Industrial Policy and State-business Relations

Towards a Heuristic Approach

Buur, Lars; Whitfield, Lindsay

Document Version
Submitted manuscript

Published in:
State-Business Relations and Industrial Policy

Publication date:
2013

Citation for published version (APA):
Buur, L., & Whitfield, L. (2013). Industrial Policy and State-business Relations: Towards a Heuristic Approach. In D. W. te Welde (Ed.), *State-Business Relations and Industrial Policy: Current policy and research debates* (pp. 21-25). DFID-ESRC Growth Research Programme. https://degrp.odi.org/wp-content/uploads/2018/03/Essays-State-business-relations-industrial-policy.pdf

Growth Research Programme

State-business relations and industrial policy

Current policy and research debates

Dirk Willem te Velde (ed.)

August 2013

www.degrp.sqsp.com

Contents:

Image on frontcover: The Port at Tema, Ghana, Jonathan Ernst/World Bank

Research jointly supported by the ESRC and DFID

Executive Summary

The DFID-ESRC Growth Research Programme (DEGRP) produces a range of knowledge products aimed at linking the research of DEGRP to a number of research and policy debates on the following themes: agriculture; financial markets; and innovation and growth. This paper relates to the innovation theme and draws together a number of essays that emerged from two sessions on state-business relations and industrial policy during the 2013 UN University-World Institute for Development Economics Research (UNU-WIDER) Conference on 24-25 June in Helsinki, Finland: 'L2C – Learning to Compete: Industrial Development and Policy in Africa'.

The links between state-business relations and industrial policy are central to specific areas in the second call for DEGRP research: 'Institutions, Industrial Policy and Productivity Growth'. This paper includes contributions by leading experts on state-business relations and industrial policy including Lars Buur, Benjamin Herzberg, Margaret McMillan, John Page, Dani Rodrik, Kunal Sen, Lili Sisombat, Dirk Willem te Velde and Lindsay Whitfield. We are grateful to Hubert Schmitz for his comments on this paper with respect to informal state-business relations.

The essays argue that:

- One important role for industrial policy is **to raise aggregate productivity by increasing the share of manufacturing in the economy** and **by ensuring that resources flow faster into manufacturing sectors**.

- **The appropriate institutional setting matters greatly for designing effective industrial policy**. A broad understanding of how industrial policy can be supported by appropriate institutional settings is advancing. Conducive factors discussed in the essays include mechanisms that: enable transparency, ensure the likelihood of reciprocity, increase the credibility of the state among capitalists and establish high levels of trust between public and private agents; mutual interests, pockets of efficiency, learning for productivity; embeddedness, discipline and accountability; and commitment, focus, experimentation and feedback.

- However, **research has advanced far less in understanding the details of such factors**. High quality evidence on state-business relations using long-runs of data is often lacking. **More needs to be done to help understand more precisely the factors behind improved industrial policy-making that can