the public sector; ii) the way in which the public sector is organized vis-à-vis the private sector; iii) the practice and institutionalization of SBRs; and iv) the avoidance of harmful collusive behaviour. We find that this measure shows an unambiguous improvement in state-business relations in Sub-Saharan Africa over 1970–2004, though there are significant differences in the rate of improvement across countries.

Using this measure, we estimate standard growth regressions in panel form for 19 Sub-Saharan African countries with other controls for the macroeconomic environment, along with the more conventionally used measures of institutional quality in the empirical literature. We adopt dynamic panel GMM methods to address the problem of reverse causality and omitted country-specific attributes and initial conditions. Restricting our sample to Sub-Saharan African countries also help us to a large extent to control for the independent role of geography on economic growth. Our results show that effective state-business relations contribute significantly to economic growth in Sub-Saharan Africa – countries which have shown improvements in state-business relations have witnessed higher economic growth, controlling for other determinants of economic growth. Our results indicate the importance of benign collaboration between the state and the business sector in bring about improvements in living standards in Sub-Saharan Africa.

Our exploratory data analysis of the SBR-poverty-inequality relations suggests there may be a negative relationship between effective SBRs on one hand and poverty and inequality on the other. Combined with our finding that improved SBRs lead to higher growth, this suggests that a more effective relationship between the state and business can have a strong positive impact on pro-poor growth. However, there is clearly a need for more rigorous analysis of the impact of SBRs on pro-poor growth, both using cross-country econometric methods and historical case-studies of individual countries. Furthermore, there is need for further research in understanding why there has been differential improvement in the relationship between the state and the business sector in different parts of Sub-Saharan Africa.

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NOTES

1. See e.g. Hisahiro, K. (2005) 'Comparative Analysis of Governance: Relationship between Bureaucracy and Policy Co-ordination Capacity with Particular Reference to Bangladesh'. Institute for International Cooperation.
2. D. Kaufmann, A. Kraay, and M. Mastruzzi (2005), Governance Matters IV: Governance Indicators for 1996–2004, draft May 2005
3. Another of Albouy's criticisms of the settler mortality rate used in AJR is that the data does not distinguish between mortality rates of soldiers at war (campaign rates) and at peace (barrack rates).
4. Unfortunately, data on expropriation risk and government repudiation of contracts is only available for 1987–1994 so we do not use these variables in the augmented regressions.
5. We did not use constant PPP prices as there was no sufficient data on PPP prices for all countries in the sample for the period under consideration. However, for a smaller set of countries for a shorter period, we used GDP in constant PPP prices with no change in the results.
6. We omit Ethiopia from the final set of countries in our sample, as comparable data is not available for the period of the study.

STATE-BUSINESS RELATIONS,
INVESTMENT CLIMATE REFORM AND
FIRM PRODUCTIVITY IN SUB-SAHARAN AFRICA^A

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ABSTRACT

This paper examines whether an effective state-business relationship (SBR) facilitated by an organized private sector improves firm performance in seven sub-Saharan African (SSA) countries: Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia. We argue that a well-organized and sustained state-business relationship which fulfils the criteria of transparency, reciprocity, credibility and trust can influence firm productivity in at least three important ways: efficient policies and institutions, improved quality and relevance of government expenditure, and finally reduced policy uncertainty.

In order to test this, this paper exploits the private enterprise survey data of the World Bank Group for seven SSA countries and focuses on the effects of state-business relations in different countries. The results based on the panel of firms show that being a member of a business association improves firm performance in the form of total factor productivity improvements in the range of 25 to 35 percent. This finding is robust to including other variables that are commonly used to describe the investment climate, and robust to using estimates of productivity that account for endogeneity problems. Further detailed findings show that the effectiveness of business association works primarily through solving of information related market and co-ordination failures and lobbying government. Membership also increases labour productivity so that positive productivity effects are in part captured by labour; most of these benefits are going to the skilled workers providing positive dynamic incentives throughout the economy.

There are significant differences in the effects of membership across countries, ranging from highly significant and positive in Mauritius and Ethiopia to insignificant in Benin and Madagascar, with effects positive and significant in Malawi and Zambia. The size of the effect is correlated with a country specific index capturing factors associated with effective state-business relations, which shows that business associations are most effective when the overall climate for state-business relations is more effective. Membership of business associations also decreases the size of make informal payments and improves other investment climate indicators. This provides further evidence for how investment climate reform happens.

Key Words: state-business relations, firm performance, labour productivity, skills, sub-Saharan Africa

JEL Classification: D24, O17

1. INTRODUCTION

This paper examines whether an effective state-business relationship (SBR) facilitated by an organized private sector promotes the economic performance of firms. Effective SBRs lead to a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles to investment (Te Velde, 2006). Governments that engage in SBRs are thought to have a higher likelihood of adopting appropriate policies and reforms, while enterprises participating in state-business discussions are more likely to support these initiatives (Bannock, 2005; Herzberg and Wright, 2005). However, this has never been tested empirically.

Despite the importance of the issue, in-depth discussions of state-business relations especially for sub-Saharan African (SSA) countries have been patchy or absent; a detailed analysis of its effects on microeconomic performance largely lacking. Qureshi and Te Velde (2007) are a recent exception and focus on the effects of state-business relations in Zambia. This paper attempts to fill this gap in literature and provides empirical evidence on the effect of SBRs on firm performance and labour productivity in seven SSA countries which permits an analysis of whether and why the effects of SBRs may differ across countries. In addition to Qureshi and Te Velde (2006), we also examine whether SBR affects the pattern of economic growth through its effect on the skill intensity of firms. We use private enterprise surveys of the World Bank Group for firms in seven SSA countries with data on performance, including data that facilitates the calculation of productivity levels, and on the institutional context facing or perceived by firms.

The findings reveal that SBRs, measured by an organized private sector such as membership of a business association, enhance firm performance in the form of total factor productivity improvement in the range of 25 to 35 percent. This finding is robust to including other variables that are commonly used to describe characteristics internal and external to the firm, for example, the firm's age, size and ownership structure and different measures of institutions and corruption, and robust to using estimates of productivity that account for endogeneity problems. The gain in productivity as a result of SBRs is experienced by small, medium and large firms.

The results also show that of the various services provided by a business association to its members, providing information on government regulations and lobbying government are the most useful for firms in SSA countries. Membership also increases

average returns to workers and labour productivity so that positive productivity effects are in part captured by labour; most of these labour benefits are going to the skilled workers providing positive dynamic incentives throughout the economy.

The remainder of the paper is organized as follows. Section 2 outlines the theoretical and empirical background of the research and identifies the channels through which effective SBRs have microeconomic impacts.² Section 3 discusses the theoretical framework and estimation strategy adopted in the paper. Section 4 describes the data and discusses relevant issues. Section 5 presents the results from econometric analysis. Section 6 summarizes the main findings and concludes outlining the important policy implications of this research.

2. SBRs AND ECONOMIC PERFORMANCE

2.1 Theoretical background

2.1.1 Macroeconomic impacts

Effective state-business relations or public-private sector dialogue has been identified as an important determinant of economic growth at the macro-level (OECD, 2006; Te Velde, 2006). This is because failures exist at both the state and market levels and joint action may raise collective efficiency. Market and co-ordination failures prevent the optimal allocation of resources and justify state intervention. However, government and institutional failures may exist alongside market failures: this could be because governments often do not have the capacity to intervene and transform an economy or because they lack perfect information and foresight which is needed to identify and overcome market failures. Government intervention also carries the risk of misallocation and rent-seeking behaviour, especially in countries with high levels of corruption.

In general, effective SBRs provide a solution to both types of failures discussed above. Harriss (2006) suggests that good SBRs are based on a benign collaboration between business and the state with positive mechanisms that enable transparency, ensure the likelihood of reciprocity; increase credibility of the state among the capitalists, and establish high levels of trust between public and private agents. They provide a transparent way of sharing information, lead to a more appropriate allocation of resources, remove unnecessary obstacles to doing business, and provide checks and balances on government intervention.

Hisahiro (2005) argues that various forms of information and resources, which are dispersed among entities in the public and

private sector, need to be integrated in a more sophisticated way to jointly co-ordinate policies and provide better public services. It is this combination of insulation and connectedness that minimizes the risks and enhances the effectiveness of economic policies. Hence, appropriate government capacity and policy, which is necessary to support private sector development and promote economic growth, can be enabled by good SBRs and productive public-private sector dialogues.

2.1.2 Microeconomic impacts

A well-organized and sustained state-business relationship which fulfils the criteria of transparency, reciprocity, credibility and trust can influence firm productivity in at least three important ways:

i) Efficient policies and institutions

The nature and scope of public policies have a direct impact on a firm's strategies, choices and output, mainly through their effect on costs, risks and barriers to competition. Kerr (2000) argues that a quagmire of regulation imposes high costs on businesses and deters productive investment. These costs arise not only from compliance but also from resource misallocation and a lack of competition especially if the designed regulation is bad. The design of effective government policies and regulations depends, among other things, on input from and consultation with the private sector; regular sharing of information between the state and businesses ensures that private sector objectives are met with public action and that local level issues are fed into higher level policy processes (OECD, 2006).

The private sector can identify constraints, opportunities, and possible policy options for creating incentives, lowering investment risks, and reducing the cost of doing business. They may, for example, raise concerns related to the tax regime, licensing requirements or difficulty in hiring skilled workers. These concerns could contribute significantly to improving the national/local tax and licensing practices and to initiatives that encourage investing in human capital. Thus, more efficient institutions and rules and regulations can be achieved through policy advocacy which could reduce the costs and risks faced by firms and significantly enhance their productivity.

ii) Improved quality and relevance of government expenditure

The competitive advantage of a firm and the competitive pressure that encourages a firm to take risks, innovate and improve its performance depend on the availability of public services as much as they depend on the private incentives facing the firm. These services include infrastructure, availability of physical and human capital, information and communication technology, the availability and cost of finance, and, legal and judicial services. Public services can affect firm productivity directly, for example, through skills development or through uninterrupted and reliable provision of basic facilities like water, electricity and gas, which is important for the smooth running of production facilities. They can also affect firm performance indirectly through, for example, stimulating the quality of basic demand, and facilitating business creation and development. The efficient delivery of public services requires the private sector to play a pro-active role, inform the state of its needs, and lobby for improving the quality of government spending and creating a better climate for investment.

iii) Reduced policy uncertainty

Firms operate in an uncertain environment and frequently face risk and resource shortages. They undertake decisions concerning technology, inputs, and production facilities based on anticipated market conditions and profitability. Uncertainty can affect investment through a variety of channels. For example, it may increase the risk premium demanded for investing in certain projects, pushing the required rate of return upwards and dampening investment. The effect of uncertainty may be more pronounced when managers influence investment decisions and cannot fully diversify their exposure to idiosyncratic risk (Bond and Cummins, 2004).² Dixit and Pindyck (1994) argue that uncertainty has significant negative effects on investment, when investment involves large sunk and irreversible costs and there is the option to delay the decision to make the investment until further information becomes available.

Greater liaison with the state and free flow of information on prospective policies and trends may help to solve co-ordination failures, reduce uncertainty surrounding the business environment and increase business confidence. The services provided by business associations in the form of provision of information on government regulations, domestic and international markets may be particularly useful in this regard. This will enable more accurate forecasting and quick decision making and enhance firm productivity even if other factors are held constant.

2.1.3 Labour productivity and returns to labour

The impact of investment climate on overall productivity of the firm may work through the effects on the productivity of workers. There may be further effects on employment growth and returns to labour (see, for example, Dollar et al. [2003]; Pernia and Salas [2006]). These factors are important in achieving sustained high economic growth rates and substantial poverty reduction. Earlier research indicates that economic growth is necessary but not sufficient to achieve poverty reduction. The pattern and sources of growth and the distribution of gains, which are determined by labour productivity, are crucial elements to reduce poverty (Islam, 2003). Increasing productivity of workers in their existing occupations by providing them physical capital and new technology or shifting them to skill intensive occupations increases their incomes, reduces poverty, and creates a virtuous cycles of economic growth, investment and higher productivity (Islam, 2003).

Improved SBRs could affect the productivity of workers – defined as output per worker – and the average returns to workers, or wages, by the channels discussed above, that is improved institutions and governance, better quality of government expenditure, reduced policy uncertainty, and provision of information on domestic and international markets.

2.2 Empirical background

Effective state-business relations are linked to the literature on good governance and institutions. The importance of these factors in promoting growth at the macro level has been well-established by a number of studies (for example, Kormendi and McGuire [1985]; Knack and Keefer [1995]; Rodrik and Subramanian [2003]). Hall and Jones (1999) observe that social infrastructure, defined as institutions and government policies that frame the economic environment within which individuals and firms operate to produce output, determines almost all of the differences observed in output per worker across countries.

Following this strand of research, a growing body of literature attempts to investigate the impact of investment climate, measured as financial, legal, infrastructural and administrative constraints to businesses, at the micro level (McArthur and Teal [2002]; Dollar et al. [2003]; Beck et al. [2005]; Subramanian et al. [2005]). These studies find that investment climate constraints dampen firm productivity and restrict its growth. None of these studies however explicitly takes into account the effect of public-private sector relationships. Effective SBRs, while being part of good governance

and institutions, may also lead to and prioritize governance reforms and institutional settings. It is therefore important to isolate the effect of SBRs on firm performance and examine the extent to which they can explain the variation in performance across firms. This paper fills the gap in literature and uses firm level survey data to empirically examine the impact of state-business interaction on firm and labour productivity as well as the skill intensity of firms.

Another key contribution of the paper is its innovative approach to measuring SBRs. Following Te Velde (2006), we use different indicators that capture key factors associated with effective SBRs to assess the effects of different types of SBRs. These key factors are based on economic theory as explained in the previous section and include an organized private sector, an organized public sector, and an institutionalized mechanism of SBR. In addition, we analyse data on provision of different services by an organized private sector and determine the services of most value to the firms.

Further, much of the literature on state-business relations has been limited to Asian countries such as Korea, Japan, Malaysia, Bangladesh and Thailand.³ The importance of SBRs in the context of SSA has largely been ignored, despite its potential importance for firm performance, economic growth and poverty reduction. Two recent studies have begun to study the effects of effective state-business relations. Sen and Te Velde (2007) use the index developed in Te Velde (2006) and estimate standard growth regressions in dynamic panel form of 20 SSA countries over 1970–2004, controlling for more conventionally used measures of institutional quality in the empirical literature. The results show that effective state-business relationships contribute significantly to economic growth in Sub-Saharan Africa – countries which have shown improvements in state-business relationships have witnessed higher economic growth, controlling for other determinants of economic growth.

Qureshi and Te Velde (2007) use the enterprise survey data of the World Bank Group for Zambia for around 200 firms with data on performance, including data that facilitate the calculation of productivity levels, and on the institutional context facing or perceived by firms. The paper finds that membership of a business association enhances Zambian firm performance in the form of productivity improvements in the range of 37 to 41 percent. This finding is robust to including other variables. They also find that joining a business association is particularly useful for small and medium sized firms. Further, the results support the view that foreign owned firms lobby the government more effectively than their Zambian counterparts.

In this paper we take seven SSA countries – Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia – and use

firm level data provided by World Bank's private enterprise surveys in our empirical analysis.⁴ Each of these countries has undertaken steps to strengthen its state-business relations.⁵ The enterprise survey provides information relating to firm characteristics, investment climate constraints and SBRs for around hundred firms, of varying sizes and ownership structures, in each country.

3. EMPIRICAL STRATEGY

3.1 SBRs and total factor productivity

The theoretical framework used in this paper is a synthesis of earlier research on industrial organization, corporate governance, corporate finance, and economic growth theory. To assess the link between SBRs and firm performance, we begin with a simple Cobb-Douglas production function which links output with inputs and the firm's productivity, as follows:

$$y_i = \alpha_0 + \alpha_L L_i + \alpha_K K_i + \varepsilon_i, \quad (1)$$

where y_i is log of output measured in value added terms of firm i , and L and K are logs of labour and capital inputs, respectively. y_i is the unobserved error term that represents the log of productivity shock or total factor productivity (*TFP*) of firm i and captures any effects in total output not caused by inputs or productivity.

To investigate the effect of a firm's relationship with the government on its economic performance we estimate *TFP* from (1) and estimate the effect of SBRs (*SBR*) and several other factors identified in earlier literature to explain a significant proportion of the variability in *TFP*. We categorize the factors into two groups: characteristics of the firm (F) and characteristics of the investment climate (X), and estimate:

$$\log(TFP_i) = \beta_0 + \beta_s SBR_i + \sum \beta_F F_{ik} + \sum \beta_X X_{jk} + v_i, \quad (2)$$

where v_i is a white noise error term, F includes firm characteristics such as the age, location, size and sector of the firm, and X comprises a number of investment climate indicators such as days to get a phone line, need to pay bribes, and power losses.

Most of the earlier research treats the productivity shock in (1) as orthogonal to the factor inputs. This assumption has been challenged since long and it is argued that the input variables L and K are in general correlated with the unobserved productivity shock

ε .⁶ For example, a positive productivity shock may lead a firm to use more inputs than otherwise. If this assertion is true, then the parameter estimates for the production function obtained from the Ordinary Least Squares (OLS) method will be biased and will yield biased estimates of *TFP*.

A number of studies have put forward ways to address this endogeneity problem, including introducing fixed effects, the instrumental variables technique (IV) and the first differenced Generalized Method of Moments (GMM) estimator, proposed by Arellano and Bond (1991). Each of these methods has some limitations, for example, the fixed effect method makes a strong assumption that the part of *TFP* which influences firm's decisions is a time invariant firm-specific attribute. However, this assumption may not always be reasonable, which makes the estimation procedure invalid (Arnold, 2005). The IV technique requires using instruments that are correlated with the endogenous variables but not with the error term. In general, it is difficult to find strongly correlated instruments and using weakly correlated instruments is not advised since the estimates are biased in the same direction as OLS. Similarly, Mairesse and Hall (1996) report that first differenced GMM approach yields unsatisfactory results in the estimation of production functions from panel datasets covering a small number of time periods and a large number of firms. This is because the variables entering the production function, that is, capital, labour and output, are highly persistent in nature, which induces weak correlation between the endogenous variables and the instruments leading to poor precision in the estimators (Blundell and Bond, 1999).

Olley and Pakes (1996) propose to overcome the simultaneity problem by using the firm's investment decision to proxy unobserved productivity shocks. Their technique, later modified by Levinsohn and Petrin (2003), is commonly used to obtain consistent estimates of the production function.⁷ They divide ε into two components, η which is a part of the productivity shock that influences a firm's decisions relating to factor inputs, and ξ which is an independent and identically distributed random component. L and K are treated as free and state variables, respectively, and investment is defined as a function of K and η . This gives us:

$$y_i = \alpha_0 + \alpha_L L_i + \alpha_K K_i + \eta(I_i, K_i) + \xi_i, \quad (3)$$

Now defining $\varphi(I_i, K_i) = \alpha_0 + \alpha_K K_i + \eta(I_i, K_i)$, we obtain:

$$y_i = \alpha_L L_i + \varphi(I_i, K_i) + \xi_i, \quad (4)$$

A first stage estimator that is linear in L and non-parametric in φ is used to obtain a consistent estimate of α_L .⁸ To identify α_K , two assumptions are made. First, η follows a first-order Markov process and, second, K does not respond immediately to ψ , defined as the innovations in productivity over last period's expectation, that is, $\psi_{it} = \eta_{it} - E[\eta_{it} | \eta_{it-1}]$. Putting ψ in (3) and defining y^* as output net of labour's contribution, we obtain:

$$y^*_i = y_i - \alpha_L L_i + \alpha_K K_i + E[\eta_{it} | \eta_{it-1}] + \xi_i, \quad (5)$$

where ξ_i^* . Since ψ_i and ξ_i are both uncorrelated with K , regressing y^* on K and $E[\eta_{it} | \eta_{it-1}]$ produces a consistent estimate of α_K . Having obtained consistent estimates for both parameters of interest, α_L and α_K , we can construct the individual error term ε_i from (1) which will give us unbiased estimates of TFP . Since this technique imposes less stringent data requirements and is not affected by the small time dimension of the dataset, we prefer to use it for estimation purposes.

3.2 SBR and investment climate

Section 2 of this paper argued that one channel through which SBRs affect firm performance is improved investment climate. Hence, while being part of the good governance literature, effective SBRs may also lead to and prioritize governance reforms. Governments that engage in SBRs have a higher likelihood of adopting appropriate policies and reforms, while enterprises participating in state-business discussions are more likely to support these initiatives (Bannock, 2005; Herzberg and Wright, 2005). To test this claim, we estimate an equation linking SBRs to firm-level investment climate indicators. Specifically, we estimate:

$$InvClimate_i = \beta_0 + \beta_S SBR_i + \sum \beta_F F_{ik} + \sum \beta_X X_{jk} + \varsigma_i, \quad (6)$$

where *InvClimate* refers to investment climate indicators such as the percentage of revenues paid as informal payments to government officials, percentage of total sales value lost due to power losses and insufficient water supply, availability of information

and communications technology (ICT), and the average days required for custom clearance of export and imports. β represents the parameters to be estimated, ς is a white noise error term, and the remaining variables are the same as in (2). If SBRs improve the investment climate for firms, then β_s is expected to be positive and vice versa.

3.3 SBR, labour productivity and return to labour

To examine the link of SBR with labour productivity and average returns to labour, we follow earlier literature (for example, Dollar et al. [2003]; Pernia and Salas [2006]) and estimate the following equations:

$$\log(Labourprod_i) = \delta_0 + \delta_s SBR_i + \sum \delta_F F_{ik} + \sum \delta_X X_{jk} + \kappa_i, \quad (7)$$

$$\log(Avgreturn_i) = \gamma_0 + \gamma_s SBR_i + \sum \gamma_F F_{ik} + \sum \gamma_X X_{jk} + u_i, \quad (8)$$

where $Labourprod_i$ is labour productivity (defined as output per worker) and $Avgreturn_i$ is the average wage received by the workers of firm i . δ and γ represent the parameters to be estimated, κ and u are white noise error terms, and the definition of the remaining variables is the same as in (2). If SBRs enhance labour productivity and/or the average returns to workers, then the estimated δ_s and γ_s will be positive, respectively, and vice versa.

4. DATA DESCRIPTION

4.1 Data sources

This paper explores the link between SBRs and firm performance in the context of SSA. The sample comprises seven SSA countries – Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia – for which relevant data are available from the World Bank's Productivity and Investment Climate Private Enterprise Surveys. In its efforts to measure and compare investment climate conditions across countries, the World Bank has conducted enterprise surveys across a number of regions to highlight the microeconomic and institutional conditions for investment and to identify priority problems (in policy, regulatory, and institutional areas) to productive investment. A typical survey covers over a hundred firms of various

sizes belonging to different sectors and located in different regions across the country.

The survey questionnaire has around 82 questions (with many questions further divided into parts) and covers information on the general aspects of the firms, their productivity, finance, sales, supplies, and the availability of infrastructure and services as well as their perceptions about the investment climate constraints and state-business relations. A list of the variables used in our empirical analysis along with the relevant question codes is summarized in Appendix A. Table 1 provides the summary statistics of the firm characteristics and investment climate indicators used in the empirical analysis.

Table 1: Summary statistics for SSA^A

Variable	Observations	Mean	S t d . Dev.	Min.	Max.
Age (years)	2160	20.58	20.03	0	205
Size (no. of employees) ^B	2059	212.96	845.34	1	18753
Foreign ownership (%)	2159	15.40	33.78	0	100
State ownership (%)	2159	4.61	20.18	0	100
Exporter (dummy variable)	2145	0.26	0.44	0	1
Premises	1674	2.24	6.74	0	140
Secondary & higher education	1252	61.25	40.10	0	100
Cost of power losses (%)	1660	9.30	30.56	0	400
Corruption (dummy variable)	2142	0.54	0.50	0	1
Govt. inspections	1644	11.86	20.85	0	297
Informal payments (% of annual rev.)	1452	1.48	5.54	0	90

Notes: A) The sample includes firm level data for Benin, Ethiopia, Madagascar, Malawi, Mali, Mauritius, South Africa and Zambia

B) Number of employees includes total number of permanent employees.

The statistics indicate a wide variation in firm characteristics in the sample. The average age of the surveyed firms is approximately 21 years and the average size is 213 employees. The majority of firms have foreign ownership of less than 50 percent and are non-exporting firms. Significant differences exist in terms of the investment climate indicators: for example, the average cost of power losses as a percentage of total sales value ranges from zero to 400 percent. The average number of government inspections is 12 with the minimum being no inspection and the maximum is 297 inspections for Ethiopia. Similarly, the range of informal payments

as a percentage of annual revenues is 0 to 90 percent with the average for all surveyed firms around 1.5 percent.

4.2 Measuring SBRs

Te Velde (2006) identifies the organization of the private and public sectors as the main elements of healthy SBRs. The presence of well-organized and capable private sector organizations is a key element of good SBRs. Weiss (1998) indicates that the more firms are involved in business associations the easier it makes to co-ordinate policy between the government and business. Hisahiro (2005) argues that business associations play a significant role in facilitating the formulation, implementation, and monitoring of economic policies and provision of feedback to the government. In general, business associations help firms because they can provide a more coherent and consistent case and have a greater impact on the government. Also, their presence eliminates duplicate lobbying efforts and hence is cheaper for firms. To assess the impact of an organized private sector, we consider if the firm in question is a member of a business association or Chamber of Commerce (Yes=1, No=0).

Some would argue that there is no business case for firms to organize themselves, as they could lobby government directly. Indeed, large natural resources firms might go directly to the government to negotiate new terms or address barriers in customs. However, for some other firms it might simply indicate a waste of resources. Thus, to take into account direct lobbying by the firm, we include a dummy variable that captures if the firm lobbied government (Yes=1, No=0).⁹

How efficiently government is organized is as crucial as the organization of the private sector for SBRs. Weiss (1995) argues that the government is the 'senior partner' in the state-business relationship which directs the policy patterns. The government may face numerous decisions on how it may organize itself to interact with business. An important measure is the presence and effectiveness of an investment promotion agency which could be seen as indicative for advocacy of private sector interests as a whole. Another would be the presence of a governing unit specifically for the private sector. To measure the role of the government in state-business relations, we consider firm's perceptions about the efficiency of government in delivering services (for example, public utilities, public transportation, security, education and health etc.) on a scale of 1 (= very inefficient) to 6 (= very efficient).

Theoretically speaking, effective SBRs lead to a reduction in uncertainty surrounding the firm, positively affecting its performance.

Hence, another measure for SBR which we include is a firm's opinion about economic and regulatory policy uncertainty hampering the operation and growth of its business. The greater the problem of uncertainty, the lower would be the effectiveness of SBRs. In addition, we include the percentage of senior management's time in a typical week spent in dealing with requirements imposed by government regulations such as taxes, customs, licensing etc., as other proxies for SBRs. Good SBRs are expected to lower the administrative constraints faced by the firms.

The empirical analysis treats SBRs as exogenous to firm performance. This assumption is subject to debate as a firm's performance may determine its relationship with the state. For example, well performing businesses are in a stronger position to establish informal connections with the state elites and extract favours. However, the questionnaire which is discussed in more detail below suggest that firms perceive there to be value from being part of a business association suggesting that the causation runs from joining to performance.

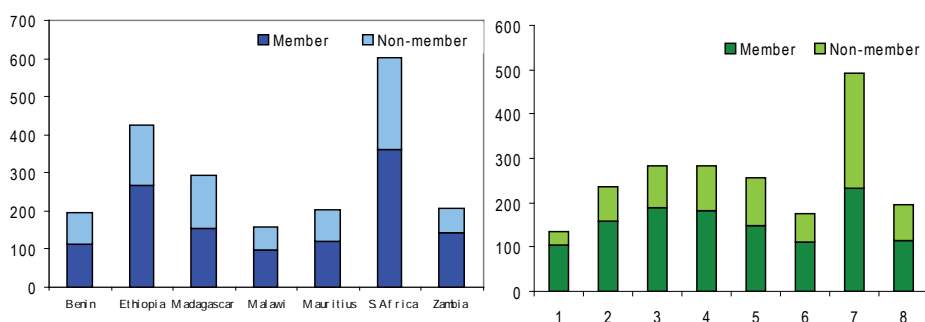
Chart 1 presents the distributions of firms that are members of business associations across countries and sectors included in the sample. In each country, the percentage of member firms is higher than non-member firms. Zambia has the highest percentage of firms which are members of business associations with around 70 percent of the firms covered in the survey as members whereas Madagascar has the lowest percentage of member firms with 53 percent firms as members. Similarly, a majority of firms across the various sectors are members of business associations with the highest percentage for agroindustry followed by the categories sectors of chemicals/pharmaceuticals/non-metallic/plastic products and food.

Chart 2 shows that a majority of small firms in the sample are non-members whereas a majority of large firms are members of business associations. This observation contradicts the argument that there is no business case for large firms to join business associations as they could lobby government directly. The effect of foreign ownership on membership is less clear since in each ownership category, the percentage of member firms is greater than non-member firms. However, firms with foreign stakes of over 50 percent have the highest percentage of member firms (70 percent).

In terms of the various services provided by business associations, lobbying government and information on government regulations are on average the two most important services provided by business associations to the firms covered in the sample (Chart 3).¹⁰ The least important services are resolution of disputes (with officials,

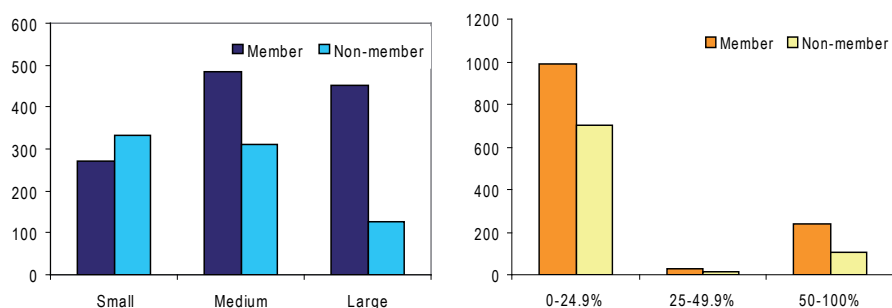
workers, or other firms) and accrediting standards or quality of products. Charts 3a, 3b and 3c present the country wise picture and depict the value of services to member firms in Ethiopia, South Africa and Zambia, respectively. In each case, a majority of the firms report that the business association provided information on government regulations and lobbied government. Of all the services, these services were reported as having major/critical value by the largest number of firms. The services which the largest number of firms find of little or no value appear to be accreditation of standards and resolution of conflicts for each country.

Chart 1: Private sector organizations across regions and sectors in SSA



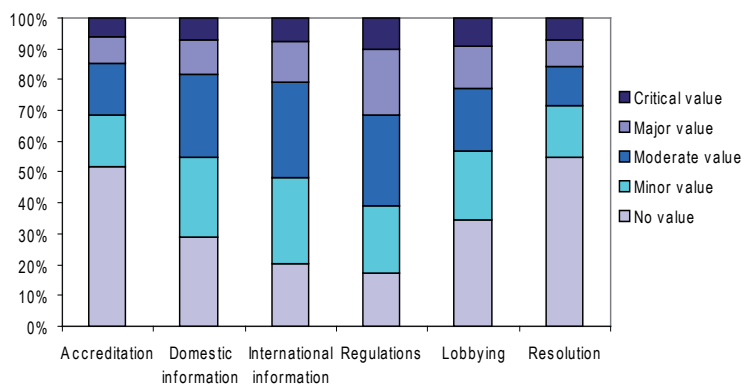
Notes: 1= Agroindustry; 2=Chemicals/pharmaceuticals/non-metallic/plastic products; 3=Food; 4=Garments/textiles; 5= metals/machinery; 6=other manufacturing; 7=Wood/furniture; 8=Miscellaneous.

Chart 2: Private sector organizations according to firm size & foreign ownership in SSA



Notes: Small = employees less than 19; Medium = employees in the range of 20-100; Large = employees greater than 100.

Chart 3: Value of services provided by business associations to Firms



Notes: Chart 3 based on data for Ethiopia, South Africa and Zambia only.

Chart 3a: Value of services by business associations to firms in Ethiopia

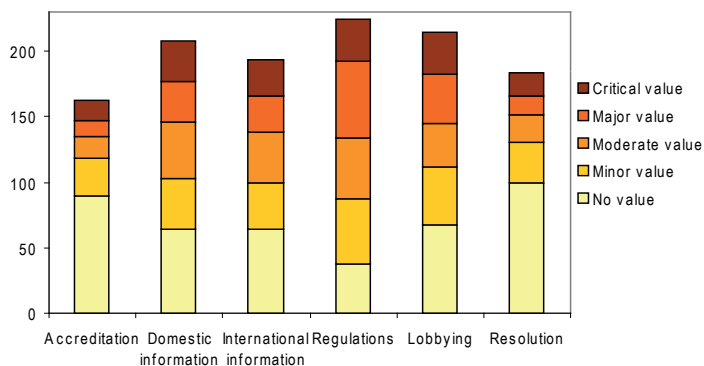


Chart 3b: Value of services by business associations to firms in South Africa

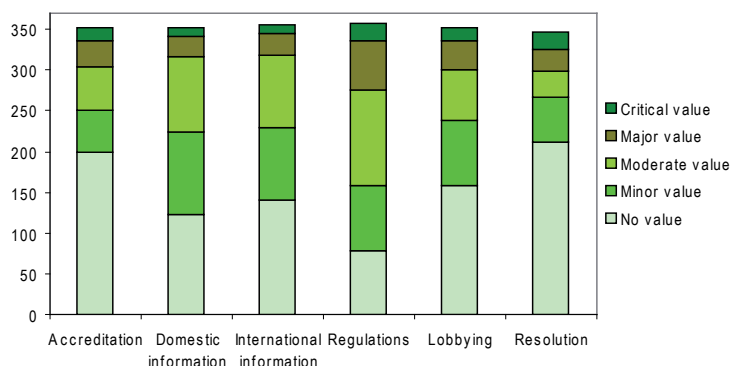
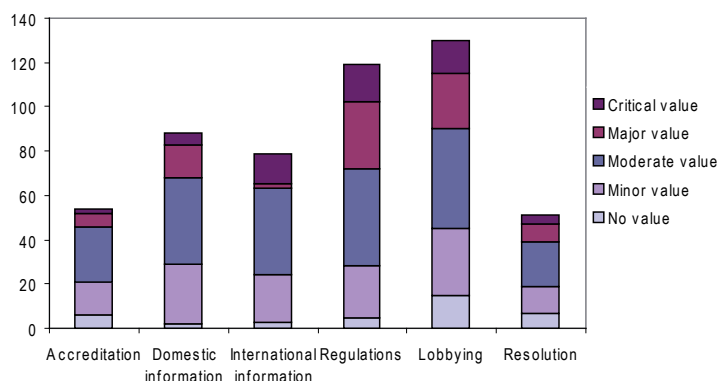


Chart 3c: Value of services by business associations to firms in Zambia



4.3 Firm characteristics and investment climate indicators

While assessing the effect of SBRs on firm performance, we need to control for several other factors that may explain heterogeneity of firm performance. These include firm characteristics as well as the characteristics of the external environment in which the firm operates that can affect firm performance. The firm characteristics that we control for in our firm are standard variables in empirical literature on investment climate and industrial organization and

include the age, size, location and sector of the firm. Labour quality is another possible factor to affect firm performance. Knowledge and skills of workers at businesses may directly increase firm performance, or/and they may indirectly act as a complement to improved technologies, business models or organizational practices (Abowd et al., 2002). We use the percentage of work force in a firm with at least secondary education as a measure of labour quality. In addition, research on firm performance has identified three features, namely the extent of firm's export orientation, competition and ownership, as key determinants of firm productivity. In general, firms that export, face higher competition and have foreign ownership are found to perform better (Svejnar, 2006). Hence, we control for these factors while estimating (2).

The spatial organization of firms can also play a role in determining its productivity. Firms commonly operate multiple plants for the same product and separate administrative functions from the production site: for example, a firm may find it beneficial to locate production facilities in smaller and more specialized cities and set up its headquarters and administrative functions in a large city with better access to financial and business services (Duranton and Puga 2002); or, firms with geographically dispersed plants may establish their administrative units at a central location from where they can reach all plants easily and quickly. Such separation can enhance a firm's performance or it could impose significant communication costs (Aarland et al. 2004). Similarly, firms with more than one plant may experience multi-plant economies, defined as cost advantages from operating several plants.¹¹ Multi-plant firms may also gain productivity from the closure of relatively unproductive plants and the opening of productive ones (Seabright, 2000). However, diseconomies from operating plants in multiple locations can arise due to co-ordination and control problems. To estimate the effect of firm spatial organization, we include a proxy which measures the number of premises (for example, production facilities, offices, etc.) as part of firm characteristics.

The investment climate in which the firm operates comprises a variety of factors including public utilities, transport and information and communication technology infrastructure, and regulation and bureaucracy. Provision of public utilities such as electricity, water, gas, and waste disposal services determines firm productivity directly. Interrupted supplies of public services may result in the wastage of other inputs and therefore reduce TFP. Transaction costs associated with regulations, bureaucracy and poor institutions reflect resources diverted from production and hence may have significant implications for a firm's performance (World Bank, 2004; de Groot et al. 2004). Following earlier literature, for example, Dollar et al.

(2003) and Subramanian et al. (2005), we capture these external factors influencing a firm's productivity by including the average number of days required for export clearance, total number of government inspections during the year, and various measures for corruption.¹²

The number of days required for custom clearance and measures of corruption are expected to have a negative effect on total factor and labour productivity. However, the effect of number of inspections remains theoretically unpredictable. On the one hand, government inspections are important mechanisms for enforcing regulations but on the other, firms often complain about government inspectors harassing them, favouring cronies or demanding bribes. This is especially true for developing countries where inspections often impose unnecessary costs and risks on businesses while failing to ensure compliance.

5. EMPIRICAL RESULTS

Section 3 has argued that effective state-business relations will affect firm performance in several ways. Joining a business association will help firms to communicate and lobby with governments for more efficient policies, institutions and government expenditure, but also reduce policy uncertainty by providing information about government policies and product/factor markets. Thus SBRs, measured at the firm level by an organized private sector, contribute to a rise in firm productivity through these various channels. We also hypothesized that the effects of SBRs and lobbying will depend on the size and ownership structure of firms. The discussion below presents the results of estimation and hypotheses testing.

5.1 SBR and firm performance

To isolate and test for the importance of SBRs on firm performance, we estimate the production function as expressed in (1) to retrieve estimates of total factor productivity (TFP). y represents total value added and is calculated by subtracting the cost of material inputs and energy from the total market value of production, L is the number of employees and K is the gross value of assets. We estimate (1) for each country in the sample using the Levinsohn-Petrin approach outlined in Section 3 to obtain unbiased estimates of TFP.¹³

The (log of) TFP is then related to the internal and external characteristics of the firm, and the SBR measures using a pooled dataset (while controlling for country-specific effects) and also for individual SSA countries. Columns 1 to 7 of Table 2 show the

estimated effects of various SBR measures on firm performance while controlling for various other factors. In the first specification presented in column (1), we include membership of a business association as a SBR measure, with a number of firm characteristics such as age, size and ownership structure of the firm but do not control for sector- and country-specific effects. We find that although all variables except for foreign ownership (foreign) are significant, the overall fit of the equation is poor and the variables explain only 13 percent of the variation in the dependent variable.

In the next specification we control for sector and country specific effects to address the omitted variable bias that may have affected our results in column (1). The R-squared jumps to 0.81 and all variables including foreign are highly significant. The estimated coefficient of membership is positive and significant, so that being part of an organized private sector helps firm performance. In column 3 of Table 2 we add a second SBR measure that captures if a firm lobbied government directly or not. Since information for this variable is available for only four countries, Benin, Mauritius, South Africa and Zambia, the total number of observations in the sample drops noticeably. The effect of membership remains strongly positive however we do not find any important effect of lobbying directly on productivity.

In column (4) we include two other important features of a firm that may affect its productivity. These include measures for the quality of labour – proxied by the percentage of labour force with at least secondary education – and the economies of scale/scope experienced through a number of premises. As explained above, the quality of labour is expected to positively influence a firm's TFP however the theoretical expectation for the effect of multiple plants/premises is unclear. In addition, we include three other measures of SBR effectiveness, economic and regulatory policy uncertainty, management's time spent in dealing with regulations, and firms' perceptions of government services. The estimated coefficients of uncertainty and time spent in dealing with regulations are expected to be negative whereas that of government services is expected to be positive. Contrary to expectations, we obtain a positive sign for uncertainty. However, its estimated coefficient is highly insignificant implying no effect of uncertainty on firm productivity.¹⁴ Management's time spent in dealing with regulations has a significantly negative effect on productivity whereas (perceptions of) government services have a positive effect at the 10 percent significance level.

Finally, in columns (5) and (6) we augment the basic specification by including different variables reflecting investment climate constraints that have been identified as important determinants of firm performance in earlier empirical literature. The results show

that informal payments and the average number of days required for custom clearance have a strong negative effect on firm productivity – note that the estimated effect of membership is robust to the inclusion of these variables, which supports our assertion that SBRs may have an effect on firm performance directly through various channels.

Overall, our findings indicate that regardless of the specification used, membership of the association is an important determinant of firm's productivity in SSA and increases firm's productivity in the range of 25 to 35 percent. In addition to membership, managements' time spent in dealing with regulations is another SBR measure which significantly affects firm performance and reduces productivity by about 1 percent.

Table 2: Estimation results for TFP for Sub-Saharan Africa

	(1)	(2)	(3)	(4)	(5)	(6)
Age	0.036***	0.010***	0.011***	0.011***	0.013***	0.010***
Size	0.000**	0.000**	0.001***	0.000***	0.000***	0.001***
Foreign	0.003	0.005***	0.006***	0.005***	0.005***	0.005***
State	-0.013***	0.010***	0.000	0.002	0.001	0.002
Export	0.010***	0.005***	0.006	0.007***	0.008***	0.005**
Premises				0.033***	0.038***	0.034*
Secondary Education				0.002	0.001	0.003
Member	0.278*	0.354***	0.256***	0.255***	0.257***	0.286**
Lobby			0.136			
Uncertainty				0.041	0.045	0.044
Regtime				-0.009***	-0.011***	-0.009*
Govtservices				0.071*	0.056	-0.034
Infpay					-0.037*	
Corruption					0.002	
Export clearance						-0.027***
Inspections					0.006	0.000
Constant	4.424***	5.257***	5.179***	4.95***	4.86***	5.052***
Industry effects	No	Yes	Yes	Yes	Yes	Yes
Country effects	No	Yes	Yes	Yes	Yes	Yes
Observations	1115	1109	726	557	476	301
F-statistic	27.34***	360.91***	308.53***	63.85***	32.93***	31.01***
R2	0.13	0.81	0.83	0.72	0.69	0.73

Notes: Dependent variable is log of TFP obtained from the Levinsohn Petrin technique; *, **, *** indicate significance at 10%, 5% and 1% levels respectively; the estimated standard errors are robust; sample consists of data for country (year)=Benin(2004), Ethiopia (2002), Madagascar (2005), Malawi (2005), Mauritius (2005), South Africa (2003) and Zambia (2002).

Table 3 presents the effect of SBR on productivity for each country in the sample. We find that on average being a member of a business association positively effects firm performance in Ethiopia, Malawi, Mauritius, South Africa and Zambia in a significant way. Direct lobbying government is found to be important for Mauritius only. Interestingly, when we compare the estimated coefficients for membership with the overall SBR scores computed for these seven countries by Te Velde (2006), we find that the correlation coefficient between the two series is 0.55, see chart 4.¹⁵ This suggests that a strong link exists between SBR at the macro level and its effect at

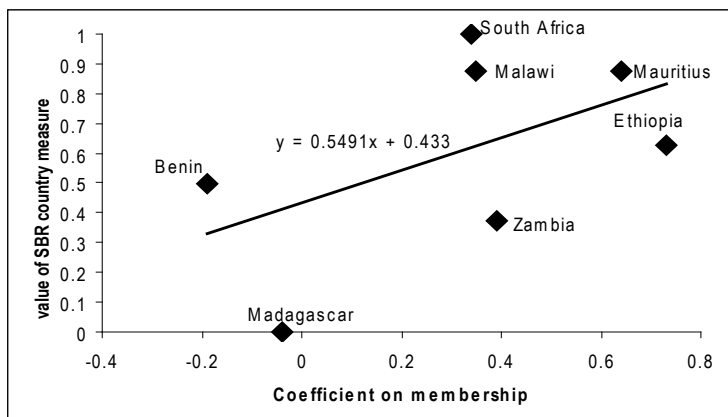
the micro level. In general, the effect of SBRs is more pronounce in countries that have strong institutional set-ups to support and conduct effective SBRs.

Table 3: Estimation results for TFP across countries

	Benin	Ethiopia	Madagascar	Malawi	Mauritius	South Africa	Zambia
Age	0.003	0.004	-0.005	0.023***	-0.001	0.013***	-0.001
Size	0.005***	0.000***	0.000	0.000	0.001**	0.001***	0.000
Foreign	0.005	0.006	0.004	0.006*	0.006	0.007***	0.005*
State	-0.015***	0.020***	0.010	-0.011	0.056***	0.011**	0.001
Export	0.004	0.011	-0.002	0.010*	0.000	0.011***	-0.003
Member	-0.189	0.731***	-0.040	0.354*	0.637**	0.336***	0.385*
Lobby	-0.262				0.743**	0.192	-0.057
Uncertainty	-0.167*	0.058	-0.019	-0.101	-0.014	-0.016	0.018
Regtime	-0.003	0.012	0.014	0.021	0.006	-0.014***	-0.005
Constant	2.357***	1.940***	3.279***	3.702***	7.159***	7.074***	5.724***
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	100	141	99	120	64	399	146
F-Statistic	2.12**	27.02***	0.56	4.85***	6.02***	27.14***	2.07**
R-Squared	0.25	0.38	0.23	0.30	0.40	0.45	0.15

Notes: Dependent variable is log of TFP obtained from the Levinsohn-Petrin technique; *, **, *** indicate significance at 10%, 5% and 1% levels respectively; the estimated standard errors are robust; variable lobby not included in the equations for Ethiopia, Madagascar and Malawi because of lack of data.

Chart 4: The effect of business association membership on productivity is greater in countries which are better prepared for state-business relations



In the next step, we assess the usefulness of particular services provided by business associations to member firms. This would help us in disentangling the important aspects of business associations since individual services affect productivity through different channels. For example, lobbying government may affect productivity through changes in policies and institutions or improvements in infrastructure whereas provision of information on regulations or markets may resolve informational asymmetries and reduce the uncertainty faced by firms. The enterprise survey contains data on the perceived effectiveness provision of six different services (lobbying government; resolution of disputes; accreditation standards; information on government regulations, domestic markets, and international markets).¹⁶

We estimate the specification as in column (4) using the service provided by the association as the SBR variable instead of membership. The estimated coefficients are summarized in Table 4. The results show that providing information on government regulations and lobbying government are the services with a significant positive impact on the productivity. In terms of magnitude, providing information on government regulations appears to be the most effective service of the business associations. This result is supported by the data on firms' perceived effectiveness of the services. As reported in the last column of Table 4, the arithmetic mean of the values assigned by each firm to different services indicates that providing information on regulations and lobbying are the services of critical value to firms. These findings therefore suggest that the effect of SBR works primarily through provision of information on government regulations and lobbying government.

Table 4: Effects of different services of business associations on TFP in 3 countries

Variable	Estimated coefficient	Sample mean
Information on government regulation	0.10*	1.85
Lobbying government	0.08*	1.41
Information on domestic markets	0.07	1.42
Information on international markets	0.07	1.34
Accreditation standards	0.08	1.00
Resolution of disputes	0.02	0.97

Notes: the dependent variable in all cases is log of total factor productivity obtained from Levinsohn-Petrin technique; the other variables included in the estimated equation are firm's age, size, foreign ownership, export, state, regtime, uncertainty, and, sector and location specific effects; * indicate s significance at 10% level; sample consists of Ethiopia, South Africa and Zambia.

5.2 Small vs. large and foreign vs. domestically owned firms

It is sometimes argued that the effect of SBRs will be greater for large firms as compared to small and medium sized firms because of their improved, and in many cases informal, links with state agents. The efficacy of business associations for large firms is also debated, with some considering no business case for large firms to organize themselves as they could lobby government directly to negotiate new terms. To test these claims, we divided the sample into two groups according to firm size. The first group comprises of small and medium firms, that is, those with total number of employees less than or equal to 100, and the second group comprises of large firms with total number of employees over 100.

The first two columns of Table 5 represent the results for the effect of SBRs on firm productivity for small and medium, and large firms, respectively. In both cases, we find a statistically significant positive effect of joining a business association on the productivity of firms. The positive impact of membership for the small and medium firms suggests that these firms prefer to join business associations as they lack other means for effective lobbying. Organized associations provide these firms a platform to pool resources, build a more coherent and consistent case, and exercise a greater impact on the government. The significant effect of membership for large firms contradicts the claim that large firms do not gain from joining business associations.

As discussed in Section 2, the ownership structure of firms may be another factor influencing the effect of SBRs on firm performance. Foreign owned firms, especially those in developing countries, are often accused of influencing the governments through their powerful economic positions and connections, as well as through the extensive resources available for effective lobbying. If this is true and effective, then we would find the effect of SBRs to be on average larger for foreign owned firms than domestically owned ones. The last two columns of Table 5 present the effect of SBRs on TFP based on their foreign ownership. For both types of firms, that is, those with less than 50 percent and equal to or greater than 50 percent foreign ownership, we find a significant effect of membership on firm performance. However, the effect of SBRs is greater for firms with 50 percent or higher foreign ownership than for those with less than 50 percent foreign ownership.

Table 5: Estimation results according to size and ownership for Sub-Saharan Africa

	Small & Medium	Large	Foreign Ownership (< 50%)	Foreign Ownership (> 50%)
Age	0.004*	0.008***	0.013***	0.008
Size			0.000	0.000***
Foreign	0.006***	0.003**		
State	0.016***	0.004	0.012***	-0.019
Export	0.005	0.006***	0.007***	0.006*
Premises	-0.005	0.037***	0.038***	-0.021
Member	0.291***	0.294*	0.414***	0.579***
Uncertainty	-0.010	0.039	-0.001	0.080
Regtime	-0.001	-0.005	-0.005	-0.019*
Constant	5.603***	5.406***	5.153***	5.882***
Industry effects	Yes	Yes	Yes	Yes
Country effects	Yes	Yes	Yes	Yes
Observations	573	299	736	136
F-Statistic	108.09***	71.15***	142.58***	31.81***
R-squared	0.79	0.78	0.79	0.82

Notes: Dependent variable is (log) TFP obtained from Levinsohn Petrin technique; *, **, *** indicate significance at 10%, 5% & 1% levels, respectively; robust standard errors estimated; small & medium firms= employees \leq 100; large firms= \geq 100 employees

5.3 SBRs and investment climate

To investigate the link between SBR and investment climate, we estimate equation (6) using different investment climate indicators such as the percentage of revenues paid as informal payments to government officials, percentage of total sales value lost due to power losses and insufficient water supply, availability of ICT, and the average days required for custom clearance of export and imports. Table 6 presents shows that the effect of SBRs on investment climate confirms to expectations and is significant for informal payments, insufficient water supply, and availability of ICT. Hence, member firms pay less percentage of revenues as informal payments to government officials, face lower lost cost of insufficient water supply and make more use of ICT facilities. This suggests that SBRs play an important role in the creation of good institutions and governance, and the establishment of a better investment climate.

Table 6: Estimation results of investment climate for Sub-Saharan Africa

	Informal payments	Power outages	Insufficient water supply	ICT	Custom clearance
	(1)	(2)	(3)	(4)	(5)
Age	-0.013**	-0.086**	-0.164*	0.000	-0.015
Size	0.000	0.003	0.009	0.000	0.000
Foreign	0.000	-0.059**	-0.039	0.001***	-0.003
State	-0.004	-0.020	-0.206**	0.002***	-0.002
Export	0.000	-0.067**	0.020	0.001***	-0.017***
Premises	0.021	-0.026	-0.222	0.002*	0.063
Member	-0.781**	-1.944	-12.612*	0.124***	0.036
Constant	2.549***	10.811***	15.941*	0.723***	5.152***
Industry effects	Yes	Yes	Yes	Yes	Yes
Country effects	Yes	Yes	Yes	Yes	Yes
Observations	948	1071	272	1465	486
F-statistic	4.88***	7.00***	1.34	86.97***	3.37***
R-squared	0.07	0.25	0.15	0.51	0.15

Notes: Custom clearance is the average number of days for export and import custom clearance; ICT measures if the firm uses e-mail facilities regularly; *, **, *** indicate significance at 10%, 5% and 1% levels respectively; robust standard errors estimated.

5.4 Labour productivity and returns to labour

Table 7 presents the estimation results for equation (7) where labour productivity is defined as total value added per worker. The first column presented the results for the full sample, that is, data for all countries pooled together, whereas the remaining columns present estimation results for individual countries in the sample. The average effect of joining a business association is to enhance labour productivity by 23 percent in SSA countries. The size of the effect and its significance however varies across countries and is found to be most important for Ethiopia and Mauritius.

Table 8 presents the estimation results for equation (8) where the dependent variable is average return to different types of workers. The average estimated effect of joining a business association on average returns of workers is about 14 percent in SSA. Across countries, the effect of an organized private sector is significant for Ethiopia and Zambia only. The effects for the average returns are different for different types of workers: professional, management and unskilled production workers, respectively. The results indicate that membership of business association improves the average

	Full Sample		Benin	Ethiopia	Madagascar	Malawi	Mauritius	South Africa	Zambia
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Age	0.006***	0.006***	0.003	-0.001	0.004	0.023***	-0.004	0.007***	0.005
Size	0.000***	0.000**	0.006**	-0.001***	0.000	0.000**	0.000**	0.000	0.000
Foreign	0.006***	0.006***	0.018***	0.003	0.004*	0.011***	0.006	0.004***	0.007***
State	0.002	0.003	-0.004	0.008**	-0.003	-0.014**	0.065***	0.000	-0.003
Export	0.008***	0.008***	0.022***	0.013	0.003	0.014*	-0.009**	0.006**	0.000
Member	0.239***	0.233***	0.221	0.585**	-0.155	0.274	0.498*	0.119	0.230
Uncertainty		0.014	-0.277**	0.129	0.157*	-0.156*	-0.013	-0.009	-0.025
Regtime		0.003	0.015	0.007	-0.002	0.021	0.011	-0.008	0.004
Corruption		-0.070	0.233	-0.308	-0.293	-0.006	-0.028	-0.124	-0.117
Constant	7.383***	7.360***	7.460***	1.988***	9.241***	5.367***	5.619***	4.915***	9.123***
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country effects	Yes	Yes							
Observations	1098	1046	147	139	165	127	66	402	162
F-statistic	298.69***	226.30***	6.73***	115.70***	3.23***	5.22***	10.25***	4.38***	3.09***
R-squared	0.78	0.79	0.45	0.34	0.27	0.33	0.30	0.22	0.12

Table 7: Estimation results of labour productivity for Sub-Saharan Africa

Notes: Dependent variable is log (labour productivity); *, **, *** indicate significance at 10%, 5% and 1% levels respectively, the estimated standard errors are robust.

returns to professionals and managerial workers in SSA but does not influence the average returns to unskilled production workers in a significant way.¹⁷

Table 8: The effects of membership on average returns to different skills types

	Full Sample	Benin	Ethiopia	Madagascar	Malawi	Mauritius	South Africa	Zambia
Labour	0.138*	0.037	0.224**	-0.051	-0.121	-0.063	0.066	0.544***
Professional workers	0.443***	1.035***	0.619***	-0.039	0.855***	0.453	0.889	-0.837
Management	0.233***	-0.149	0.517***	0.164	0.435	-0.086	0.0330*	-0.370
Unskilled production workers	0.084	-0.312	0.185	-0.033	0.086	-0.046	0.614	-1.647

Notes: Dependent variable is computed as (total compensation to all xxx workers/ number of xxx workers); *, **, *** indicate significance at 10%, 5% and 1% levels respectively; the estimated standard errors are robust.

Equestions include age, size, foreign, state, export and industry and country effects where appropriate

6. CONCLUSIONS

This paper examines whether an effective state-business relationship (SBR) facilitated by an organized private sector promotes the economic performance of firms. The analysis is based on firm level data for seven SSA countries – Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia – compiled by the World Bank. There are several key factors associated with effective SBRs including an organized private sector vis-à-vis the public sector, an organized public sector vis-à-vis the private sector, an institutionalized mechanism of SBR, and absence of harmful collusive behaviour. We focus on the effect of an organized private sector and firm lobbying on firm performance.

Using estimates of productivity that account for endogeneity problems in the production function, our results support the view that membership of a business association improves firm productivity. This finding is robust to including other variables that are commonly used to describe the investment climate and institutions. On average, membership of a business association increases a firm's productivity in the range of 25 to 35 percent. We also find that of the various services provided by a business association to its members, providing information on government regulations and lobbying government are the most useful for the firms and significantly enhance firm productivity.

Interestingly, we find that joining a business association is useful for both small and medium, and large sized firms in a sample of SSA firms. The positive impact of membership for the small and medium firms suggests that these firms may do well to join business associations as they lack other means for effective lobbying. Organized associations provide these firms a platform to pool resources, build a more coherent and consistent case, and exercise a greater impact on the government. The positive effect of membership for large firms contradicts the view that large firms do not gain from joining associations and hence prefer to lobby government directly. There are likely to be different effects from different types of business associations, which should be studied further.

We also find that, on average, membership of business associations increases average returns to workers by 14 percent and labour productivity by about 24 percent in the pooled sample but the magnitude and significance of the effect varies across countries. While membership increases labour productivity so that positive productivity effects are in part captured by labour; most of these benefits are going to the skilled workers providing positive dynamic incentives throughout the economy.

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APPENDIX A

Table A1: Description of variables

Variables	Abbreviation	Units	Question Code
Total value added ¹	Value added	In 000 LCU ⁴	C274a1y-c274d1y-c274e1y
Number of workers ²	Labour	Number	C262a1y
Capital ³	Capital	In '000	C281a1Y
Energy	Energy	In 000 LCU	C74e1y
Material	Material	In 000 LCU	C274d1y
Sector	Ind	Dummy variable	Industry
Location	Loc	Dummy variable	Country
Age of firm	Age	Years	Surveyyear-c201
Foreign Ownership	Foreign	Percentage	C203b
State Ownership	State	Percentage	C203c
Ownership	Ownership	Dummy variable	Ownership
Sales exported directly	Export	Percentage	C211a2
Number of premises	Premises	Number	C206a
Number of competitors	Competitors	Number	C216a+c216a2+c216a3
Export custom clearance	Exportclearance	Days	C236b1
Import clearance	Importclearance	Days	C236b1
Capacity utilization	Capacityutiliz	Percentage	C250a
Workers with at least a secondary Education	Edusecondary	Percentage	C270b+c270c+c270dti
Losses due to power outages	Powerlosses	Percentage	C219a3
Telephone unavailable	Teleunavailable	Days	C219c1
Internet access	Internet	Yes = 1, No = 0	C224a
Corruption Percentage of informal payments	Corruption Infpay	Dummy variable Percentage	C218o C239
Economic and regulatory policy uncertainty	Uncertainty	Scale 0 to 4	C218m
Member of a business association or CoC	Member	Yes = 1, No = 0	C225a
Firm lobbying	Lobby	Yes = 1, No = 0	C244a
Time required in dealing with regulations	Regtime	Percentage	C238
Services of Govt. institutions	Govtservices	Scale 0 to 6	C234
Days spent in Govt. inspections	Inspections	Days	C242a7

Notes: 1) Total value added=total market value of production-total material costs-total energy costs; 2) Number of workers includes permanent workers; 3) Capital is the gross value of plant, property and equipment; 4) LCU=local currency units.

Table A2: Estimation results for the production function

	Benin	Ethiopia	Madagascar	Malawi	Mauritius	South Africa	Zambia
Log(Labour)	0.44***	0.30**	0.44***	0.17**	0.06	0.29***	0.25***
Log(Capital)	0.67***	0.23	0.59***	0.47**	0.15	0.05	0.47***
Observations	213	392	235	254	127	1110	357
Wald chi-2	0.28	4.29**	3.63*	3.02*	2.62	100.52***	12.63***

Notes: Dependent variable in all specifications is log of total valueadded; *, **, *** indicate significance at 10%, 5% and 1% levels respectively, labour is defined as number of permanent employees and capital is the gross value of plant, property and equipment; estimation is conducted using the Levinsohn-Petrin technique.

Table A3: Estimation results for SBR and average returns to different sectors in SSA

	Member	Observations
Agroindustry	0.627**	116
Beverages	-0.489	20
Chemicals and pharmaceuticals	0.165	114
Food	0.096	218
Garments	0.144	80
Leather	1.739**	37
Metals and machinery	0.163	207
Mining and quarrying	0.393	20
Non-metallic and plastic materials	-0.575	80
Other manufacturing	-0.028	137
Paper	-0.306	44
Textiles	0.026	116
Wood and furniture	0.274**	388

Notes: : Dependent variable is computed as (total compensation to all permanent workers/number of permanent workers); other variables included in the estimated equations are age, size, foreign, state, export, uncertainty, regtime, and country dummies; ** indicates significance at 5% level.

NOTES

1. This section is based on discussions in Qureshi and Te Velde (2007).
2. Hartman (1972), however, argues that if expected profits are a convex function of future output prices, then higher uncertainty will have a positive effect on investment.
3. See, for example, Hisahiro, K. (2005).
4. Enterprise surveys were conducted in different years in these countries. The available data is for 2004 for Benin, 2002 for Ethiopia, 2005 for Madagascar, 2005 for Malawi, 2005 for Mauritius, 2003 for South Africa and 2002 for Zambia.
5. See Te Velde (2006) for a detailed discussion on SBRs in SSA countries.
6. See, for example, Marschak and Andrews (1944).
7. Levinsohn and Petrin (2003) use intermediate inputs, such as material inputs, as a proxy instead of investment. This is because most datasets contain significantly less zero-observations in materials than in firm-level investment.
8. Olley and Pakes (1996) employ a fourth-order polynomial in I and K to approximate $\phi(\cdot)$, estimating (2) using OLS, with output regressed on labour and the polynomial terms.
9. Data for this variable is available only for Benin, Mauritius, South Africa and Zambia. Hence, we do not include this variable in all estimated equations.
10. Information on the value of different services provided by business associations to firms is available for only three countries, Ethiopia, South Africa and Zambia.
11. See Scherer et al. (1975) for a detailed discussion on multi-plant economies.
12. We measure corruption by: 1) the percentage of total annual revenues that the firm spent in making informal payments, and 2) by constructing a dummy variable on the basis of the survey question if the firm viewed corruption as a problem for its production and growth (respondents answered on a scale from no problem=0 to highly problematic=4). Following McArthur and Teal (2002), we interpret this question as asking whether the firm typically faced corruption in its operations and construct a binary variable from the answers. The responses of 0 and 1 are interpreted as indicating that the firm never or seldom faced corruption and given a value of zero whereas 2, 3, and 4 are treated as firm faced corruption and assigned a value of one.
13. Estimated results for the production function are presented in the Appendix.
14. This maybe because the proxy for uncertainty is a subjective variable based on firms' perceptions.
15. Te Velde (2006) constructs a composite SBR measure for each country by assigning values between 0 and 1 for the organization of private sector and public sectors, institutionalization of SBRs, and the presence of anti-collusive behaviour, and averaging these values.
16. The perceived effectiveness of the services is measured on a scale of 0 to 4 where 0=no value, 1=minor value, 2=moderate value, 3=major value, 4=critical value
17. In addition, we estimate the effect of SBRs on average returns to workers across different types of industries (results reported in the Appendix). The results show that, on average, the effect of SBRs is most pronounced in the agroindustry, leather, and, wood and furniture sectors.

THE POLITICS OF STATE-BUSINESS RELATIONSHIPS IN MALAWI^A

HENRY CHINGAIPE^B

AND

ADRIAN LEFTWICH^C

JUNE 2007

‘The place to look for the obstacles to economic growth are the institutions that protect narrow elites at the expense of broad access to opportunities for economic advancement and effective protection of property rights’ (Hoff, 2003:220)

‘In very few African countries have business interest groups become part of the solution to the economic crisis that plagues the continent’ (Bräutigam, Rakner and Taylor, 2002:543)

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ABSTRACT

Adopting an historical institutionalist approach, we show that the politics of state-business relations (SBRs) in Malawi have been shaped by three historical factors, namely (a) the low level of capitalist development in the country; (b) the dominant influence of the Malawian state and political regime under Dr Banda for the first 30 years of independence; and (c) the manner in which informal institutions of generalized reciprocity, deeply and authentically embedded in Malawian culture and values, have contributed to blurring the distinction between the public and the private. Historically, the post-independence state exercised excessive influence through regulations and restrictions and dominated the business sector itself through statutory corporations and their subsidiaries. The private sector has been viewed by the state with suspicion and mistrust while the private sector has regarded the state as a source of patronage and opportunity. Close links and personal traffic between the elite of the main business association, the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), and political office have entailed collusive relations which do not necessarily represent the interests of the many and predominantly small and micro businesses. Neither state nor business have yet developed the levels of relative autonomy *vis a vis* each other which might form the basis for effective and synergetic SBRs. With the exception of the recent privatization programme, efforts to strengthen the private sector have, till recently, gone through cycles of what appear to be superficial policy fashions. Despite rhetoric to the contrary, the net effect is that political processes continue to shape institutional patterns of SBRs in Malawi which are characterized by a continuing dependence of the main business association on the state and by reluctance on the part of the state to allow or encourage autonomous capitalist development. This suggests that the influence of historical patterns and informal institutions has been strong, and remains so, though there have been recent indications that efforts are being made to do this 'de-politicize' the MCCCI. From a policy point of view, encouragement, support and the provision of opportunities and incentives for business associations to recognise the benefits of autonomy need to be considered. Likewise, providing opportunities for state leadership to recognise the benefits that can flow from building a synergetic relationship with business needs consideration. In short, *investing in processes* which help to encourage and institutionalize autonomies and synergies on both sides is the way forward if SBRs in Malawi are to shift more quickly and effectively from their path-dependent trends of the past, typified by state-

domination, elements of collusion and opportunism and pervasive mistrust.

SUMMARY AND ARGUMENT

There is now widespread agreement that sustained economic growth is a necessary though not sufficient condition for poverty reduction (International Poverty Centre, March, 2007), and it is also now generally accepted that outside certain very unusual circumstances (those of revolutionary transformation of the kind that occurred in China after 1949 and Cuba after 1960, for instance) sustained poverty-reducing growth is most likely to be achieved by an effective 'synergy between state action and market functioning' (Lange and Rueschemeyer, 2005: 240). In short, the dominant discourse about 'development' today refers to 'capitalist' development. However, the synergy of state and market that is held to be its core can take many forms, depending on the degree of shared ideologies and goals, the structural character of both state and business organizations and the institutional arrangements which mediate those relationships. For instance, where the private sector is small, weak or disorganized, as it was in Thailand until the 1960s (Laathamatas, 1994) the state may dominate and set both the pace and the agenda; or – as the private sector prospers and its organizations become stronger as happened in Thailand after the 1980s, and likewise in South Korea (Moon, 1994) – the relationship may take a different and perhaps more balanced form as business organizations seek and develop more independence, or achieve state capture. However, if growth is to be achieved and sustained, the relationship between state and market will be best expressed in positive and complementary terms rather than in hostile or collusive ones. In short, development will prosper where state-business relationships encourage the productive deployment of capital which allows both businesses and the wider community to benefit (Harriss, 2006).

However, achieving sustained and poverty-reducing 'development' through such relationships is fundamentally a matter of solving a series of very complex and multi-layered collective action problems, involving the interaction of different groups and interests in often distinct but overlapping spheres and levels of activity – and the more urgent and pressing the developmental agenda and timetable (as is certainly true in the case of Malawi, given the levels of poverty), the more difficult is the solution to the collective action problem (at least in formally democratic polities). Different sectors and different kinds of business interest will often have distinct goals and objectives

(as may different sections of labour and the citizens more widely). In the business field, there may be cleavages of interests between sectors, regions and businesses of different size and orientation (for instance agri-business, manufacturing, importing and exporting) and such cleavages may also overlap with ownership of business or positions of dominance in sectors of the economy. In plural societies, some ethnic groups may dominate the economy or be perceived to do so. Likewise, different interests – both political and bureaucratic – within the formal structure of the state institutions might pull in different directions and, especially where governments are based on formal or informal coalitions of parties or interests, this problem may be amplified. There may be times, especially in presidential systems, when legislatures and executives are locked in conflict. Coherent, consistent and continuous relations of positive 'synergy' are not easy to establish.

Under such circumstances, ensuring collective action – that is, vertical and horizontal co-operation across a range of interests and spheres for the mutual benefit of all – is never going to be easy (Shepsle, 2006: 28). But the solution, if there be one, will be an institutional one. That is, what will be required will be a set of nested and complementary institutional arrangements – rules which help to organize and promote the on-going relationships and activities of different groups and interests – so that they serve the objective of collective action which, in this context, is that of attaining sustained and inclusive poverty-reducing growth. For instance, Besley, Burgess and Esteve-Volart (2007:19) suggest that pro-poor growth in India depends on effective voice and accountability, appropriate labour legislation, access to finance, the development of physical and human capital, land reform and the reduction of gender inequality. Following Schneider and Maxfield (1997) and building on Harriss (2006), Dirk Willem te Velde (2007:6) suggests that 'good' SBRs are based on 'benign collaboration' between business and the state and are best characterized by a good two-way flow of relevant information; reciprocity between state and business; state credibility in the eyes of capitalists and norms of generalised trust.

We agree; but how are such policies and institutional relationships established and implemented? They cannot simply be had to order. The patterns and outcomes vary widely from country to country and in each case have been profoundly affected by historical legacies and continuities which are never easy to shift. Moreover, as illustrated in the case of India, patterns vary across its states. Indeed, as with all institutional arrangements, SBRs are unlikely to be successful or sustained if imposed from without on reluctant actors. Establishing 'good' state-business relationships – and hence the institutional arrangements which organize their interaction – is

just one such collective action problem in a set of developmentally-related collective action problems, as is the problem of their maintenance and change.

We shall argue that the process of resolving these problems needs to be understood as a political process and, in particular, institutions framing state-business relations need to be understood as the outcome of complex and changing political processes both between and within the state and the business sectors.

We explore these issues in this study of the politics of state-business relations in Malawi and suggest that an analysis of SBRs in Malawi is as much about the *formation* and evolution (Thelen, 2003) of the institutions for organizing these relationships as it is about the nature of their past and present interaction. Our central thesis is that although efforts are being made currently to regularize, stabilize and improve SBRs in Malawi, they have generally been characterized by (a) shifting goals and politico-economic philosophies and policies on the state side; (b) by radical discontinuity and a generalized lack of a robust, shared and committed developmental vision and strategy; (c) by mutual mistrust and suspicion over time; (d) by the non-consolidation and lack of continuity of appropriate institutions and structures on both sides; and (e) by division and dissension within both the state and the private sectors. Underpinning this, as we shall suggest, has been a legacy in the political culture – the informal institutions which are of profound importance in shaping behaviour – from the Banda era which has made effective change and effective SBRs difficult to manage. Moreover, and crucially, the fact that many officials and agents of ‘the state’ in Malawi – at all levels – are themselves engaged in ‘business’ (Anders, 2005) makes it difficult to assume a clear and functional differentiation between ‘state’ and ‘business’ sectors, and the personnel within them. All this occurs in the context of one of the poorest countries in Africa (with a GDP per capita of \$150, pervasive poverty and deep inequality), whose post-independence political history has traversed a terrain from authoritarian rule to democratisation in the course of a generation, and where development assistance remains a very significant component (17%) of state expenditure – which must affect patterns of accountability by the state.

This paper is divided into four sections: we provide a brief background to Malawi, given the methodological context of historical institutionalism¹ in political science, in terms of which we approach this subject here (Harriss, 2006; Sanders, 2006), the legacies of the Banda decades are of the greatest importance. The institutional arrangements, structural characteristics, ideas and predispositions established and consolidated in that era have embedded resilient legacies and patterns in state and business which continue

to influence how people behave and, in this context, how SBRs operate. Hence any analysis of the characteristics, problems and potentials for state-business relations which evacuates itself from this historical context will not help us to explain much.

Section A explores some of the historical, theoretical and comparative issues relating to the study of SBRs in general. We discuss why SBRs are important in enhancing developmental trajectories, the different ways in which scholars have approached the study of SBRs, the institutional approach to SBRs, and the factors which appear to shape or limit the evolution of effective SBRs (on both sides: that is in relation to both the state and also business). Throughout, we argue that the processes whereby these relations are negotiated, established and maintained are primarily political and, despite many efforts, are not easy to change.

In Section B, we turn to explore these issues in relation to the history, structure and practice of SBRs in Malawi. Dealing firstly with the history of, and ideologies around, state-business relations since independence, through the leaderships of Dr Banda, Dr Muluzi and currently Dr Bingu Mutharika. The significance of historical legacies and how they influence and impact upon present behaviours is central to our approach, and helps to illustrate some aspects of the notion of 'path dependency' developed by scholars working in the tradition of historical institutionalism (Pierson, 2000 and 2004). We then go on, secondly, to map the state-side institutions involved in SBRs, followed by an account of the structure of private sector institutional sets and organizations. We then look at where, how and with what effect state and business institutions and organizations interact and the historical instability of these interactions.

Finally, in Section C, we return to the theoretical and comparative issues in the light of the Malawian material to explore how such evidence from Malawi illustrates and enriches wider understandings of SBRs in Africa – and beyond. We hope that this work will complement the work of our colleagues (Dirk Willem de Velde and Kunal Sen) who have been measuring SBRs in Africa and Asia, and we indicate some items for an agenda for future research and for practical action by donors.

1. MALAWI: THE BACKGROUND²

1.1 Physical and demographic features

Malawi is a landlocked country in South-east Africa, bordering Tanzania, Mozambique and Zambia. It has a population of approximately 12 million (2007), which is considerably more than double what it was in 1975 (5.2 million) with a projected population

growth rate of 2.3%. Population density is one of the highest in sub-Saharan Africa, approximately 110 per sq. km. Given past trends and a total fertility rate of 6.1, the population might double again in the next 25 years, despite a ravaging HIV prevalence rate of nearly 15% (within the 15–49 age group). Approximately 17% of the population is urban and this is expected to rise to 22% by 2015. There is a considerable 'youth bulge' with some 47% of the population under the age of 15 and only 3% over the age of 65. Life expectancy is now estimated at 37, and male adult literacy stands at 76% and female adult literacy at 50%. Unemployment, especially youth unemployment, is high. At the end of the Banda era (1994) some 145,000 job-seekers came on to the labour market annually while only 15,000–35,000 job openings were available and in 2,000 some 200,000 young school-leavers were still chasing only about 30,000 jobs. Less than 10% of the workforce has formal employment and, of these, 21% are employed in the public sector (Cammack, 2001:60, 18). The main ethnic groups are Chewa, Nyanja, Tumbuka, Yao, Lomwe, Sena, Tonga, Ngoni, Ngonde, Asian and European. About 75% of the population is Christian and 20% Muslim. It is composed of three broad and politically salient regions: North (11% of population), Central (39 % of population) and Southern (50% of population). Until 2004, each of the three main parties have been associated with one of the regions: the Malawi Congress Party, the MCP, with the Central Region; the Alliance for Democracy, AFORD, with the Northern Region; and the United Democratic Front (UDF), with the Southern region. However since 2004 there has been greater fluidity within and between the parties and defections across the legislative floor such that this close identification with region has been weakened as party and hence regional loyalties have shifted.

1.2 Economic and social features

The current GDP of Malawi is \$1.8 billion while GDP per capita is currently about \$150 (\$646 in PPP terms). Though there is some debate about the accuracy of the data (Harrigan, 2001: 18–22), growth was respectable in the early years after independence (at an annual average about 5.5% between 1965 and 1977, though this is contested). This has fallen sharply over the years, to an average of 3% in 1996–2005, but the main characteristic of growth rates has been their volatility over the last 40 years, for instance sometimes swooping up to 10% p.a. and then dropping to -10% in other years, as Malawi has so often been battered by external and internal shocks – oil price hikes, interest rates, fluctuating tobacco prices, droughts, the war in neighbouring Mozambique and an influx

of refugees amongst other things. In 2000–2002 growth plummeted to -4.1%, but rose again to 4.4% in 2003, falling to 1.9% in 2005 due to another drought. The average annual growth rate since 2000 has been 0.7 and GDP per capita has fallen. UNDP figures suggest an annual average growth rate of GDP per capita of -0.4 between 1975 and 2004 and of just 0.9% between 1990 and 2004.

Agriculture (mainly rain-fed) contributes 40% of GDP and 75% of this comes from small-holders who are mainly engaged in tobacco and maize production. The remaining 25% of the sector consists of commercial estates, producing tobacco (mainly), sugar, and tea. The manufacturing sector (mainly agro-processing) is small – currently about 11% of GDP – and only 14% of its output is exported, while tobacco makes up 55–60% of Malawian exports. One account suggests a zero annual average rate of growth in the manufacturing sector since 1996. Fixed capital formation (which averaged 12.6% annually for the decade 1994–2004) is considerably below the average for sub-Saharan Africa. Savings are meagre.

The exchange rate between the Malawi Kwacha (MK) and other currencies has plummeted since being allowed to float in 1994 from 20 MK to the US dollar to 120 MK to the dollar in 2005. Aid has averaged 17% of GDP for the past 10 years (with a low of 10% in FY 2001/2 and a high of 25% in FY 2005/60). Interest rates are much higher in Malawi than in the rest of Southern Africa (excluding Angola) having peaked at 45% in 2002, but lowering to 36% in 2004 and 25% in 2007.

Of considerable relevance for issues to do with SBRs, the private sector is characterized by a small number of large oligopolistic companies (tea, tobacco marketing, sugar, cement and consumer products) and very considerable number of micro and small 'businesses', primarily rural and geared to the production of additional household income for 25% of Malawian households. Recent surveys (Ebony, 2001; RPED, 2006) found that there were some 747,000 'small' enterprises in Malawi (employing up to 50 people), but over 90% of these employed between 0–4 people of whom 44% were owner-employees, hence self-employed, and another 30% employed 2 people. About 80% of these 'businesses' are 'stagnant' and serve primarily to provide much-needed additional household income (60% of income in rural areas and 45% in urban areas). Some 80% were rural, accounting for 38% of the total labour force in Malawi, of whom 42% are women, and together contributed about 15% of GDP. About 22% of the labour in this sector is engaged in off-farm work.

Malawi ranks 166 out of 177 on the Human Development Index. Some 65% of the population is below the national poverty line (41% on less than \$1 per day and 76% on less than \$2 per day). Malawi

ranks as one of the most unequal societies in Africa – and beyond – with a *Gini* index of 50.3, and with the richest 10% accounting for 42% of income/expenditure and the poorest 10% accounting for 1.9%. It ranks 105 out of 163 on the Corruption Perception Index (Transparency International, 2006). By comparison with many other African countries, Malawi ranks relatively well in terms of 'doing business' – it is thirteenth out of 45 in terms of 'ease of doing business', and ninth out of 45 in terms of ease of starting a business (World Bank, 2007a). Despite this there is a Private Sector Reform Programme, within Ministry of Industry, Trade and private Sector Development (MITPSD). The Malawi Investment Climate Assessment of 2006 found that the major obstacles to the growth and running of businesses in Malawi included macro-economic instability, access to and cost of financing, electricity supply uncertainty, transport, corruption and access to land (RPED, 2006:13).

1.3 Governance and politics

With respect to its governance and politics, Malawi (as Nyasaland) came under British rule in 1891 as British Central Africa and then as a Protectorate until it was absorbed into the Central African Federation (CAF) between 1953 and 1963 when the CAF was dissolved. It became independent in 1964 under the leadership of Dr Hastings Kamuzu Banda and his Malawi Congress Party. In 1966 it became a Republic and a one-party state with Dr Banda as its first President (and later, in 1971, as President for Life). Through the MCP and its paramilitary youth wing, The Malawi Young Pioneers (MYP), Dr Banda and a small group – some suggest a *de facto* 'triumvirate' – ruled Malawi for almost 30 years with what has been described as both dictatorial and eccentric rule, corresponding closely to Weber's concept of strongman, 'personal rule' or 'sultanism' – an extreme form of patrimonial rule in Weber's classification (Weber, 1964:347), combining effectively in Banda's case both the executive and ceremonial headship of state, party leadership, commander-in-chief of the military and cultural leadership of the nation (Sandbrook, 1985:324). The legislature, judiciary and party were all subjected to the executive dominance of the President. An expanded civil service was created which increasingly operated under a 'culture of fear' and silence (Anders, 2005:43), with officials in constant fear of being arrested as 'confusionists' or 'separatists' (ibid:203). Corruption was thought (and now is often said) to have been limited across the civil service in general but, put another way, was intensive but confined to Dr Banda and his close associates (Cammack, 2001:19).

As has not been uncommon elsewhere in Africa, this concentration of political power in and around Dr Banda has strongly influenced class formation; Moreover, and contrary to the pattern in Europe, as a number of scholars have shown over the years, political power has given rise to economic power: in Africa, 'class relations, at bottom, are determined by relations of power, not production' (Sklar, 1979:537; Shivji, 1976). At the heart of this concentration of political and economic power – the core of the Malawian political economy – was the Press Holdings Corporation, controlled by the President, which held many manufacturing, service and retail monopolies through a web of subsidiaries, plus majority shareholding in two of the country's commercial banks. Two parastatals, ADMARC (Agricultural, Development and Marketing Corporation) and the MDC (Malawi Development Corporation) also held shares in the banks, and 'All three organizations were intertwined through interlocking directorates in which final authority and control resided in Dr Banda through Press Holdings' dominance' (Mhone, 1987, cited in Harrigan, 2002:35). The economic and financial influence and power of Press – which at one point effectively controlled 50% of the Malawian economy – enabled the President to reward loyal politicians, bureaucrats and other followers not only with jobs but also estates (mainly tobacco) and with easy access to bank loans for their development (Harrigan, 2002:35). It thus became difficult to differentiate the public from the private sector. As one USAID official observed: 'Malawi's private sector is alive, doing well and owned by the government' (cited in Harrigan, 2002:38).

A number of consequences of this particular political economy for the analysis of contemporary SBRs are worth noting.

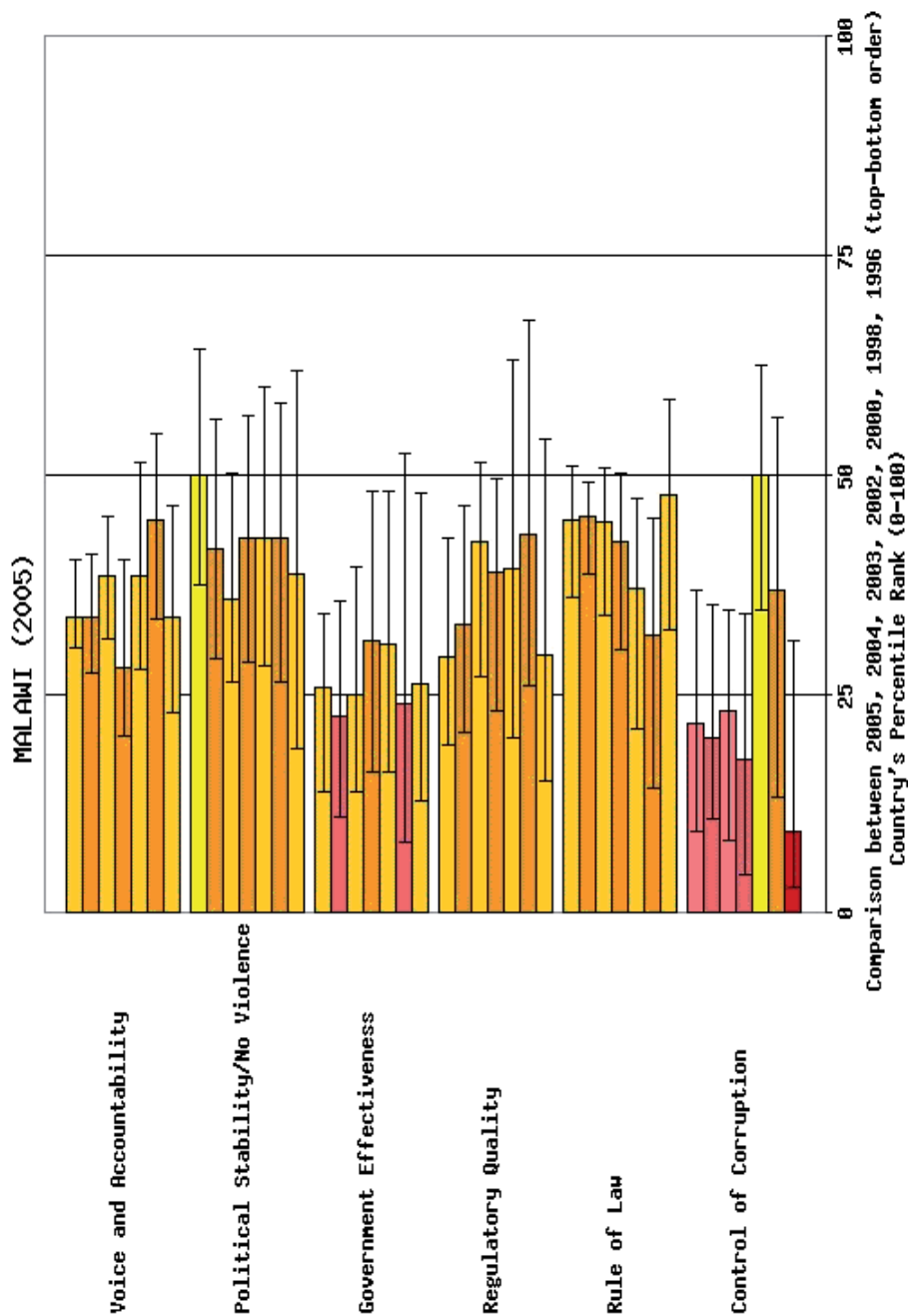
- First, the blurring of the public-private distinction in the daily practice of this authoritarian patrimonialism clearly weakened not only the idea but the reality of the state as a relatively autonomous set of public institutions, independent of both its political incumbents at any given time and also its citizens. The interlocking incumbency of public and political office with private economic ownership, through Press and beyond, created an almost seamless web of politico-economic ownership and control, in which there was a 'systematic failure to distinguish between private sector resources, state resources and the resources of the ruling party' (Booth, et al, 2006:10; Anders, 2005:204). This has left a legacy in the political and ideological culture of Malawi which has had an enduring effect. It has also compromised the integrity and respect of the public service, and hollowed out its capacity to perform effectively, to promote the provision of public goods and contribute to developmental velocity.
- Second, it created, also, a culture of dependency in the barely differentiated private sector in which successful entrepreneurialism

came to be identified with successful patronage, protection and collusion with the political regime rather than autonomy and enterprise and this became strongly associated with official – and perhaps even wider – public hostility to that part of the private sector which was beyond the network of interlocking public-private-political collusion. Nothing illustrates this better than the report by the Chairman of the Lilongwe Branch of the Chamber of Commerce and Industry of Malawi (CCIM, now the Malawi Confederated Chambers of Commerce and Industry, MCCCCI) that the Chamber had been asked by the Regional Minister for the Central Region to contribute funds towards the cost of the 1977 Malawi Congress party Convention which was to be held in Lilongwe. The business sector was asked by the CCIM to donate funds and a 'generous response' had been received, following which the Branch Executive enjoyed an audience with the Life President who expressed his appreciation (CCIM, 1978:5).

- Third, Dr Banda's emphasis on the promotion of semi-state-led export-oriented estate agriculture plus state and political support for a few large companies, to the benefit of a small elite, has been at the cost of small-holder agriculture (where the bulk of Malawians live and work) and the encouragement of small businesses. The pervasive and enduring poverty of rural Malawi, and the sharp inequalities between this small elite and the mass today, is thus in no small way attributable to the 30-year hegemony of Banda's political economy.

- Finally, from a theoretical point of view, historical institutionalists argue that 'Institutions are seen as relatively persistent features of the historical landscape and one of the central factors pushing historical development along a set of 'paths'' (Hall, 1996:941). Entirely consistent with this observation, many of the features of the thirty year Banda era, in terms of ideology, habits of working and 'standard operating procedures, regulations and routines' (Hall, 1992:97), created an institutional legacy which has been hard to change and which influenced political and SBR relations, even after democratisation, partly through the continuity of practices and partly through the continuity of the outlooks, preferences and interests of the often interlocking personnel involved at all levels.

From the early 1990s a combination of external and internal pressure led to a referendum in 1993 about the ending of single-party rule. Some 63% of the voters opted for multi-party rule. This resulted in constitutional changes, the emergence of new political parties and defeat for Banda and the MCP in May 1994 when the United Democratic Front Presidential candidate, Muluzi, won, also taking 85 (out of 177) seats in the National Assembly, with 56 seats going to the MCP and 36 to AFORD. Muluzi governed



for two terms from 1994 to the 2004 election – an era which became associated with ‘progressive decline in the quality of fiscal management, increasing corruption and generally declining standards of public management’ (DFID, 2006:3). Unsuccessful in gaining a constitutional change which would enable him to run for a third term, Muluzi was succeeded by his close associate, Bingu wa Mutharika, who won the 2004 election on the UDF ticket. Mutharika was regarded as a ‘political novice’ but was also considered to have had a good record and reputation as an economist having served as secretary-general for COMESA and Deputy Governor of the Central Bank before becoming the Minister for Economic Planning and Development in the Muluzi government. The next election is due in 2009.

The current (1995) Malawian Constitution is widely held to be amongst the most liberal in the world. It provides for a single chamber legislature³ and a strong executive President who appoints the Ministers, who need not be members of the Assembly. Indeed, almost half of Muluzi’s first cabinet were not MPs, but by 2004 only 5 of the 30 ministers – the number had increased over the 10 years – were not MPs (Patel and Tostensen, 2006:8). It is a political system which ‘assigns parliament to a secondary role’ (ibid:1). This *formal* institutional arrangement for the distribution and use of power is buttressed by the *informal* institutions of patronage which enhance presidential power in Malawi and which are deeply ‘embedded in its historical and social roots’ (DFID, 2006:3). Presidential patronage has been effective and undiminished since democratization in 1994, even when the opposition has a majority in the assembly, in ‘buying off parliamentarians’ (Booth et al. [2006:7], Anders [2005], Cammack [2001], Patel and Tostensen [2006]). Nothing illustrates this better than a study of the Malawian budget process which, despite formal procedures at each stage – formulation, implementation and evaluation/oversight – has been described as ‘... a theatre that masks the real distribution and spending’ because decisions are influenced by ‘informal practices in a manner that reduces transparency, limits distribution and civil society input’ (Rakner, et al., 2004:4).

In terms of recent formal assessments of Malawi’s polity and governance, the Freedom House report on ‘Freedom in The World, 2007’ (Freedom House, 2006) which evaluates Political Rights and Civil Liberties on a scale from 1 (free) to 7 (unfree) ranks Malawi as ‘partly free’ with a score of 4 for Political Rights and 3 for Civil Liberties. The World Bank’s governance indicators for Malawi are set out in the diagram below (World Bank, 2006a). The percentile scores suggest that for 2005, with respect to the various indicators, Malawi recorded 33% for Voice and Accountability; 50% for Political

Stability – considerably up from 1996; 25% for Government Effectiveness; 29% for Regulatory Quality; 45% for Rule of Law; and 21% for Control of Corruption, again considerably up from 9.3 in 1996.

If one accepts the conventional definition of corruption as the private use of public resources, then the absence of clear boundaries in the use of public and private resources during the Banda Presidency places the regime firmly into the category of 'corrupt', and state-business relations as systemically collusive, even if the practices were confined to a narrow elite and a small number of businesses.⁴ However, over a thirty year period these practices established a pattern of political, bureaucratic and business behaviour which became generalized much more widely when democratization unfolded from 1994 onwards. A number of studies – and especially the 2005 Governance and Corruption Baseline Study commissioned by the GoM (Millennium Consulting Group, 2006) – found overwhelming evidence that the practice had become widespread, leading analysts to observe that corruption, too, had been 'democratized' under the Muluzi presidency between 1994 and 2004 (Cammack, 2001:19), 'starting at the top and reaching down to the lowliest public servant' (Booth, et al, 2006:12). This same phenomenon has been described by Anders (2005:201 ff) as 'the democratization of appropriation', a situation in which senior officials, and politicians of all parties, released from the fear of punishment or discipline, or worse, which characterized the Banda years, 'seized their chance to establish themselves as patrons in their own right and appropriate the resources they controlled' (ibid:204). It spread from top to bottom. Where states are weak, relatively unaccountable as a consequence of patrimonial and patronage politics, this is not uncommon as Ertman has showed for many of the pre-nineteenth century states of Europe (Ertman, 1997) where state resources – from taxation or aid – present 'an inviting target to rent-seeking groups, be they government officials, financiers, the military, local political bosses, or the employees of subsidized state enterprises (Ertman, 1997:321–2).

The Baseline Survey found that 90% of Malawians considered corruption to be a serious problem and 70% believed that it had got worse in the previous decade; though only 33% of public officials believed it was prevalent in government today (84% thought it was prevalent 10 years ago). Other important findings of the Survey were that 60% of citizens believed that it was common to pay 'gratification' to public officials; 34% of businesses who had made sales to the public sector said it is more common to pay gratification than those firms who have not made such sales; on average public officials reckon that gratification represents almost a quarter (23%)

of salaries in their organization; and 17% of contacts with Malawian public services result in requests for gratification. Some 92% of public officials believe that low salaries and the lack of an effective corruption reporting system are important factors in explaining corruption in the public sector. In both business and household responses to the Survey, political parties and members of parliament were seen as having the least integrity. According to the Baseline Survey, the area of public procurement was the one in which the highest proportion of contacts resulted in a request for gratification, followed by Malawi Housing Corporation, Immigration Department, the Traffic Police, the customs authorities and the regular Police. About 40% of officials considered that at least some of the jobs in their organization were obtained through gratification, not merit, a view confirmed by the fact that only 45% of public servants believe that the most qualified person always or usually gets the job in their organizations (Millennium Consulting Group, 2006:6-7).⁵ This provides cause for concern, given the now widely accepted evidence that bureaucratic agencies which are characterized by 'meritocratic' recruitment procedures are more likely to facilitate economic growth (Evans and Rauch, 1999).

It is clear then that, despite efforts by the GoM and, in particular, its Anti-Corruption Bureau, corruption remains a serious problem, even if the perception of it may be higher than the reality, and even if there is some evidence of a decline in its incidence since about 2004. However, there are other aspects of the problem that deserve mention here which link to important institutional issues and, especially, to the difficult area of the institutional character of 'political culture' and the way in which 'informal institutions' overlap with, or penetrate, 'formal institutions', thereby influencing the behaviour of those formally within the latter.

We have not been able to establish whether the following data are true more generally, in the comparative analysis of corruption world-wide, but the Malawi Baseline Survey showed that 'gratification is commonly *shared* among public officials', and that individuals receiving such payments share 26.88% with their superiors, 20.96% with their colleagues in the organization or department, and 24.61% with politicians or political parties – the sharing, in total, representing nearly 73% of the gratification (Millennium Consulting Group, 2006:6). If this is true, and if the pervasiveness of everyday corruption is as high as claimed, then it provides evidence in support of a theory about one aspect of African politics generally, and Malawian politics in particular, that has been advanced for many years in an interesting and controversial literature, and which applies with equal force to all primarily agrarian societies, now or in the past, where poverty has been widespread and where

strong or 'infrastructurally' effective states (Mann, 1986) and public institutional arrangements have not yet been fully established (Ekeh [1975], Price [1975], Chabal and Daloz [1999 and 2006], Maranz [2001], Bates [2001], Mbembe [2001], Inglehart and Welzel [2005], Anders [2005]). In Malawi, the obligation to 'share' (*kugawa*) and the moral value of sharing (*kugawana*) within an individual's kinship network, ethnic group and home area is widely recognized in the political anthropological literature, where it is understood as 'generalized reciprocity'. This is true not only for Malawi, but beyond it as well, as Price's study (1975) of the Ghanaian bureaucracy has shown. This has been closely identified with the predominance of what have been called 'survival values' in poor societies in a recent survey of attitudes and values in 81 societies containing 85% of the world's population (Inglehart and Welzel, 2005:5). Whether people grow up in a society with an annual per capita income of \$300 or \$30,000 has more direct impact on their daily lives than whether they grow up in a society that has free elections or not' (ibid:23). Maranz (2001:5) advances a similar line of argument in which he suggests that concern for survival in poor societies where relations of kin predominate leads to people finding 'micro-solutions' to the problems of poverty and adversity. A micro-solution is 'an action that gives a person a tiny, immediate advantage over a competitor in a socially acceptable way'.⁶ Whereas a macro-solution would involve large-scale, impersonal rule-based solutions by establishing overall laws and regulations which would benefit all, This particular moral economy – *kugawana* in Malawi or generalized reciprocity more widely – has served a crucial function in poor societies. For many Malawians the obligations of *kugawana* remain strong; and many of those now working in public services in the urban areas, away from their kin or home, trying to raise families on inadequate salaries, often find that these obligations are hard to meet. And one of the advantages of living away from their kin is that 'distance saves' them (Anders, 2005) from immediate and constant demands, for which they are quietly grateful.

There are immense problems in exploring the way in which norms, values and political culture affect political and economic behaviour. But the observations above suggest a link with our concern with the relationship between informal and formal institutions that may help to explain why, in Malawi and elsewhere, at least *some* forms of everyday corruption need to be interpreted with care. For what appears to be happening is that the informal rules of generalized reciprocity – drawing deep on indigenous values, norms and cultures, that is constituting a 'parallel social and moral order' to the formal order (Anders, 2005: 205) – are imported into formal bureaucratic settings and are there extended from traditional kin and family

obligations to new networks of, and obligations to, 'official kin', that is colleagues in 'the office', on the implicit understanding that established patterns of reciprocity will benefit all. Though not all corruption takes this form – some simply represents naked greed – the example and the data from the Survey together illustrate graphically the way in which moral institutions impact on political, economic and bureaucratic behaviour.

We have set out this background detail on Malawi because we hold that an understanding of the problems and prospects of SBRs in any country requires an understanding of the historical context and its legacies which shape prevailing economic, political and social institutional practices. SBRs do not occur in a vacuum; they do not stand outside history. They are deeply implicated in, and both reflect and influence, the political, moral and institutional cultures in which they operate.

SECTION A

THEORY AND APPROACHES

1. Conceptualizing State-Business Relationships

An interesting literature has emerged on SBRs in relation to the developing world generally in the last twenty-five years (see, for instance, Donor [1992], MacIntyre [1994], Evans [1995], Maxfield and Schneider [1997], Becker [1990], Hart [2001], Hawes [1993], Lucas [1997], and Moore and Hamalalai [1993]), with a scattering of pieces on Africa in particular (see for instance Heilbrun [1997], Heilman and Lucas [1997], Bräutigam et al [2002], and Kraus [2002]). However, interest in this relationship is not new. Arguably, however, it has been the core concern of most social science since modern interest in the politics of development emerged at the end of the eighteenth century: as Lindblom has put it: 'certain questions about governmental-market relations are at the core of both political science and economics, no less for planned systems than for market systems' (Lindblom, 1977:9). Going back a lot further, Adam Smith's concern for the wealth of nations is in part a theory of how state and business relations are best organized to promote economic growth; as he saw it, the 'exactions' of government and the 'impertinence and presumption... in kings and ministers to watch over the economy of private people' and to interfere in their affairs could only result in ruin (Smith, 1776/1977:446). For Marx, by contrast, the nature of this relationship was defined by the inevitable capture of the state by the dominant class, a defining feature of capitalist development, and resulted in the 'executive of the state' being little less than a

'committee' for managing the affairs of the bourgeoisie (Marx and Engels, 1848). In Malawi, however it is less the capture of the state by the private sector than the capture of the private sector by the state that defined its peculiar characteristics under Dr Banda – and beyond.

Later writers – such as Joseph Schumpeter (1944), Adam Przeworski (1985), Robert Bates (2001) and Peter Evans (1995) have all been concerned not only with the broad context of the relations between politics and economics, and polity and economy, but also with how the relations between specific institutional and organizational features of government and business are best organized for the purposes of growth and development. Indeed, the driving force of the East Asian (capitalist) developmental state was constituted by a particular set of (changing) state-business relations which were neither predatory nor collusive (Evans, 1995; Moon, 1994). As Chalmers Johnson has put it: 'The logic of such a system derives from the *interaction* of two sub-systems, one public and geared to developmental goals and the other private and geared to profit maximization' (Johnson, 1987:141–2).

Most recently, the World Bank's recognition of the dangers of 'state capture' by private economic interests – and hence pervasive collusion between states and businesses in the making of rules and the allocation of resources and opportunities – suggests that on left, right and centre of the analytical spectrum there is a clear recognition that state-business relations are at the centre of how contemporary societies might prosper or stagnate, and are certainly at the core of how, whether and where growth can assist in the reduction of poverty. So our approach here is to locate the study of the politics of SBRs in Malawi, very clearly in that long tradition.

There is no standard way of approaching the study of SBRs. And in the recent literature the way in which the study of SBRs has been conceptualised has varied widely.

- For some, and certainly part of a much longer tradition, the study of SBRs is in part the study of capitalist development and, in particular, the study of the formation of capitalist classes and their organizational expression (Becker [1990], Hawes and Liu [1993], Leys [1994], Heilman and Lucas [1997], and Kraus [2002]).

- For others, understanding and promoting effective SBRs is thought of as a question of democratic governance and democratisation (Hart, 2001). Economic fora and other consultative or co-operative arrangements, represent the formal or informal bringing together of actors from government and business and can hence play an important part in consolidating democratisation, through the 'pluralization of the institutional environment' (Lucas, 1997:71).

- Others (Moore and Hamalai, 1993, for instance), while noting the contribution SBRs may make to healthy civil society and hence democratic politics, also caution that on-going competition and conflict between Business Associations (BAs) in the context of a 'pervasive organizational surplus' of such associations may be expensive and unproductive – because fragmenting and hence widening the collective action problem – in terms of promoting effective cooperation and coordination with the state for the purposes of promoting development.

- More concretely, the whole new field of Public Private Partnership (in Malawi and elsewhere) addresses issues to do with the extent to which private enterprises might be involved, on their own or in cooperation with the state, in the provision or delivery of public services, in part as a response to state failure. Examples of this are investment in infrastructure, research and development and sales promotion in Thailand; collecting statistics and road maintenance in Kenya; building technical schools, raising police forces and providing loans in Nigeria (Lucas, 1997).⁷

- Some scholars have looked at BAs as examples of 'bourgeois social movements' (Becker, 1990) or 'social movements for African capitalism' (Heilman and Lucas, 1997), treating the organizations of business (the 'anti-statist' ideologies and activities of FEDECAMARAS Venezuela, for instance, in the 1980s) as part of a wider social movement aimed at reducing the power and role of the state, and hence having both direct economic and political implications (Becker, 1990).

- Some studies have been concerned with the way in which neo-liberal reforms have affected the balance of state-business relations (Moore and Hamalai [1993], Kleinberg [1999], and Heilbrun [1997]), especially with respect to the power of each, the impact on *de facto* corporatist relationships and whether such reforms have enhanced development processes and poverty reduction, whether they have led to inclusiveness in BAs and how the balance between pluralist and corporatist relations in this sphere have been effected.

- In the past 20 years substantial changes have occurred in the structure of formal politics in many African countries as formal democratization and down-sizing the role of the state in the economy have occurred. How these changes in ideology and policy have impacted upon SBRs is another interesting field of research and the changing fortunes and relations government and business in Ghana in 1983 offers an example of that (Tangri, 1992) where the 'economic boundaries of the state' remained a contested terrain for some time into the reform process.

- All these approaches and angles on SBR offer varying insights into what is the key political issue – how 'growth coalitions' (rather

than distributional coalitions or predatory coalitions) can be built (Mackie [1988], Bräutigam et al [2002], and Hawes and Liu [1993]). Growth coalitions (representing what Evans refers to as the 'embedded autonomy' of the state) are constituted both within and between the private or business sector and the state, expressed in formal (and perhaps informal) institutional terms. Growth coalitions occur when state-business relations 'take the form of active co-operation towards the goal of policies that both parties expect will foster investment and increases in productivity' (Bräutigam et al, 2002:540). As we have argued throughout, these growth coalitions cannot be had to order but are the product of on-going political negotiation and reconstruction as the relative power of each side undergoes (often slow) transformation (Haggard [1994:276], Evans [1997:85]).

- Another, but equally partial, way of approaching SBRs is in institutional terms. But establishing the effective and on-going institutions for SBRs, both formal and informal, depends therefore on the crafting of such growth coalitions which are in turn shaped by the political processes of different countries at different times, as we have indicated thus far for Malawi.

Given all these ways of approach, it is clear that the evolution of effective SBRs represents one of the many nested collective action problems which constitute the central challenges in the politics of development, a point to which we shall return shortly.

2. FACTORS SHAPING SBRs

What does the comparative evidence suggest about the factors which determine the character and quality of SBRs? Before turning to that there are some important qualifications to make.

First, although it has been pointed out (Schneider and Maxfield [1997], te Velde [2006], and Harriss [2006]) that *transparency, reciprocity, credibility and trust* are important if not defining elements of 'good' SBRs, it is also necessary to add that the institutional arrangements which express these qualities may vary very widely. Moreover, it has not always been the case that all these virtues have been present in anything like the same degree in all cases of effective SBRs. Mauritius (Bräutigam et al, 2002), Sweden (Lewin, 1994) and Korea (Chung-In Moon, 1994) may all be said to have had good, or at least effective, SBRs at different points in their recent histories, and still do. Sweden has been the epitome of industrial social-democratic corporatism, which accommodated both business and union interests in the construction of large areas of economic policy. Korea in the period between 1960 and 1980 represented in

almost classic terms the characteristics of a developmental state in which, at first, the state was the dominant partner, guiding, pushing, disciplining and rewarding business behaviour according to a plan developed and pursued by a highly trained and meritocratic 'pilot agency' (Johnson, 1982), and effectively excluding union interests. Credibility and trust may have featured in this relationship, but reciprocity and transparency would have been less apparent. Mauritius has been a paradigm case of social democracy in the tropics, where the political elites in a highly plural society – quite unlike Sweden or Korea – recognised that it needed to reconcile a wide range of economic, ethnic, religious and political interests and factions within a commonly agreed policy framework and constant negotiation, discussion and consensus, if political turmoil was to be avoided and if the poverty which underpinned political instability was to be overcome by inclusive (and especially job-creating) growth (Bowman, 1991).

Second, what seems to be of critical importance in shaping the form which SBRs take is the wider politico-economic purpose they are designed to serve and the ideology of the dominant political forces. In South Korea, the urgent need for rapid economic development was politically driven by the regional geo-political situation it found itself in after the Second World War and the division of the country between north and south. It was this which was fundamental in shaping the goal of building Korea Inc., which underpinned the early phases of SBRs. In Ghana and Tanzania (and Malawi, too, under Banda, as in many post-independence countries in Africa) the immediate post-independence hostility to 'capitalism', the 'market' and entrepreneurs (Tangri, 1992; Heilman and Lucas, 1997) generated state-led strategies, as it did in Indonesia, buttressed by powerful currents of economic nationalism (MacIntyre, 1994b). In Malaysia, the explicit political concern to increase the role of the *bumiputra* in the economy (especially after the catastrophic communal violence in the late 1960s) contributed to the form which SBRs took in that country under the New Economic Policy which favoured the building up of *bumiputra* capital, businesses and opportunities (Bowie, 1994).

Bearing in mind these qualifications, what factors then seem to shape the character and quality of SBRs? We look first at the 'state side' of this relationship.

- As indicated above, the **developmental goals and purposes** of the political elite, or elites, is fundamental. Where internal or external political factors threaten stability, sovereignty or the very survival of the polity, determined growth goals are more likely to be serious (Leftwich, 1995; Donor, Ritchie and Slater, 2005).

- The **character and capacity of the state** – measured in terms of its ‘infrastructural’ power (Mann, 1986) – is of critical importance.⁸ Failed, failing or weak states are unlikely to be able to forge or sustain effective SBRs, and the prospect of an organized and functioning private sector in such states is also rather slim. Predatory states of the Haitian or Zairian forms are unlikely to establish effective SBRs. Current DFID understandings of state ‘capability’ convey precisely the same sense as Mann’s concept of ‘infrastructural power’, where ‘capability’ in the C.A.R. framework of good governance is defined as ‘the ability and authority of leaders, governments and public organizations to get things done; to formulate and implement policies effectively’ (DFID, 2007:9)

- The extent to which the state enjoys **relative autonomy** – that is not captured by, in collusion with or beholden to, certain sectors or interests in economy and society (landowners, local power-holders, major mineral extractors and exporters, the military) will also shape the character of SBRs. The networks which link state and business will fall into one of two opposing categories: ‘growth-oriented’ networks or ‘rent-seeking networks’ (Evans, 1997:70). The former refer to what Doner and others have described as ‘growth coalitions’ or what Evans refers to as ‘embedded autonomy’, where the autonomy of the state does not preclude establishing effective and credible relations of trust, which are not collusive or predatory, with the business sector. The point is crucial: ‘either autonomy without embeddedness or embeddedness without autonomy is likely to produce perverse results. Without autonomy, embeddedness becomes capture. Without embeddedness, joint projects which engage the energy or intelligence of business cannot be constructed’ (ibid:74).

- Multiple and unco-ordinated points of contact with, and access to, the state side of the relationship for businesses may promote relations of patronage and collusion. However, where there is policy coherence within the state, multiple points of access, where consistent policy objectives are maintained, may enhance effective relations with different sectors in the business community.

- Though the often related socio-political goals and economic objectives of the elites (as above) will be influential in determining the extent of this relative autonomy of the state, the character of the **bureaucracy** will also be critical. The evidence suggests that a well qualified, meritocratically-selected and adequately paid civil service – in the context of a relatively autonomous state with characteristics such as those indicated above – will be more likely (a) to develop effective relations with business and (b) to facilitate economic growth (Evans, 1997; Evans and Rauch, 1999).

- Though we have not seen comparative evidence on this point, it is plausible to hypothesise that the **different formal political structures** – federal, unitary, presidential, parliamentary, centralised and decentralised – will affect the nature and differentiation of state business relations in different polities. The autonomy and authority of the various states in India to develop their own local forms of SBRs and hence affect developmental outcomes is a case in point.

- More controversially, there is no clear evidence as to whether 'better' or more effective SBRs are found in democratic or non-democratic polities. As we suggested earlier, the aims, goals and infrastructural power of the state may be a more salient factor. Certainly the effectiveness of SBRs in non-democratic Korea (for almost 30 years), dominant-party democracy in Singapore and competitive democratic Mauritius suggests that there is no automatic or necessary relationship between the type of regime and the character of SBRs.

What of the 'business' side of the relationship? Here, a number of factors appear relevant.

- The extent to which the ideology and goals of the business sector are shared, or at least not incompatible, with those of the state will influence not only the structure of the BAs but their propensity to cooperate in trying to achieve state objectives. So the national and geo-political context referred to above in respect of the state is also likely to influence the business sector. It may be influenced by considerations of political or economic nationalism or of 'infant industry protection'.

- It is clear that the level or phase of capitalist development generally in which businesses operate – and which they also help to create – is of profound importance in shaping the character, capacity and extent of business associations (BAs). In the Malawian case, as the previous sections will have shown, capitalist development is at a relatively early stage both with respect to the structure and operation of the economy but also in terms of the typical values, norms and attitudes in the society more widely.

- It is commonly the case in the early stages of capitalist development that the informal sector is large. It follows that ad hoc, informal, transient associations – of hawkers or taxi drivers for instance – rise and fall. Their main concern is the internal self-organization of their activities (e.g. access to parking, or location on the street for hawkers), rather than wider policy issues. We need to know much more about these associations.

- Associated with this will be the size, strength, autonomy and self-consciousness of the capitalist class (Marx's notion of a class not only 'in itself' but for itself) and the strength of its ideology will influence the nature of the BAs in the country. The extent to which

such class interests and ideologies are reflected in the policies of BAs may also help to demand accountability from the state or may be effective in challenging ineffective or exploitative practices (whether a service or a frustrating set of regulations). In Nigeria, for instance, BAs have helped to bring to an end discredited mobile courts, inefficient phone-systems and the termination of corrupt import licensing schemes (Lucas, 1997:73). More specifically, the freer a BA may be from state intervention, the greater will be its capacity for independent action and advice. Corporatist arrangements – Mexico provides good examples – have been used by states to control and discipline business associations (Kleinberg, 1999).

- Moreover, a capitalist class which may be internally divided along regional, ethnic, religious, communal or other cleavages will be less likely to generate coherent and representative BAs of either a sectoral or peak character, and may be more easily penetrated or divided by the state.

- The professional resources and technical competence of a BA will influence its capacity to make effective representations to the state on policy issues.

- Once established, the degree of representation and inclusion in a national BA will shape its effectiveness. Unrepresentative, fragmented, regionalised and decentralised BAs may find it more difficult to organize effective relations with the state, and will certainly find it difficult to ensure that they are consulted and taken seriously by the state in the formation of national policy.

- Finally, the circumstances surrounding the provenance and early growth of a business sector – and especially its formative experience of relations with the state – will establish patterns that may be hard to shift, as the case of Malawi will demonstrate.

All these factors will influence the purpose, shape and efficacy of SBRs. One or two final points are worth making here about the institutional relations between state and business.

- The character and degree of formalization of the institutions which organize the relations between state and business will influence the interaction. Broad and purely consultative fora, for example, may help to initiate the virtues of trust and credibility which provide a context for working towards or maintaining a consensus about goals and policy, as in the case of NEDLAC in South Africa (Hart, 2001). Where formal institutions for SBR do not exist, fora of this kind may be useful initial steps (though they may also become simply token 'talking shops', as was one of the criticisms of the National Action Group on the Economy [NAG] in Malawi). On the other hand, as in Mauritius, the Joint Economic Council (JEC) represents all major business associations, meets regularly with the

government, is serviced by highly skilled professional staff in the Mauritius Chamber of Commerce and Industry (MCCI) and has been active in policy discussion (Bräutigam et al, 2002). This represents quite an advanced stage in the development of SBRs.

- There is much evidence to suggest – from as far a field as Korea and Mexico – that as the business sector grows in strength, the relations between it and the state are likely to change, with the business sector often seeking greater autonomy and independence, fewer regulations and control and more say in the formation policy. But these changes are likely to be slow.

3. HISTORICAL INSTITUTIONALISM

It is in the light of these considerations that we turn now to SBRs in Malawi. As indicated above, we have approached this question in the light of historical institutionalism (Sanders, 2006; Thelen, 2003), and a brief word about this will be useful here. As Thelen points out (2003:214 ff), where rational choice institutionalists see institutional formation and change in functional or even utilitarian terms as serving to solve collective action problems and organize gains from cooperation, sociological institutionalists tend to see institutional formation as imitative, following scripts of what may be modern, moral or efficient. Both may have relevance in certain circumstances, but historical institutionalists attend more to the power-distributional features of institutions and how they distribute advantages and serve the interests of those with power. We adopt the latter approach, recognising that in the formation of institutions, 'critical junctures' (such as Malawian independence and the control of power by the MCP for 30 years) can establish institutional patterns – pathways – which deliver increasing returns to those in power and which are often difficult to shift even when new 'critical junctures' (the ending of MCP one-party rule in 1993, for instance) appear to create significant change. In adopting this approach we work from three fundamental premises. First, we recognise that SBRs in Malawi are essentially nascent, for it is an economy at a very early stage of capitalist development and it is not uncommon under such circumstances for SBRs to be fluid and either collusive or dominated by the state. Second, we work from the premise that the pattern of SBRs established under the Banda era – and sustained for a generation – contributed to a state-business culture in which the role of the state (and ruling party) was hegemonic and that the blurring between the public and private sectors was almost complete. Third, there is also evidence to suggest that values, norms and informal institutional patterns of obligation and

reciprocity – deeply embedded in Malawian traditions and culture governing kinship and village relations – have been extended into the state or public sector and attached to new ‘official’ kin in the form of office colleagues.

In our conclusion we shall return to these issues and try to capture the extent to which they help to explain the structure and characteristics of SBRs in that country.

SECTION B

STRUCTURE AND PRACTICE OF SBRs IN MALAWI

INTRODUCTION

State-Business Relationships (SBR) in Malawi have been characterized by overt and manifest as well as implicit distrust and suspicion over time. Historically, the state has exercised excessive influence through regulations and restrictions and dominated the business sector itself through statutory corporations and their subsidiaries. With the exception of the privatization programme, efforts to strengthen the private sector have, till recently, gone through cycles of policy fads. The ultimate result is that state-business engagements have not been structured and institutionalized. On the contrary, relations have been issue-driven, reactive and characterized by institutional discontinuities.

The private sector lacks a fully representative front and is internally divided, while the public sector has had multiple points of interface with the private sector with obvious problems of coordination and consistency. Although there have been intense efforts in the last few years to institutionalize constructive interface between the two sectors, the efforts are constrained by complex legacies from the past and also ‘associational politics’ among private sector entities, arguably, aided by the state or its agents. Thus Public-Private Dialogue (PPD) remains unstructured, un-institutionalized and ineffective.

However, recent efforts indicate a renewed intention on both sides to institutionalize and improve SBRs, although the private sector lacks ‘representativeness’ or comprehensiveness. Formally, these efforts are taking place within a new framework of development, the Malawi Growth and Development Strategy (MGDS), which focuses on economic growth through production and value addition that is export-oriented. The MGDS gives priority to private sector development and highlights it as ‘the engine of economic growth’. The process of rationalizing PPD has begun and there are a number of challenges that need to be resolved in order to develop a viable PPD

mechanism that can live beyond the current Government's tenure of office. Sustainability of the efforts beyond the presidential tenure of the current incumbent is a crucial factor in that regime change may be accompanied by a shift in policy before the developmental impact of PPD has been tested and embedded.

1. HISTORY AND IDEOLOGY OF SBR IN MALAWI

In this section, we briefly discuss the history and ideology of both the state and private sector that have characterized SBRs since independence – a period punctuated by significant regime and policy change. It is particularly important to understand the salience of path-dependency (Pierson, 2000 and 2004) in influencing continuities from one regime period to the next, particularly on the state side of the relationship. In particular, these continuities have been associated with what has been described as the phenomenon of 'recycled politicians' who turned into self styled democrats and liberals in the 1990s but nonetheless reinforced attitudes against the private sector from the previous era and stifled the PPD initiatives.

The history of SBRs in Malawi can be conveniently cast into three phases, namely, the post independence one-party era under the leadership of the first President, Dr. Kamuzu Banda, from 1964 to 1994; the first multiparty decade under the leadership of Mr. Bakili Muluzi from 1994 to 2004, and the current era under the leadership of Dr Bingu wa Mutharika since 2004.

1.1. SBRs under Dr. Banda

The one party era of the Malawi Congress Party (MCP) was known for its government controlled, monopolistic, and regulated business which instituted effective barriers to PPD (Agar and Kaferapanjira [2006], Anders [2005], and Posner [1995]). It was a hard regime which (a) centralized political power in the hands of the President and his coterie; (b) exercised ruthless treatment of those who opposed or threatened it and was generally capable of overriding vested interests and of implementing unpopular policies (Kydd [1988], Posner [1995], and Record [2006]); (c) allowed little formal space for a private sector (or private sector business associations) to flourish by explicit antagonism towards it and by effectively suffocating it through the President's control of the massive conglomerate called the Press Trust, which effectively controlled 50% of the economy. Dr. Banda's state presented itself as self styled benevolent and omnipotent social guardian. Its reliance on force enhanced alienation and disaffection for the 'outsiders' and

'reinforced the view that the private sector was exploitative and not to be trusted (Agar and Kaferapanjira 2006:1-2). During this period, the public sector led the market with regard to investment trends (Mhone, 1992; Kaluwa, 1992). By the mid-1980s, according to Record (2006) a parastatal sector of about 35 institutions accounted for some 25% of GDP, excluding the Press Corporation. This was justified by the argument that where private sector did not, could not or would not provide the goods and services needed for the welfare of the community or for socio-economic development, or provided them poorly or inequitably, the government had the duty not just to provide but actually to produce those goods and services (Record, 2006).

Government policies were first clearly stated in the 1971-80 Statement of Development Policies 1 (DEVPOL I) in which public enterprises rather than the private sector were seen to be the main means of achieving economic development. By the mid 1980s the parastatal sector was contributing about 25% of GDP (Pryor, 1990; GoM, 1992). DEVPOL II (1987-96) noted circumstances where 'unfettered laissez-faire capitalism [would] be inappropriate' (cited in Record, 2006:8) and went on to catalogue licensing requirements, parastatal interventions, regional policies and other controls designed to shape the way the private sector operates (Record 2006:8). Even the strategic plan of the Ministry stated that government regulations would be limited to the areas where private sector efforts were inadequate or inappropriate. It is noteworthy that it was the Government that was the unilateral judge of 'inappropriateness'

The Banda era was also characterized by insecurity of property rights, an insecurity authorized by The Forfeiture Act. Under this Act, the state could acquire any assets from any person or entity for which it had any reason or proxy reason to do so. Many victims of this Act were those with different political views from the establishment whom Dr.Banda branded as 'political dissidents'. With respect to the business community, the break up of a joint venture between Bookers (a British conglomerate) and the Malawi Government (through MDC-NTC) in 1970 is illustrative. Bookers had a joint venture with the Government through the Malawi Development Corporation (MDC) in which the latter had 51 % of shares and was trading as National Trading Company (NTC) with a Chain of superstores (Kandodo stores) as a subsidiary. Dr. Banda unilaterally announced severance of the relationship and instructed that NTC would revert to Bookers-Malawi and its rural assets would be acquired by MDC which would turn them over to new unnamed subsidiaries (Hooker, 1971). The rationale was that Government wanted to achieve more rapid progress in the development

of individual Malawian commercial enterprises particularly in rural areas. In order to support that development, 'Government has decided to establish under MDC a new wholesale company [whose] primary aim will be the channelling to small business of those categories of goods in every day use by the majority of the people' (Times of Malawi, 7 December, 1970). For the same rationale and further exemplifying the insecurity of property rights, government encouraged Malawian Asians (mostly of Indian origin) to withdraw from competition in the rural areas by refusing them licences (Hooker 1971:6). The Minister of Trade then was quoted in the Manna Bulletin (29 December, 1970) to have said that the president had asked Asian traders to vacate certain trading centres in order to give Malawians a chance to participate fully in business activities. He further said that Government would not be happy to have standards of these trading centres lowered and warned that if this should happen the Malawian businessmen 'should not complain if their shops were given to other businessmen who would run them properly' (Manna Bulletin, 29 December, 1970).

Dr. Banda's Speech to Parliament in early 1971 clearly casts his perception of foreign (Asian) traders: '[foreign] traders are parasites who produce nothing. They just make money, hide it and take it home outside the country' (Malawi News, 19 March 1971, cited in Hooker, 1971). This was more or less a justification for his policy to exclude Asians from rural areas. As in many other ethnically or culturally plural societies in Africa and elsewhere (Malaysia and Indonesia, for example) such attitudes have often been expressed politically in policies designed to promote the economic interests and opportunities of the 'indigenous' people (as in the New Economic Policy in Malaysia, embodied in the Second Malaysia Plan of 1971). Once embedded, such policies and attitudes take both time and are hard to shift, whatever their justification may be.

Kydd (1988:39) has argued that in the scheme of personalized rule through the machinery of a hard state 'much turns on the personality and ideology of the ruler, his views on economic policy and instruments employed to implement the policy'. The above discussion shows that Dr. Banda's government had a capitalist orientation but, as observed by Hooker (1971), it was a capitalist framework in which the government increasingly participated. For instance, while he was against 'nationalisation' he also did not allow any form of 'public' participation in any of the joint ventures with foreign investors. Foreign investors that required local partnership could only be partners with a public enterprise. It was argued that "at this stage these firms cannot be turned into public companies where everyone can buy shares... they will have to meet certain demands and qualifications before they can be turned into public

companies with open shareholding" (Manna Bulletin, March 17, 1971).

Though outwardly stable, Dr. Banda's state became a predatory state. It gave rise to political and economic relations that thrived on structures and institutional arrangements of domination and subjugation complemented by an apparatus of control that ensured mechanical compliance. Fear permeated the civil service (Anders, 2005:30–35). Rule was strictly top down and, in such an environment, cordial SBRs or an effective PPD were simply impossible. As Mhone noted 'the ministerial and parliamentary structures [and the civil service] were purely nominal and had the façade function of rubber-stamping and rationalising handed down policies (Mhone 1992:5).

1.2. SBR under Dr. Muluzi and the United Democratic Front (UDF) (1994–2004)

Internal opposition and external pressure through the 1980s and early 1990s finally forced Dr. Banda to call a referendum on the continuation of one-party rule which was decisively rejected. The election which followed brought the UDF to power, but the Muluzi regime is widely regarded as one which promoted collusive SBRs. It was characterized by a framework of formal law and administration but in which the state was informally captured by patronage networks (Record, 2006). Mr. Muluzi's UDF was 'literally born in the Chamber of Commerce' (Posner, 1995:137) and was largely a collection of business tycoons and political foes of Dr Banda. They had grown rich during the Banda years, often through close ties with the Malawi Congress Party. As has often been the case elsewhere, the increasing economic strength of this group had given them power and some independence from the state, and an ability to oppose. The UDF came to power on the platform of 'poverty alleviation' – a marked departure from the emphasis on estate agriculture as an engine of economic growth and development which had characterized the MCPs development strategy (Chinsinga, 2002).

Unlike the state-dominated capitalism of the MCP regime, the UDF adopted wholesale the policy of liberalisation and embarked on dismantling the parastatal sector through a World Bank sponsored privatization and divestiture programme in 1996 within the rubric of a series of Structural Adjustment Programmes (SAPs).

By 2004, Malawi was known for corruption, rent seeking and widespread economic exploitation. In a survey undertaken for the Government of Malawi, some 90% of Malawians considered corruption to be a serious problem and almost 70% believed that it had worsened over the previous 10 years (Millennium Consulting

Group, 2006:6). Thus while the MCP regime may be thought of as having become a predatory oligarchy, the UDF regime was characterized as 'a plundering democracy' and its ruling elite as 'no more than an exploiting oligarchy' (Khembo, 2004). Political elites, who were also business magnates, used their political power to cut deals with individual private sector players that substantially compromised state autonomy. The regime was thus not sympathetic to effective and transparent relations with the private sector, nor to promoting an effective forum for public-private dialogue, as such processes would have given rise to calls for accountability and discipline and would have begun to restrain the rent-seeking practices which characterized the regime.

The long and short is that talk of PPD during the Muluzi regime was ad hoc, rhetorical and largely a façade. The political and economic spaces were systematically manipulated to enhance the dominance of the party and its entrepreneurial clientele. A Malawian version of 'booty (or crony) capitalism' of the kind associated with the Philippines (Hutchcroft, 1994), best characterized the nature of the politico-economic in which business people had to foster and maintain 'good' connections with state elites in order to successfully run their businesses. As one scholar of the Philippines observed 'business is born, and flourishes or fails, not so much in the market place as in the legislature or in the administrative offices of the government' cited in Hutchcroft, 1994:217). A weak state and a weak business sector exchanged favours through the mechanism of informal patron-client relationships in order to ensure their mutual survival. This was the basic pattern of SBRs throughout the Muluzi regime as illustrated by the many multimillion dollar corruptions and embezzlement scandals involving top politicians and bureaucrats which are now before the courts or have recently been concluded.

1.3 SBRs under Dr. Bingu wa Mutharika

The administration of Bingu wa Mutharika, which came to power in 2004, has so far portrayed positive attitudes towards the private sector although elements of suspicion, hostility and lack of trust remain as legacies from the past. Dubbed as the 'economic engineer' to differentiate him from his predecessor, 'the political engineer', Mutharika showed his private sector inclinations when he was Minister of Economic Planning and Development in the last days of the UDF regime. He championed and oversaw the development of the Malawi Economic Growth Strategy (MEGS) which was jointly developed between private and Government sectors through the National Action Group on the Economy (NAG). Later, upon the formal expiry of the Malawi Poverty Reduction Strategy (MPRS) in 2004,

he led and oversaw the development of the Malawi Growth and Development Strategy (MGDS) in 2006 which is a refined synthesis of the MPRS and MEGS and mainstreams the role of the private sector as an engine and driver of economic growth.

However, he has also shown considerable mistrust towards the private sector particularly one section of it, namely, the tobacco buyers. In August 2006 at an agricultural trade fair, the President severely criticised the tobacco buyers and accused them of exploiting smallholder farmers and Malawians in general. He branded them 'thieves' and accused them of lack of co-operation and insubordination when the leaf buyers shunned publicly dictated prices of tobacco, stating 'They argue our tobacco is of poor quality and that prices are controlled by world market. They just want to continue stealing from us', (Daily Times, 8 August 2006). The President declared open 'war' and threatened the buyers with banishment from the country if they would not operate within the expectations of his Government since all tobacco buying companies at that time were foreign-owned subsidiaries of multinational corporations: 'If they don't comply we will reach a point of difference. Then that is where one has to leave. This is my home, therefore we will see who is going to leave... I think this is war...' (ibid). To show that he was really serious, Government has courted additional tobacco buying companies in which national players include the Tobacco Association of Malawi (TAMA), a representative institution for tobacco growers, and the Government itself. The unspoken intention is to increase prices at the tobacco auction floors, as there is a strong perception that tobacco buying companies operate like a cartel and effectively defeat the purpose of auctioneering. However, despite instances of this kind, official attitudes are less confrontational and SBRs are beginning to move in the direction of more positive interaction.

Apart from the MGDS, the commitment of the current government to positive SBRs has been reflected in the various speeches delivered by the president, as in policy documents being developed or adopted and also in the more participatory manner in which they are being developed. On 24 May 2004, the President delivered his inaugural address: 'The Road to Prosperity: A new Vision for Malawi', in which he emphasized the need to 'transform the economy from a predominantly consuming and importing country to one which predominantly produces and exports'. He called for increased participation of the business community and consequently identified Private Sector Development as theme number one in the development blueprint, the MGDS. In January 2005, at the Privatization Commission, he delivered a speech that re-echoed his professed intention to focus on private sector. In 'Working with the Private Sector' he reiterated that 'the ultimate

objective of [his] government [was] to empower the private sector to spearhead infrastructure development and to expand services, improve incentives and thus reduce the burden on strained public resources. Then, the two critical players in the economy, the public sector hand in hand with the private sector, must together enhance efficiency in the economy.' At the same meeting, he advanced the idea of Public-Private Partnerships (PPPs) whose modalities include the legal framework being developed by the Privatization Commission. Significantly for the theme of this present paper, he made the point that 'another way of effectively working with the private sector was to redraw the public/private relationship as a political process. It should therefore be no surprise... that political objectives play an important role in this efficiency-shaping process. The success of privatization will be either encouraged or limited by the interplay of political will and business confidence' (GoM, 2005:3).

In 'Feeding the Cow to produce more Milk', a speech he delivered at the High Level Government/Private Sector Consultative conference in Blantyre on 17 January 2007, he outlined priority areas for the Government and how they relate to the private sector, and he challenged the latter to contribute towards the attainment and fulfilment of the national vision and even to engage in the provision of public goods through PPPs. His message was that companies should reinvest profits in the economy to make it more vibrant so that they can make more profits; but his tone implicitly reflected a continuation of Dr. Banda's mistrust in which he (Banda) had seen the private sector players as those who '...just make money, hide it and take it outside the country'; and in the statement that 'foreigners (a concept which expands and elides, to suit political purposes, to include non-indigenous, that is Asian, Malawians) still dominate the economy'. In his own words, the meeting was 'intended to create a new platform for dialogue that [would] assist in designing permanent mechanisms for sustained private sector contribution to the national vision,' by implication for the benefit also of indigenous Malawians.

A Private Sector Development Strategy and Reform Programme for Malawi (2007–2011) which seeks to build a partnership between public and private sectors to address constraints to enterprise development in Malawi and mainstream PSD in the socio-economic development of the country is being developed. The work is being led by the Ministry of Industry, Trade and Private Sector Development (MITPSD) in collaboration with Malawi Confederation of Chambers of Commerce and Industry (MCCCI), with technical support from the World Bank and the Commission of the European Union. The strategy is to focus on the following priority areas:

- Improving the investment climate
- Supporting public agencies that serve the private sector
- Supporting public/private dialogue
- Empowering the 'indigenous entrepreneur' (a theme the president hinted

at in 'Working with the private sector', and one which – as mentioned earlier – is not unusual in countries with socially plural populations)

- Improving infrastructure
- Enhancing export competitiveness
- Changing the mindset and attitudes towards the private sector.

The Workshop on Public Private Dialogue (PPD) in Malawi was convened by the Ministry of Industry, Trade and Private Sector Development and supported by the World Bank on 27 January 2007, where a 'way forward' on PPD was developed and announced in a communiqué. However, other observers argue that the GoM was 'pushed' into this workshop by the World Bank whose immediate interest is in the privatization or commercialization of water boards through PPPs. This proposal does not appear to be popular among politicians – especially those in opposition; who interpret privatization to mean 'selling off'. Opposition parties are not alone in this view as media reports and public opinion have interpreted it in the same way, namely that the PC is planning to 'sell' the waterboards because both the Lilongwe and Blantyre boards are on the Divestiture Sequence plan. Those who are opposed to it argue that 'water is life' and cannot be left to pursuits of profitability. The resistance, though based on misinformation, portrays a continued distrust in the private sector, arguing that you cannot let business play with the lives of people – water is that important. However, according to the PC, the Government has not issued any instructions to privatise the water boards by selling them off. Rather, 'the intention of Government is not to 'sell' the waterboards... [its] long term vision concerning the water sector is to be able to provide potable water to all Malawians in a safe and efficient manner. This vision includes... potential private sector participation in partnership with the Government' (PC Special Reports at: www.privatizationmalawi.org). However, the claim that GoM was pushed into the workshop by the World Bank remains unproven as background papers of the Ministry show how the workshop was conceptualized. Nonetheless, the outcome of the workshop would suggest that it was merely a forum for formalizing what was intended in the first place.

There has thus generally been a display of good will and positive attitude towards SBRs since 2004, particularly creating a forum

that might help interaction and sustained dialogue and leverage the relationship towards a shared developmental vision by both the private and public sectors. The challenge is whether concrete steps will be taken to journey from 'policy to practice', from rhetoric to reality, from intention to action.

2. ORGANIZATIONAL ENTITIES FOR SBR IN MALAWI

In this section we try to map the formal organizational and institutional players in both the public and private sectors and where and how they interact in the course of SBRs in Malawi. We stress that our focus here is primarily on the formal institutions and relations, realising full-well that the full story of SBRs in Malawi would require a more difficult and detailed investigation of the informal institutions and links. We start with the public sector.

2.1 Public Sector

The public-private interface in Malawi has been largely issue-driven, responding in an ad hoc fashion without coherent and strategic planning. It has thus given rise to as many players in the public sector as there are issues and portfolios. Almost every ministry has a private sector and civil-society section which engages in consultation depending on the issue at hand. For example, the ministry of Agriculture or its agents engage with the Farmers Union, the Tobacco Association of Malawi, the Civil Society Coalition on Agriculture, the Tobacco Exporters Association of Malawi or the Cotton Development Association and the Parliamentary Committee on Agriculture and Natural Resources, depending on the issues at hand. Similarly, the Ministry of Economic Planning and Development engaged with private sector through MCCI to develop the MEGS, as did the Ministry of Finance in reform of the tax regime. Although such relations are supposed to be bi-directional, the public sector has at times either seen no need for engagement or has been both weary and wary of being lobbied. Consequently, Parliamentary Committees have become conduits through which private sector interests and civil society organisations have channelled their demands, suggestions and concerns to the state. The Parliamentary committees simply invoke their powers to call for officers to a meeting at which the other side is invited. That is to say the Parliamentary Committees hear issues from private and civil society players, who in turn seek to engage with the Government on the issues. If need be, they arrange meetings where both public and private sector players are present; when the public officials do not want to appear,

the Committees may simply invoke statutory powers to call for officers and papers, but the current reluctance of state officials to engage with these issues is apparent.

Nonetheless, five public sector agencies can be identified as being primarily responsible for a varied portfolio of issues with respect to private sector. These are: Malawi Investment Promotion Agency (MIPA), The Privatization Commission (PC), Ministry of Industry, Trade and Private sector Development (MITPSD) and the Ministry of Economic Planning and Development (EPD). The Ministry of Finance (MoF) is also occasionally involved, depending on issues.

Power and authority to deal with the private sector is dispersed among the public sector entities, but MITPSD is seen to be the principal agency. Over the years, the Ministry has been changing names (this is not to suggest that it will not change again) combining departments, according to the President's preferences. It has only been since 2004, with the incumbency of the current President, that 'Private Sector Development' was added to the name to replace 'tourism' (it was originally the Ministry of Industry, Trade and Tourism) probably to emphasize the new focus of his economic policy. Consequently, the ministry was restructured so that it now has 'private sector development' as an integral department with a permanent secretary who reports to the Minister. However, the PSD department is not a 'full house', 'under one roof'. The core is responsible for 'policy issues' while implementation is carried out by specialist departments and agents, such as the MIPA, Privatization Commission, Department of Trade, etc. The Ministry as a whole is naturally the first port of call for the private sector when it seeks to engage with the Government, though more often than not, stakeholders deal directly with the institution or agency that handles the particular issue at hand. However, in terms of status and political clout the Ministry of Economic Planning and Development has historically been ranked higher and currently the President doubles as the Minister himself. MIPA and PC are essentially agencies under MITPSD and the Ministry of Finance (MoF), respectively. However, during the UDF era, privatization and statutory corporations were in a ministry headed by the Vice President.

Currently, with respect to work on PPP, and with technical help from the Institute for Public Private Partnerships, the Privatization Commission is working on the development of a legal, institutional and regulatory framework for PPPs. The exercise is overseen by a steering committee which is chaired by EPD. Besides the EPD, other partners working with PC on this exercise are MoF and the Ministry of Transport and Public Works (MTPWs) (PC, 2006). Conspicuously missing are MITPSD and any private sector representatives. The absence here of 'joined up' governance suggests, again, a certain

degree of ad hocery, a belief that privatization is the exclusive bureaucratic domain of the PC, that it is not understood as germane to state-business relations and, finally, that it is a function of a degree of myopia and the failure to undertake effective stake-holder analysis.

The Privatization Commission (PC)

Historical background

Due to the low levels of private sector development at independence, and also for ideological reasons, the Government of Malawi took the lead in spearheading development by establishing state-owned enterprises (SOEs) (Privatization Commission, 2004a:1)

In the 1990s government realized that it did not have comparative advantage in the management of commercial business. This was in line with the emerging role of government as facilitator rather than owner of enterprises. In addition government adopted a policy of liberalization and moved toward market based incentives and allocation of resources. Consequently the government resolved to divest its interests in public enterprise and to encourage and promote the growth of the private sector through a privatization programme.

Institutional framework

The Public Enterprise (Privatization) Act, enacted in March 1996, spelled out the objectives and guidelines of the programme and made the PC a sole authority for the divestiture of direct or indirect public enterprises.

Membership of the PC is provided for in Section 5 of the Act: 'The Commission shall consist of a chairman and such other members as may be appointed by the President by notice published in the Gazette, and every such appointment shall be subject to confirmation by the Public Appointments Committee'

However, beyond what the law provides, the actual composition of the commission includes unspecified ex-officio representatives of the Government, representatives of political parties represented in the national Assembly and members representing unspecified professional and commercial business interests (Privatization Commission, 2004a:2)

Membership of the PC, as detailed in the 2003 Annual report, is: the chairman plus seven other appointed commissioners and the following ex-officio members: Secretary to the Treasury; Solicitor General and Secretary of Justice; Governor of Reserve Bank of Malawi; the Permanent Secretary for Industry and Commerce;

representatives of three political parties (UDF, MCP and AFORD); a representative of the Malawi Congress of Trade Unions; the General Manager of MIPA; a MCCCCI representative; and the Controller of Statutory Corporations.

In 2004, the Commission had a chairman, six other commissioners and seven ex-officio members. Missing from the list of ex-officio members, as compared to the list in the 2003 Privatization Commission Annual Report, was the Governor of the Reserve Bank. While it is not clear why the Governor was no longer a member it is important to observe that the Privatization Act does not provide for 'ex-officio' commissioners; the presence of ex-officio members appears to be something that happened informally or through government instructions. The law only provides for appointed commissioners and representatives of political parties represented in Parliament. Again the 2004 report shows that the Solicitor general was replaced or represented by the Chief Parliamentary Draftsman. The fluidity in membership gives the impression that 'ex-officio' membership is a loose, uninstitutionalized arrangement, with people opting out or delegating their responsibilities. A secretariat was established in April 1996 with a workforce of 18 people, ranging from Executive Director to messengers and other staff. In 1997 cabinet approved a list of 100 companies to be privatized, the so-called Divestiture Sequence Plan.

The Privatization Commission is being funded by the World Bank and also meets its direct costs from the Privatization Revenue Account.

Malawi Investment Promotion Agency (MIPA)

MIPA was founded in 1991 through an Act of Parliament to do what its name suggests: to promote investment through and for private sector development. Since then it has been seen as a mouthpiece of the private sector within the public sector.

MIPA has three core departments or sections based on functions, namely: Investment promotion, Planning and Research (including policy advocacy) and Investor services. Currently the agency is championing and developing a dialogue framework to enhance SBRs. The argument is that over the years, MIPA has realized that public sector infrastructure planning is at variance with private sector requirements. However there is no dialogue framework which would enable stakeholders on both sides to interface and share notes, ideas, hopes and frustrations.

The need for a 'dialogue framework' was realized sometime ago and MIPA advocated PPPs (not PPD) because it was deemed to be an institutional arrangement that would naturally lead to PPD. The effort lapsed before bearing fruit and PPPs are now being championed by

the Privatization Commission, reportedly because the World Bank which funds the Privatization Commission is pushing for reforms of the water boards through PPPs. In addition, we showed earlier that the current President would like PPPs to take centre stage in the provision of infrastructure in order to alleviate fiscal pressure on Government.

It is worthy noting that PPPs have been championed by different public sector stakeholders at different points in time depending on need/goal or convenience. This gives the impression of lack of seriousness and focus on the part of Government and there is need to understand why this is the case. One possible explanation is that PPPs are now seen as a viable way of shedding public sector expenditure responsibilities by co-opting private investors. Any such divestiture processes are legally the mandate of the Privatization Commission.

Like the other public sector agents, MIPA collaborates with MCCCCI, NAG and MEJN and ECAMA and relevant Government departments/ministries and, recently, with the newly formed Indigenous Business Association of Malawi (IBAM) on an ad hoc basis. There is no formal, regular permanent structure for engagement between MIPA and its stakeholders but there is constant collaboration that is issue driven.

The Ministry of Economic Planning and Development (MEP&D)

The Ministry of Economic Planning and Development is a Government think tank which is responsible for working on economic development policies and strategies. It interfaces with the private sector depending on what issues it is dealing with. The ministry took centre stage in the development of the MPRS (Malawi Poverty Reduction Strategy) which completely ignored private sector development. It is observed that in the process of drafting the PRSP – where private sector and civil society participation was a requirement of World Bank – the GoM favoured MIPA as the representative of the private sector over the Malawi Confederation of Chambers of Commerce and Industry (MCCCCI). However, MCCCCI did not recognize MIPA as its bonafide representative and is reported to have lobbied the then Vice President until it finally got seats on some technical working groups (TWGs). MIPA still represented the private sector in the technical drafting committee (field interview). The rationale was that the MPRS was focussing on social sectors and it was feared that the private sector might derail the process by pushing business interests that would not be inconsistent with aims and goals of the MPRS.

The ministry also led the development of the Malawi Economic Growth Strategy (MEGS) when the current president was then its Minister. Essentially, it was a reactive and parallel process to MPRSP and aimed at supplanting MPRS with MEGS. The MEGS was jointly developed with private sector and, as Record (2006) noted, for the first time the role of the private sector in economic growth and development was outlined in a major national policy document. For Dirk Willem te Velde (2006) MEGS suggested a more responsible approach to the role of the private sector. However, the MEGS met considerable resistance from civil society and the UNDP. Their argument was that the MEGS would 'crucify' MDGs because of its commercial orientation as opposed to the social orientation that permeated the MPRS. It was envisioned then that if the national budget would be drafted on the terms of MEGS, budget allocations to the social sector would be affected and progress towards MDGs would be thwarted. The MEGS was, however, launched in 2004 and before it could be implemented, it was reconciled with the MPRS to produce a fairly balanced and pragmatic policy document – the MGDS.

Although there are interesting moves to establish and institutionalise more robust arrangements for improving SBRs, it will be seen from the above that the state side of formal SBRs in Malawi has not thus far been characterized by coherence or consistency. Certainly, there has been no single 'pilot agency' (Johnson, 1982) or co-ordinating ministry, department or agency on the model of the East Asian developmental states (or even the equivalent in Botswana) (Leftwich, 1995). Various ministries, agencies and departments have been involved in interaction with the private sector, reflecting perhaps the legacy of the ideological uncertainty and inconsistency of the political elites toward business, the early and experimental stages of post-reform SBRs and the inevitable institutional weakness in a recently-democratized, poor and emerging state with a mixed record of bureaucratic autonomy and performance. Although the MITSPD is now held to be the dominant ministry with responsibility for SBRs, it is clear that there is as yet no 'Well-ordered hierarchy among ministries' which could contribute to 'coherence in the policy process because it controls the delegation of authority from a lead-line ministry to others', as was the case in Chile in the 1970s and 1980s (Silva, 1997:154). The plurality of state institutions involved in Malawi certainly contributed to a more 'porous' state (Silva, 1997:155), creating more openings for particularistic interests to establish preferential links and relations. As we suggested in the opening section of this paper, hoping for the speedy evolution of effective public agencies within the state to engage in effective and developmentally-committed SBRs in such a

context may be unrealistic. More controversially, the values, norms and attitudes – especially those which recognise a legitimate and clear distinction between the public and the private realm as the necessary basis for productive relations between state and business – are still in the process of evolution. So too is the development of the class forces and their organizational expression that will both shape and reflect the development of Malawian capitalism, as will become more clear in the following section.

2.2 Private sector

The private sector in Malawi remains a minor player in the economy and consists largely of 'small businesses' by international standards, as we pointed out earlier in the background section. Individual businesses with similar or same interests tend to coalesce into representative groups, usually in the form of business associations, which interface with the public sector authorities as and when issues arise. However, they are largely informal or semi-formal, operating in the informal sector, localised and without wider public policy interests, such as the informal taxi-drivers and street vendors groups in most major towns, and even an emerging group of cell-phone repairers. Some of these groups (e.g. the vendors) are beginning to interact more positively with the authorities to protect or regularise their interests but have no representation within the established business associations. There are few and, in some sectors no, national organizations for these groups at all. As Richard Record (2006) observed, there is a 'missing middle' in the business field, yet growth is most likely to come from that section. Despite this, the MCCCCI is generally accepted as the apex representative institution of the private sector.

The Malawi Confederation of Chambers of Commerce and Industry (MCCCCI)

The Malawi Confederation of Chambers of Commerce and Industry (MCCCCI) is a partnership of both enterprises and associations which aims to provide a cross section representation of all sectors of the economy of Malawi. The MCCCCI prides itself by way of a slogan as 'the voice of the private sector'.

Established in 1892 as a chamber of agriculture and commerce focusing on agricultural production and trade, the chamber has developed over the years. Its mandate to be the voice of the private sector is not statutory but has evolved historically through the interests and aims of its membership in the 1900s.

In the early 1900s, the Chamber supported the emergence of

merchants' and traders' associations. It later amalgamated with the emerging business-focused organizations. Its name was no longer an accurate reflection of its composition so it changed to the 'Associated Chambers of Commerce and Industry' and was mandated by its membership to speak for all private sector concerns in dealing with Government (the then colonial government) on issues of trade and commerce and in relation to the various sectoral impacts of Government policy. It later changed its name to the 'Malawi Chamber of Commerce and Industry'.

From 1892, the Chamber was a small, centralized organization with only one office in Blantyre. But a century later, in the 1990s, regional chambers were established to reach out to all businesses in all sectors of the economy regardless of size, nature and location. They are in Mzuzu in the North, Lilongwe in the Central Region and the HQ remain in Blantyre in the Southern region. Consequently, in 2000, the name changed to 'Confederation of Chambers of Commerce and Industry'. It must be noted though that the idea of 'regional chambers' was not necessarily new. It was on the cards in the 1970s to establish a MCCCCI 'branch' in Mzuzu to take care of business interests in the North and a similar branch in the central region, Lilongwe branch, was already active and operational (information culled from various undated MCCCCI publications).

Membership

Membership of the MCCCCI is not obligatory on businesses or business associations. It is optional and all members pay an annual subscription fee. The MCCCCI constitution clearly stipulates in clause seven that the fees are payable annually in advance, before January, and failure to pay by the first day of February results in the withdrawal of the privileges and benefits of membership. If subscription fees are not paid by the first day of March, membership to the chamber is cancelled. One result is that formal membership as recorded on the organization's database fluctuates considerably. Moreover, Associations and their members can be members of MCCCCI and can belong to any category. 'We encourage members of associations to join MCCCCI as individual companies', we were told.

For example, various MCCCCI publications, especially the monthly newsletters, show that membership has been fluctuating between 200 and 370; in September 2000 membership was around 370, and then declined to 308 in 2004 and dropped further to 254 in 2005, 'largely as a result of category rationalization and increase in membership fees....the majority of micro businesses opted out of membership of MCCCCI (MCCCCI Monthly Bulletin, February 2006 pg 2). As of 16 March 2007, the membership was at 240 (www.mccc.org/membership); this figure is less than the 373 registered members

in 2006. An official of MCCCCI believed that the number of members would increase, as some organizations have not yet renewed their membership, however, an accessible list of membership according to categories and regions has only 114 entries. The unreliability of data suggests that the MCCCCI does not keep up-to-date records, especially of lower-category members, and that members tend regularly to come and go, or not pay their fees in time.

It may well be that others are discouraged from joining the Chamber as it appears to leave out many businesses and business associations from its fold, such as the Minibus Operators Association, the Bankers Association (although some individual banks are members), the Cotton Development Association, Musicians Association of Malawi, National Association of Business Women (NABW), Hawkers Association of Malawi, Exporters Association and possibly others.⁹

However, this small number of members of the MCCCCI means that it is very unrepresentative of the private sector. According to the National Statistical Office (NSO) a national household survey showed that some 273,000 household heads (9.8% of households) were engaged in some form of formal 'business' activity and 146,642 (5.3% of households) were engaged in some 'informal' business activity (in which the MCCCCI has no interest). A third of the formal businesses were in the urban centres. According to the World Bank's 'Micro, Small and Medium Enterprises: A Collection of Published Data' (World Bank, 2007) there were considerably more 'enterprises' – some 747,000 – of which over 90% were micro-enterprises. Given the definition of 'micro' for Malawi (employing 0-4 people) it is highly likely that a considerable number of these will have involved self-employment.

Membership of the MCCCCI is organized in terms of a set of named categories, each of which is determined by the membership fee paid by the member. These were last revised in 2005 and the categories which were initially named by letters of alphabet were changed to sound more business-like with enhanced membership fees and benefits as tabulated below:

Table 1

Membership Category	Fees in MK	Benefits (inclusions and exclusions) that distinguish the category*
Platinum	125,000 (\$890)	<ul style="list-style-type: none"> • Eligible for presidency, deputy presidency and membership of the MCCCCI Council • Eligible to represent MCCCCI on government committees, task forces and international for a <i>fora</i> • Core member of the PPD team on relevant issues at presidential, ministerial and parliamentary levels • Participate in setting the agenda for PPD • Business profiling on website • Five votes
Gold	100,000 (\$714)	<ul style="list-style-type: none"> • Four votes • Eligible for presidency, deputy presidency and membership of the MCCI Council <i>Note: the other benefits in the platinum do not apply</i>
Silver	65,000 (\$250)	<ul style="list-style-type: none"> • Eligible for nomination to Council only • Three votes
Copper	35,000 (\$250)	<ul style="list-style-type: none"> • Two votes • *Cannot use MCCI documentation centres for free • *Cannot receive copy of published annual report as well as ad hoc survey reports
Aluminium	25,000 (\$178)	<ul style="list-style-type: none"> • One vote • Monthly briefs on global, regional and national economic trends • Linkages to suppliers and markets
Bronze	15,000 (\$107)	<ul style="list-style-type: none"> • One vote • Listing on the MCCCCI website and indicate on letterhead Company's membership with MCCCCI • Invited to MCCCCI regional chapter meetings • MCCCCI membership certificate • Listing in the MCCCCI annual report by category • Listing in any business directory publication by MCCCCI • Invitation to general meetings • Annual listing in the newspaper

Source: Data in this table was extracted and synthesized from MCCCCI Announcement for Renewal of Membership for the Year 2007. *This column captures benefits that accrue or do not accrue to members of a particular group and so identifies the group from the rest. Note that there are generic (basic) benefits that accrue to every paid up member. Those are not considered here except for the last group which is all it has.

A few points are worth making about the detail in the above table. First and most important for a consideration of SBRs is that participation in PPD is the exclusive rights of members in the Platinum group. In trying to find out what the implications of this might be for non-Platinum members, and whether there was any mechanism for eliciting and expressing the views of members in the lower groups, it became apparent that there are no clearly spelled

out and systematic mechanisms within the chamber through which voices and interests from below can be articulated for the purposes of PPD. Crudely stated, it would appear that the members of the platinum group 'think and speak' for everybody. It means that 'how much your voice will be heard' depends on how much you can pay: those with more money can be heard more and their input in decision making carries more weight as they have more votes and are eligible for decision making positions. When asked about this, an official of the MCCCCI responded: 'Go up if you want your voice to be heard'.

The apparent rationale of this would not surprise J. S. Mill who argued that 'although all individuals have a right to be represented, not all... opinions are of equal value' (Heywood, 2002:225). In this (Burkean) model, representation is held to be a moral duty in which those members with good fortunes (educationally or financially) should act in the interest of those who are less fortunate (ibid). The presumed direct relationship between 'more money' and altruism is, to say the least, questionable, especially in the absence of mechanisms for systematically expressing and representing voices from below.

Thus the Chamber can be described as an organization for 'big business' and is obviously not representative enough as membership is optional and effective membership is expensive. The combined effect of these two aspects has been the alienation of a substantial number of micro, small and medium businesses which, even if stagnant and effectively part-time, form the overwhelming majority of enterprises in the private sector.

Moreover, the smaller businesses in lower membership categories are either free riding on the efforts of those in the Platinum group in so far as PPD is concerned or they are exploited ('suckered' in the language of some literature on collective action) in that they derive few benefits from their membership and hence to some extent subsidise the higher categories of membership. The decline in membership could support the latter point in that those in the lowest categories enjoy so few or such insignificant benefits that it is hard to see what difference there is to the position of non-members.

Membership distribution according to category and region:

As the table below shows, the prominence of the south and centre of the country in the membership (incomplete table) is apparent.

Table 2

Category	South	Centre	North	Total
Platinum	24	14	0	38 (190 votes)
Gold	8	3	1	12 (48 votes)
Silver	9	9	1	19 (57 votes)
Copper	9	5	2	16 (32 votes)
Aluminium	4	4	3	11 (11 votes)
Bronze	6	8	4	18 (18 votes)
Totals	60	43	11	114

The scope of membership of MCCCCI in terms of sectors is encompassing as it includes manufacturing, distribution, services, transport, trading and agriculture. However, the membership is thinly spread and does not command depth relative to the size of the various sectors. Placement of the various companies into the various sectors is also problematic as it entails multiple counting as businesses may have a diversified portfolio of activities, but also as there are no clear criteria within MCCCCI for categorising the companies. Distinctions between service, banking services, financial services, or between farming, agriculture, tobacco and agro-processing are less useful for analytical purposes. Suffice to note that the majority of members are in the platinum with a distribution of less than ten members across the regions from the other categories. This indicative fact serves to confirm the thesis of a 'missing (or weak) middle' which is central to the agenda of pro-growth.

Membership also does not reflect differences between single enterprises and business associations (BAs). For example, the Tobacco Association of Malawi (TAMA) has over 80,000 members ranging from companies to individuals, but it is TAMA that is a member of the MCCCCI and its own members are not necessarily part of MCCCCI. TAMA therefore enjoys benefits equal to those enjoyed by a one-man business, an arrangement that affects the representative nature of the MCCCCI.

Over-representation and therefore exercise of more influence is further attained through multiple membership within the same membership category and across the categories, especially for 'big' business. This phenomenon is evident with tobacco buyers – a group (syndicate) of companies that has considerable influence in politics and policy-making. All the tobacco buying companies (as of January 2007) are members of the Tobacco Exporters Association of Malawi (TEAM) which is a platinum member in MCCCCI. However, a few individual companies are also members in the same and/or

other categories in their own right. For instance, Limbe Leaf Tobacco Company and Africa Leaf Malawi are both members of TEAM and are also in the platinum group. Thus each one of these companies and also their representative association has four votes. Further, some individual companies in the platinum category have their subsidiaries registered in the other categories: for example, JP Stevens Tobacco Company is associated with Limbe Leaf and is in the Gold category with three votes. This situation dramatically increases the number of votes accruing to one group of stakeholders and therefore skews the balance of power and influence.

MCCCI contains members with diametrically opposed interests but there are no publicly known rules as to how it mediates these opposed interests. For example, TAMA advances and protects the interests of all tobacco growers and TEAM protects those of tobacco buyers and exporters. In the recent past, these interests have been at odds, with Government at the highest level backing the cause of growers, as exemplified by the President's speech in August 2006 at the Agricultural Trade Fair, mentioned earlier. The conflict of interest among the membership obviously affects the representative character of the Chamber, especially given that the totality of votes for some interests outweighs others – but we need to know much more about how the internal politics of the MCCCI operate.

The table above also shows that proportionally, the Platinum category has the biggest share of the membership – and also the single biggest number of votes – hence confirming the view that the MCCCI is a largely elitist organization which is more effective for, and representative of, the interests of big business. The overwhelming majority of current (2007) Council Members of the MCCCI are drawn from the Platinum and Silver membership categories. It might not matter unduly if the MCCCI were a better representative of the interests of smaller businesses, but this is not the case as it lacks any internal institutional arrangements for systematically eliciting and expressing the voices from its membership in the lower categories. In addition, and crucially, the membership of MCCCI is a very small fraction of private sector enterprises as a whole. There is little evidence to suggest that the Platinum group members who are actively involved in PPD and who formally represent the private sector on Government committees and in other decision-making processes, act in the interest of either its lower category members or the wider community of small businesses.

The MCCI and the State

At least since the 1990s, the leadership of MCCCI was composed of people who were politically-connected to the regime and hence acted both as 'insiders' and as 'gatekeepers' for private sector

voices. One by one, many of the leaders since the 1990s have left the Chamber to join mainstream politics; their case studies are instructive in that respect:

1. Mr Bakili Muluzi was an influential member of the MCCCCI before he founded the UDF in the early 1990s and subsequently became President of Malawi. Most of his early core group were also members of MCCCCI. Other notable names that launched their political careers from or whilst they were members of MCCCCI included the following:

2. Harry Thomson was Chairperson of MCCCCI from 1984 to 1993 when he moved into mainstream politics as an executive member of UDF. He became senior cabinet minister in the UDF government under Bakili Muluzi holding different portfolios including 'Leader of the House' in Parliament. He fell out of grace in the early 2000s when he opposed Muluzi's open and third term bids for the Presidency and was removed from the Cabinet. In 2002–2003 he was a presidential hopeful.

3. In 1997, Mr Mark Katsonga, a man with political ambitions, took over leadership of MCCCCI until 2001. He later joined a political party called People's Progressive Movement (PPM) under the leadership of Aleke Banda (who had been dismissed from the Muluzi Cabinet for opposing the open and third term bids for the Presidency). Note that Aleke Banda was the Minister around whom STAFE – see below – revolved. Both Mark Katsonga and Aleke Banda are now members of Parliament with influential positions in the Committee System.

4. Mr Koreia-Mpatsa who some have described as a 'failed politician' came to the helm of MCCCCI in 2001 and withdrew in 2003 when he went into active politics ahead of the 2004 elections. Before leaving MCCCCI he had founded the PPM but later dumped it after the party's convention chose Aleke Banda to be its presidential candidate. He later teamed up with Mr Malewezi, former Vice President of the Republic who resigned from UDF in opposition to moves to perpetuate Muluzi's rule. They ran as Independent Presidential candidate and running mate respectively.

5. Mr Martin Kansichi succeeded Mr Mpatsa at the chamber from 2003 to 2005. He resigned from the chamber when Dr. Mutharika appointed him as Minister of Industry, Trade and Private Sector Development. He was later dropped in a cabinet reshuffle.

6. Mrs Agrina Mussa, wife to Henry Mussa (Minister of Transport and Public Works) whom the Government appointed as Chairperson of Electricity Supply Commission of Malawi, took over the MCCCCI mantle from Mr Kansichi for a few months before Dr. Mutharika appointed her to a diplomatic post in South Africa.

It is thus clear that there has been a close association between

influential and leading members of the MCCCCI and the government of the day, and traffic between the Chamber and government office has been significant. Whether that has helped to build the mutual independence and autonomy of both the state and the leading business organization, or not as the case may be, remains to be seen; and whether it has been the basis of an emerging 'growth coalition', characterized by 'embedded autonomy,' or whether it is consolidating a new 'clientelistic network' along the lines of what occurred in the 1960s and 1970s in the Philippines (Haggard, Maxfield and Schneider, 1997:54) will greatly influence the future politics of SBRs in Malawi. Officials in the MCCCCI indicate that reforms have been put in place within the organization which will help to avoid the impression of it being a 'launch-pad' of political parties – and politicians – and which will make it a more independent and autonomous representative of the private sector. Time alone will tell.

Current Organization, Funding and Ideology of the MCCCCI

The MCCCCI has a staff of 16 people, including front desk staff, messengers and drivers. Of these 16, only 8 including the CEO are professionals, spread across three sections: Economics & Research, Customer Relations (with the biggest share of staff) and the Government Affairs Executive where there is only one post at a grade below that of a section Manager. At the top of the secretariat is the Council of the MCCCCI – composed of members of the business community who are also members of MCCCCI and drawn from the Platinum and Gold classes of membership. It is responsible for policy direction.¹⁰ Funding for the MCCCCI recurrent budget is realized from membership fees and other services that the MCCCCI provides such as fairs, dinners, workshops and the rentals which tenants pay for using the MCCCCI premises. It has previously received support from donors such as the African Capacity Building Fund (for the development of the Strategic Plan and also for the establishment of a resource centre), GTZ (for Research-surveys) and USAID (for SME development). World Bank support for PPD work is yet to start.

The MCCCCI exists to serve its members (members of the business community that are its members) and the business community at large (including non-members). The Chamber views itself as the voice of the private sector. Its mission, vision, core values, key goals and objectives are spelled out in Section 3 of the new MCCCCI Constitution, thus:

'3.1 To promote trade, commerce and industrial development in Malawi in a competitive and minimally regulated

business environment;

3.2 To assist the business community by promoting and advocating for a conducive business environment in Malawi;

3.3 To encourage competition in the economy;

3.4 To strengthen the efficiency of production and distribution of goods and services;

3.5 To promote, improve and encourage the development of business;

3.6 To secure the best possible conditions for the freedom of trade;

3.7 To facilitate the expansion of the base for entrepreneurship;

3.8 To advise government on matters relating to business and the socio-economic impact of business on Malawi;

3.9 To promote the interests of the business community;

3.10 To provide for matters incidental or connected with the above;

3.11 To work in partnership with and affiliate itself to any appropriate Association or Society or other organisation, charitable or non charitable, within or outside of Malawi to facilitate and enhance the Confederation's aims and objectives; and

3.12 To make representations to Government or any competent authority or body corporate with a view to promoting and developing commerce and industry.'

Indigenous Business Association (IBAM)

The Indigenous Business Association of Malawi (IBAM) began in 2003 and is not yet well established. It has an interim committee which also constitutes its known membership and at the moment it runs on a voluntary basis in that its members personally meet the costs of their operations. A general assembly is in the offing to discuss issues of membership which are expected to be controversial because the word 'indigenous' smacks of racist orientation.

The origins of the IBAM can be traced to the expressed frustrations among 'indigenous' Malawian businessmen who claimed that all big (lucrative) business from Government was being awarded to 'Asians' (meaning mostly Indians) and other foreign companies without requiring local partnership. Although the IBAM representative was unable to cite any specifics with respect to this issue, MCCCCI southern region members in August 2006 observed that Government had given Paladin Africa Ltd, an Australian mining company, a 16 year tax holiday and 'they wondered why government does not require local participation in companies that benefit from tax holidays.' This shows that generally there is a perception in the 'indigenous'

private sector that government favours foreigners. The idea behind IBAM therefore was to create a 'voice for Malawians' – an organization that could handle issues affecting the business affairs of indigenous Malawians. MCCCCI, it was felt, was not a suitable body for this purpose because it 'represents everybody including foreign interests, it stifles the voice of small companies and many businesses run or owned by indigenous Malawians are small, have working capital problems and cannot afford to waste their hard-saved capital funds on a membership whose tangible benefits are rather illusory' (interview with IBAM representative). This point is buttressed by the observation that a former chairman of MCCCCI from 1997–2001, who subsequently went into full-time politics and then became a Member of Parliament in 2004, has his business now registered in the lowest membership category.

IBAM appears to draw further inspiration from the beliefs of its members and media reports that in the privatization programme, Malawian participation has been minimal and the institutional matrix for privatization has effectively transferred public enterprises to foreigners. The PC acknowledged this perception in its Annual Report for 2004, saying that 'the perception that the SOEs are being sold to foreigners is made worse by existing prejudice against members of the Asian Community, who are seen as shrewd business people who can control prices and do not have the interests of Malawi at heart and will leave Malawi if times get tough' (Privatization Commission, 2004:16).

While it is true that the participation of Malawians has been small, this is not attributable to the institutional matrix within which the privatization programme is implemented. On the contrary, at least by design, the institutional arrangements are such that they have deliberate inbuilt mechanisms to enable participation of indigenous Malawians in the privatization programme. With respect to the first point, it should be noted that by June 2004, eight years after launching the privatization programme, a total of 64 out of 100 entities in the Divestiture sequence plan had been transferred to the private sector. Of these, Malawian individuals acquired 48%; Malawian companies got 18% while the balance of 33% was purchased by foreigners (Privatization Commission, 2004: 9). For example, Blantyre Dairy was bought by Dairibord of Zimbabwe, Chigumukire Lodge by Safari Camp and Tours of Kenya/South Africa, Finance Corporation Ltd by NEDBANK of South Africa and Grain and Milling Company by Bakhressa and Company of Tanzania (Privatization Commission 2004a:17–18) However the privatization authorities are aware that 'per capita participation of non-Malawians in the economy is greater than that of indigenous Malawians' and thus has provided mechanisms to facilitate indigenous participation.

In particular, there is a privatization special fund which by June 2004 had disbursed about MK135m, discounts are offered to Malawi citizens as are generous deferred payment schemes (PC, 2004:9). Thus factors other than the institutional matrix for privatization could be responsible for the dominance of foreigners in the Malawi economy.

However, based on their perceptions, IBAM would like to 'warehouse' shares for local Malawians to enable them participate in the privatization programme at their own pace. 'If the private sector is the engine of growth', they argue, 'the indigenous sector is the crankshaft in the engine' (interview with IBAM representative). One of IBAM's objectives is to facilitate the formation of mutual partnerships between local and foreign investors – a similar agenda to that of MIPA in the public sector, with focus is on skills transfer and capacity building.

It is important to note that IBAM had difficulties getting registered as an Association because Ministry of Justice raised concerns about the use of the word 'indigenous'. However they got support from the Head of State and Government who invited them to State House after watching a television show on IBAM in 2005. It should also be noted that the President has also expressed his intentions of giving special focus to indigenous Malawians. For instance, in his speech, 'Working with the Private Sector', he said: '...my Government will also seek to establish or encourage the establishment of the Malawi Development and Investment Bank which... will promote joint venture capital funds to promote the effective participation of indigenous Malawians in industrial development and trading of our country.' It was also for the same reason that Dr. Banda restricted 'Asians' from trading in the rural areas. This shows that the concern with 'indigeneity' is not new and not only is a concern for the businesses but also of the leaders of the country. The question is whether the domination of foreign enterprise over time will influence how SBRs evolve in Malawi. Certainly issues of this kind are not unique to Malawi and have cropped up in Ghana, Kenya, Thailand, Malaysia and Indonesia. Recent calls for followers by a group proposing to form an Indigenous Garage Operators Association (IGOA) suggests that the issue is by no means dead and time will tell if the issue of 'indigeneity' is gaining momentum within Malawian business politics.

The MCCCCI would prefer IBAM to join it and not stay outside its ranks, and it also believes that IBAM should welcome any foreign investment which contributes to job-creation and wealth-creation in Malawi. MCCCCI is not sympathetic to arguments about 'indigenous' issues.

3. PPD INSTITUTIONAL ARRANGEMENTS AND PROCESSES FOR SBRs

The sections above have attempted to show that the institutional preconditions for coherent and effective SBRs in both the public and private sectors in Malawi have been weak, and that relations have tended to be ad-hoc, issue driven and disjointed and have often taken the format of 'consultation' in which the public sector entity is the 'master' and only consults as a matter of good will and good practice rather commitment and appreciation of the role which the private sector might play. Such consultation has often degenerated into 'briefing sessions' in which the public sector puts on the table what it has prepared and reacts to questions from private sector stakeholders in a more defensive than consultative manner.

However, there are instances in which genuine consultation has taken place leading to policies, strategies or other products that are really results of collaborative effort – for instance, PPD was effectively used in the development of the MEGS. Even IBAM reported that it now receives invitations from Government (EP &D) and that it has been brought into the mainstream process for developing the 'National Empowerment Policy' which the President has announced will be adopted and launched soon. Similar efforts are seen in the development of the Malawi Private Sector Development and Reform Strategy which MITPSD is undertaking jointly with MCCCCI, as well as several other initiatives including budget consultations. However, such consultative efforts remain ad-hoc, issue driven and centred on the personality of the person in charge – coherence of strategy and attitude to SBRs remains to be built.

3.1 Special Task Force on the Economy (STAFE)

The Special Task Force on the Economy (STAFE) was the first, though little known, public sector attempt – after 1994 – to institutionalize public private dialogue (PPD). It was largely an accountability forum which began in 2000 and was chaired by the Minister of Finance who was its initiator and later became Minister of Agriculture in a cabinet reshuffle.

STAFE comprised Cabinet Ministers, CEOs of parastatals as well as other private sector representatives who were chosen by the Minister and his staff; it reported directly to the President and met monthly. STAFE was a forum where difficult questions were asked, pledges of action were made and both public and private high-level decision makers were made to account for their actions or inactions and recommendations, with time-frames, were made. The

effectiveness of STAFE, however, revolved around its chairperson who was known to be dynamic, visionary and hard working. He later fell out of grace with the President for opposing an unconstitutional third term for the president and was consequently booted out of cabinet and with him went STAFE in 2002.

3.2 National Action Group on the Economy (NAG)

The NAG was born out of a national workshop on private sector development that was held in mid-2001 and was jointly convened by the Minister of Finance and the CEO of Press Corporation. The workshop which drew participants from among senior public and private sector leaders prioritised sub-sectors for national focus and recognized the need for a high-level dialogue on many issues (note that the CEO had been Minister of Finance in the same Government).

The NAG arose to fill the gap created by the defunct STAFE. The responsibility could not be entrusted to MCCCCI, an organization that had for a long time been the dialogue partner of Government on private sector development issues, because 'the chamber became a breeding ground for politicians who frustrated business interests' (Interview with MITPSD personnel).

Like STAFE, the NAG was not an organization per se, but a representative forum comprising Government Ministers, senior officials, key private sector captains and Donor representations. Fora of this kind, to promote better relations between public and private sectors, especially during times of transition and restructuring, have not been uncommon in Africa and elsewhere (Hart, 2001). Composition of these fora have varied, sometimes including labour and wider community interests (as with NEDLAC in South Africa), sometimes not. In the case of NAG, the emphasis was on heads of the institutions i.e. people with decision making powers who could commit their organization and/or resources.

The NAG arrangement provided for the co-chairmanship of the Minister of Trade and a CEO from the private sector; until it became defunct, the co-chairman was the CEO for Press Corporation.

Initially the NAG process was supported by two local consulting firms interested in private sector development (Kadale and Imani Consultants) until in late 2002 when DFID funded a secretariat to perform certain tasks, including:

- Supporting and facilitating the NAG process.
- Convening the forum.
- Establishing supplementary (sectoral) dialogues.
- Undertaking policy and issue analysis.¹¹
- Ensuring follow up on agreed actions.

The two consulting firms, owned by UK citizens supported the secretariat and this somehow came to symbolise the NAG, or were perceived by some to be NAG itself. It is also important to note that the two firms were members of MCCCCI but not in the Platinum Group. Thus in constituting the NAG secretariat, they created an opportunity for themselves to be part of the PPD process, a 'benefit' their membership to MCCCCI did not allow them. The secretariat was a joint government-private sector-donor institution (i.e. two local consulting firms on a part time contract, two officials from two key ministries and a part-time person seconded from DFID). The rationale for such an arrangement was to provide each stakeholder group with a point of access. Other societal interests, such as labour and civil society organizations, apart from a few 'economic-related civil society partners' (Agar and Kaferapanjira, 2006:2), were not included.

3.3 Objectives and Structure of the NAG

At the beginning NAG reacted to events, addressing issues as they arose, until in 2003 when the forum resolved to be pro-active by developing a 'business plan for Malawi'. This effort resulted in the Malawi Economic Growth Strategy (MEGS), which was a joint public-private strategy for private sector development. In this effort, the Minister of Economic Planning and Development was personally involved before he became President in 2004. The MEGS identified poor private and public co-operation as a cross-cutting constraint to poverty –reducing growth, among others. In particular, it was noted that the 'chamber of commerce [had] generally failed to win the trust and confidence of the private sector to act as an effective mouthpiece for the private sector' (GoM 2004:10). It advocated for a recognised, representative and legal institution that would serve as a liaison between the two sides in the form of a 'business council'. In terms of proposed strategies, the MEGS, was largely inspired by a neo-liberal orientation: it aimed at achieving high economic growth through the stimulation of trade and investment and restoration of macroeconomic stability – the target was 6% of growth which was deemed to be the minimum required to make a significant dent on poverty – and in particular it called on government to create an enabling environment for markets to function effectively. For the agricultural sector, it advocated outward looking and export oriented rather than import substituting strategies (ibid:16–25).

The NAG process, a self styled PPD mechanism had three overarching objectives:

- To ameliorate the business enabling environment through dialogue and action.
- To establish mechanisms for dialogue and/or strengthen existing ones.
- To work towards changing attitudes to dialogue and entrench the culture of engagement between private and public sectors.

NAG worked through a two layer structure consisting of the main regular forum and sub-sectoral fora. The main forum would meet bimonthly and discuss many issues including taxation and its administration; business and investment climates; reforming MIPA to increase its accountability to private sector and Government; reforms in service utilities; reforms in forex regulations for exporters; and oversight and appointment of board members for statutory corporations. It should be noted that some of these issues were identified in the MEGS. Decisions were arrived at by consensus and more often than not, the burden of 'acting' on resolutions fell on Government rather than the private sector. It was patronized by key economic ministers and officials, key public sector institutions, namely the Central Bank, the Privatization Commission, MIPA, leaders of parliamentary economic committees, CEOs of leading investors, other private sector representatives and Heads of Mission of development partners.

The second layer of sub-sectoral groups had public and private representation and addressed specific sub-sectoral issues, for instance to do with textiles (that is how to take advantage of Africa Growth opportunities Act of the USA), mining (especially the need for geo-mapping and tourism), and referred issues which they could not resolve in the main forum.

The NAG process was characterized by a lack of legal status as a deliberate choice and instead relied on collaboration and commitment from the different stakeholders. It experienced pressure to formalized and compel involvement and justify demands for accountability. Such pressure was resisted on the ground that NAG was merely a forum and not an organization, and that calls for formalization essentially confused the form of a process with its function. It was therefore in basic terms a 'talking shop' but with the difference that a few concrete achievements could be enumerated. However, lack of formality partly contributed to its downfall in late January 2007, following the January 2007 workshop on the 'way forward'. Though formally finished, the aims, dynamics and processes remain largely the same within the new PPD arrangement, housed in the MCCI.

3.4 Achievements of the NAG PPD process

A number of achievements of the NAG process as a PPD mechanism include: reforms in tax administration and tax regime – particularly the removal of the minister's power to grant discretionary incentives and extension of payment periods for provisional tax; development of the MEGS – a public/private business plan for Malawi which has contributed significantly to the current development policy and strategy; policy changes and problem solving in key priority sectors particularly in the supply of electricity; and helped MCCCCI to revamp and reorient its governance and lobbying effectiveness, i.e. shifting the focus more onto 'enabling environment' activities than on the more survivalist revenue-raising activities (Agar and Kaferapanjira, 2006; GoM, 2006a).

3.5 Challenges, the Fall of NAG, and Current efforts to (re)institutionalize PPD Challenges

In its short life, the NAG became the focal point for regular dialogue between the government and other stakeholders, but also faced many obstacles and challenges which finally brought about its demise; the last time that NAG was convened was April 2006. This section highlights those challenges and exemplifies the politics of SBR even further.

To begin with, it was simply 'too informal': NAG did not have formal authority over any of the stakeholders; participants could agree to take action and commit their organizations to be accountable to the group; and there was no legal or quasi legal enforceable sanction for failure to deliver on agreed commitments – the process relied on peer pressure. Consequently NAG sought high-level representation involving heads of institutions that could make decisions without referrals. However, due to lack of 'mandate' it was regarded as a 'talk show' and in subsequent fora high level people started delegating to juniors.

Second, the NAG process was not representative enough in that it was relatively small, arguably to allow for open and robust dialogue between those who knew each other and their perspectives. Participation in the forum was by invitation; it was not representative of the diversity of the private sector or of the wider community, which could be a result of MCCCCI being the main private sector representative in NAG. Critics described (or misrepresented) the NAG as being 'too white, too British, too donor-driven, too big-business oriented, not delivering quickly enough and so on' (Agar and Kaferapanjira, 2006:5) and therefore just as elitist and

unrepresentative as the MCCCCI. It is worth noting however, that sometimes criticism of this kind flowed from those in the private sector who saw the NAG process as impeding or threatening their interests and government officials (who were also not averse to criticising the process) also resented a coherent private sector which seeks accountability, something to which they have not been accustomed (*ibid*).

Third, lack of formal membership and lack of a formal mandate appear to have fuelled the perception within MCCCCI and Government that the NAG was merely a forum of 'busybodies', not doing enough for the private sector. The fact that the NAG was facilitated by a secretariat that was predominantly white (and British) and funded by DFID was regarded by some quarters as only a means of creating jobs for expatriate white officials from the United Kingdom.

A fourth challenge that helped precipitate the fall of NAG was the perception amongst public sector participants of 'state and donor capture' by private sector players. The belief was that NAG had become a forceful forum not so much for accountability but for decisively influencing Government and/or donor policy to the benefit of the private sector. Consequently public sector players began sending low-level officers without authority to commit their organizations or make decisions.

On 27 January 2007, representatives from both public and private sectors met to discuss the future framework for PPD and issued a joint communiqué that effectively became the epitaph of the NAG process. The meeting was initiated by the Ministry of Industry, Trade and Private Sector Development and was convened following NAG procedures. Therefore, formally, it was convened by the co-chairmen of the NAG forum. The language of the communiqué suggested strongly that both private and public sector players were suspicious and not comfortable with the NAG arrangement.

3.6 Current efforts (the proposed way forward after NAG)

The proposed Public-Private-Dialogue (PPD) structure as outlined in the communiqué of 27 January 2007 (see above) is a modification of the NAG arrangement to make it more acceptable with renewed commitment from the Government side. In some respects it is similar to other attempts of this kind in Africa, such as the National Economic Forum (NEF) in Ghana, the National Forum (NF) in Uganda, the National Economic Development and Labour Council (NEDLAC) in South Africa, and the less successful National Economic Consultative Forum (NECF) and Tripartite negotiating

Forum (TNF) in Zimbabwe. Each had a distinct composition and set of goals and activities, but all sought to 'bring together relevant actors from government and business, and sometimes labour and other constituencies, to weigh the merits of various policy options, identify problems, air grievances, propose solutions and attempt to forge a consensus on how to implement economic reform' (Hart, 2001:1 and *passim*). The PPD in Malawi will, however, be less inclusive than, say, NEDLAC has been in South Africa whose membership includes trade unions.

A PPD secretariat will be a unit of its own within the MCCCCI, and will employ an economist and a co-ordinator. Other services will be contracted out where necessary. As part of its private sector development programme, the World Bank will fund the project for its first five years and, after that, the MCCCCI will take over. Non-MCCCCI members may be invited to functions, but there appear to be no formal mechanisms for eliciting wider opinion and co-operation, and hence PPD interactions will probably remain confined to MCCCCI members and, in all probability, to Platinum Group membership. As has happened in other developing countries, the dominance of one peak business organization, such as KADIN in Soharito's 'New Order' in Indonesia (Macintyre, 1994b) or the APRT¹² in Togo (Heilbrunn, 1997), with special or favoured links with governments and departments of the state may promote collusion, antagonise non-members, give rise to suspicion and stimulate opposition from non-members even in the form of rival organizations.

In particular PPD will be structured to:

- Ensure that communication is bidirectional, is not confrontational and is based on mutual partnership between public and private sectors.
- Balance full representation among the various elements within private sector without losing focus and effectiveness of dialogue. It is hoped that this will best be achieved through the use of sector level dialogues besides the main forum.
- Provide for a two level institutional framework in which the private sector will be responsible for the secretariat through MCCCCI, and the PPD fora will be convened jointly by the Minister of Industry, Trade and Private Sector Development (MITPSD) and a rotating member from the private sector; the personal periodic involvement of the President of Malawi was guaranteed in the communiqué.

Other pre-workshop Government sources (see especially GoM, 2006) show that MCCCCI had made these proposals including the proposal for the workshop which, one might say, simply ratified them. They had also proposed that dialogue should take place at Presidential and ministerial level where bi-annual and quarterly meetings would take place and 'a few members could be selected

to represent the private sector at such fora.' Given the benefits associated with membership in MCCCCI, such participation will only involve members in the Platinum group. It will not therefore address the concern on 'wide representation'.

Placing the secretariat and the forum in MCCCCI on the basis that 'it is a representative body that derives mandate from its membership... represent more members than any other private sector association... [and therefore]... in a better position to effectively convene the forum and ensure its sustainability...' suggests that participation will be restricted to Platinum members. Given the hierarchy of membership in MCCCCI, the proposed PPD may become another elitist creature. Further, MCCCCI represents a small proportion of private sector enterprises and thus a considerable part of the private sector may be alienated from PPD.

3.7 Opportunities and threats in relation to SBRs in Malawi

The fragility of SBRs in Malawi as explored above show that the process of institutionalization has opportunities but also is threatened by certain factors.

A total of six opportunities for positive SBRs can be identified:

1. Attempts to develop good rapport between public and private sectors have been initiated and so too are concerted efforts on both sides of the relationship to institutionalize and sustain PPD.

2. The institutional arrangement for PPP which is being developed by the Privatization Commission should hopefully help cement the relationship between the two sectors once it becomes operational so that perhaps in the future the phenomenon of 'Malawi Inc' will be possible.

3. There is good will and support from the donor community especially the World Bank and DFID.

4. It is now clear that in the public sector the Ministry of Industry, Trade and Private Sector Development (MTPSD) is the focal point and the responsible agent for SBR. If this is sustained and not fragmented, this will contribute to coordination and efficiency gains.

5. There is demonstrated improvement in state attitudes towards the private sector especially after 2004. However, this may be a unique feature of the current administration. If the election in 2009 brings a policy reversal, this will obviously reverse the gains made so far.

6. A proper foundation for PPD has been laid through the NAG framework. Institutionalizing SBRs is therefore not a process that is

beginning from a scratch.

7. Finally, it is clear that some efforts have been made in recent years to de-politicise the MCCCCI, to reduce the closeness of its association with the state and political elites and to deepen its autonomy and independence – as illustrated by the claim that the current President of its Council, Mr Harrison Kalua, has no known history of political affiliation, but had experience in the Ministry of Agriculture.

However, experience of SBRs in Malawi so far shows that at times it has been affected by quite a number of challenges. Some of them, as the fore going discussion has shown have been resolved. Nonetheless, even in the light of resolutions reached so far, challenges real or potential still persist. In this regard, four challenges can be noted:

1. The private sector is highly fractionalized so that it may not be able to speak with one voice. There are indications that the issue of 'indigeneity' – commonly found in other developing societies in Asia and Africa – is gathering momentum and may threaten PPD in a country where the business sphere is dominated by non-Malawians.

2. There is still lack of trust between the two sectors. For example, at a regional meeting of the MCCCCI (Southern Region Chapter) on 29 August 2006 it was asked 'whether Public Private Dialogue is working in Malawi in light of lack of action by government on agreed issues.' Members referred to a number of issues such as investment in utility companies and reduction of business licence fees. If elements of mistrust or distrust persist, the gains made so far can quickly be reversed if something/anything happens that is unpalatable to either the state or the business community and is done by the other.

3. The ongoing efforts to institutionalize PPD and SBRs are donor-funded. There are no clear indications of self-financing arrangements from either the state or the private sector. This raises questions of sustainability.

4. Institutionalizing PPD in MCCCCI with its current membership and decision-making structure, which is skewed in favour of 'the rich', will make the process less representative. It would appear that placing PPD in MCCCCI was fuelled by opportunism on the part of MCCCCI. As discussed earlier, it leaves out a big part of the private sector. Even within the MCCCCI the voices of members in the lower, relatively cheaper membership categories are not audible enough.

SECTION C

CONCLUSIONS

Our approach to the analysis of the politics of SBRs in Malawi has been informed by an historical institutionalist perspective and by the comparative assessment of the patterns of SBRs elsewhere. The study illustrates the utility of that approach and highlights a number of points which confirm some of the hypotheses and generalizations outlined earlier in Section A.

- The character of SBRs in Malawi has been heavily influenced by their experience in the formative years of the country after independence under Dr Banda's rule. Although we have not explored the character of the colonial SBRs during the protectorate and then in the context of the Central African Federation period, we suspect that state-business relationships, and especially between the MCCCCI (or CCIM, as it then was) and the colonial government, will also have been close if not collusive. Colonial governments in general were not particularly supportive of indigenous economic enterprises.

- The patterns, institutional practices and attitudes laid down in the period since independence have established a 'path' that has continued to influence how both state and business have related to each other. The formal hostility on the part of the state to the idea of an independent private sector under Banda has been formally disowned by subsequent regimes, yet the evidence is clear that neither side has yet fully embraced the implications of that. The state remains wary of an independent capitalist sector (for a mixture of reasons) while the main business association and many of the main Malawian businesses do not as yet seem to have embraced autonomous capitalist activity and remain keen to court the state for favours, support and protection. Perhaps, as it grows (and if it grows), a wish for greater independence will happen, as happened in Korea, Thailand and Indonesia. But Malawi is still a long way from the levels of capitalist economic development which were associated with business demands for greater autonomy and influence on national policy in those countries.

- It is important to add that these patterns have merged with or been re-enforced by the strong legacies of a parallel moral and social order, a set of informal institutional arrangements, or a moral economy, anchored deeply in the history and culture of the country, which have stressed the virtues of sharing and mutual support amongst kin. These virtues, we suggest, have been extended beyond kin and home region, to new groups and associations, constituted by colleagues in public offices. The borderline between

these practices and what is officially termed 'corruption' is not always easy to identify.

- As with many new states, the Malawian state – especially given its provenance under the Banda regime – remains weak in terms of infrastructural power and autonomy. Hence its ability to design an effective SBR is limited.

- Moreover, its will to do so is equally compromised. There appear to have been no external circumstances or internal political threats sufficiently challenging to propel Malawian elites to try to build a developmental state. Historically, it has been an external or internal political threat which has been a significant factor in propelling the emergence of developmental states and, more generally, of effective states (Tilly [1975], Doner, Ritchie and Slater [2005], Leftwich [1995], Ertman [1997]). In addition, despite rhetoric to the contrary, it is hard to detect a strong political will to transform what has been a shifting 'distributional coalition' amongst the elites into a 'growth coalition' that could help speed the process of development and the reduction of what is pervasive and deeply entrenched poverty in the country.

- With respect to the private sector, Malawi must be understood as being at a very early stage of capitalist development, which is not always thought of with favour amongst its elites, with a significant proportion of the population engaged in subsistence or near subsistence agriculture.

- It follows that there is as yet no strong, self-conscious or ideologically committed capitalist class of the kind which may be identified in Nigeria. If there were, one would expect a much greater concern to be expressed through BAs for effective macro-economic management, the provision for better public services and for an effective consultative role in policy formation.

- Though many households – of necessity – have, in addition to their subsistence cultivation, some involvement in the commercial life of the society, there are very few middle-sized and small-scale businesses. Most are micro. The dominance of a relatively few large enterprises very much shapes the pattern of SBRs.

- The main organization of business in Malawi, dominated by these large enterprises and not obviously speaking on behalf of the informal or semi-formal sector, is the MCCCCI. It has a long history, going back to 1892. However its formative experience since independence in 1964 has been as part of a very close and collusive relationship with the state which was indistinguishable from the ruling party, the MCP. Given this relationship, the MCCCCI has also served as a springboard for political advancement and the organization has pursued and enjoyed close links with whichever party has controlled the Presidency.

- The institutions that mediate relations between state and business have not yet consolidated but there are current efforts to forge these, with some external encouragement and pressure.

Future research issues

As we pointed out at the start, our focus in this work has been on mapping the formal institutions of SBRs in Malawi. Inevitably we encountered informal processes which have penetrated and shaped formal interactions. Given that we encountered serious problems in accessing even quite innocent information about the membership and committees of the business organisations, we would expect to find considerable obstacles in the way of uncovering the structure and impact of informal institutions. Nonetheless, it would be important to know much more about how those informal practices work, however difficult it may be to find out. It may be that the *informal* institutions which parallel formal political processes in Malawi overlap with those which parallel the formal institutional arrangements of the SBRs, as has been found to be the case, too, in Latin America (Helmke and Levitsky, 2006). There are other areas of work which our study has identified and which would be fruitful to pursue. We list possible future research topics below:

- How do the *informal institutions* which pattern state-business relations work? Can these informal institutions serve a developmental purpose? To what extent are those who are engaged in these relations concerned to contain the influence of informality? Is there a wider theatre of 'informality' where all manner of political and SBR issues are 'resolved'?
- It is clear that in any economy at the stage of development of the Malawian economy there will be a strong and potentially vibrant informal sector. Within that sector some *informal* institutions, unofficial and sometimes transient, will come and go. Others, however, might seek formality and consolidation. A much closer investigation of the extent, character, attitudes and aspirations of such informal associations in Malawian towns (especially) would pay great dividends.
- Finally, on a more macro and comparative level, it would be interesting to explore the extent to which different formal political institutional arrangements – such as federations, presidential systems, whether democratic or not – affect the national patterns of SBRs.

Policy implications

From a policy point of view, and especially that of partner donors, the most significant implications flow from the recognition that SBRs in Malawi – and indeed anywhere – are part of a wider set of *processes* which are profoundly political. Establishing and maintaining ‘synergetic’ relations between states and businesses (in effect business associations), rather than collusive or predatory ones, requires institutional development on both sides. Investing in *processes* and the players who enact the processes (that is the business associations and relevant state institutions and organizations) will require fresh thinking amongst donors; but effective SBRs, like effective states, are not constituted simply by institutional arrangements – the rules of the game – but also by effective players. Enhancing their capacity to participate in the processes will require a range of investments in at least some of the following areas:

- Education training and information concerning various models of SBRs.
- Contact with other BAs in the developing and developed world in order to share experiences, issues and problems.
- Facilitating opportunities for state-business discussions on policy issues.
- Extending and deepening understanding of political economy issues which are central to state and business commitments to growth.
- Helping to identify areas of conflict and agreement with respect to fundamental interests and policy objectives and aims.
- Helping to identify mutual expectations of state and business with respect to each other.

While these are often sensitive issues, clarifying these issues and enhancing the capacity of the respective players to participate in effective SBRs involves an investment in processes which will benefit both.

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In addition, the following materials from the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) were consulted.

- Record of Issues Raised during regional chapter meetings: 29–31 August 2006.
- Enhancement of Benefits and Call for Renewal of MCCCI membership for the year 2007.
- MCCCI Monthly Bulletin – various issues.
- List of Membership (incomplete, undated).
- Brief History of the Malawi Confederation of Chambers of Commerce and Industry.
- Brief Report on the Main Activities conducted by MCCCI from January to September 2006.
- MCCCI (2006) the MCCCI Strategic Plan, Blantyre.
- Constitution of the Registered Trustees of the Malawi Confederation of Chambers of Commerce and Industry (undated)

Interviews were conducted with staff at the following institutions:

- Malawi Economic Justice Network (MEJN) (Lilongwe)
- Ministry of Industry, Trade and Private Sector Development (MITPSD) (Lilongwe)
- Malawi Investment promotion Agency (MIPA) (Lilongwe)
- Malawi Confederation of Chambers of Commerce and Industry (MCCCI) (Blantyre)
- Indigenous Business Association of Malawi (IBAM) (Blantyre)
- National Action Group (NAG), Blantyre
- Privatization Commission (PC) (phone interview).

CONCLUSION

This volume combines both economic and political approaches to state-business relations in sub-Saharan Africa. SBRs affect the growth process in various ways and it is crucial to gain a deeper understanding of the links. This will involve understanding the nature of SBRs as well as a full understanding of the (causal) links between SBRs and growth. So far we have begun to examine SBRs from political and economic perspectives; both types of studies have brought new insights but have also spurred some fundamental questions which in essence imply that both perspectives should be seen as interrelated.

Economic analysis of SBRs has measured SBRs by condensing the essence of SBRs into measurable variables across countries or firms, and over time, and has then estimated statistically the link between the SBR variables and measures of growth and performance. This has naturally led to questions about whether what has been measured constitutes the key aspects of SBRs (e.g. key aspects may actually extend beyond the formal institutional forms to informal moods; or ad hoc formal arrangements may be difficult to capture in a quantitative measure), whether what has been measured is the form of institutions, rather than proxies for economic functions, whether there are uni-directional and causal links between SBRs and growth, and whether in fact there is an endogenous relation between SBRs and the growth process.

The political analysis has been very good at describing the political nature of SBRs, e.g. in the case of Malawi. There remain questions on identifying the essence of SBRs, what characteristics matter for growth, and how such characteristics would be obtained and maintained.

In future work we should aim to bring the economic and political approaches closer together into new conceptual frameworks. Crucial in this approach would be to ask the right questions which both economists and political scientists can relate to, or where appropriate, to ask questions sequentially which can connect the two approaches. How far can the measurement of SBRs be pushed into incorporating the various political and informal aspects of SBRs?

In particular we suggest we should answer the following questions:

- What are the current scholarly approaches to the study of SBRs (in Economics, Political science, etc)
- What are the formal and informal aspects of SBRs (organizations, rules, mood swings etc)

- How do these reflect the balance of power between state and business and how, if at all, does this change over time to generate different forms of SBR?
- What might be the possible political functions of different forms of SBR? Do different forms express different characterizations and purposes of the state and its (perhaps changing) political relations with the private sector?
- How do these different forms of political relations between states and businesses affect the way in which the purported economic functions operate?
- What are possible economic functions of SBRs (e.g. solving market and co-ordination failures)?
- How do the aspects and principles (trust, reciprocity etc) of SBRs map onto the functions of SBRs?
- It is possible to distinguish key channels of how different aspects SBRs may affect (shared) growth; to obtain a mapping taking into account intermediary factors – to obtain testable hypotheses.
- What are the advantages and disadvantages of measuring SBRs

It would be useful to find more country-specific evidence to these questions. It is this what researchers should turn to next.

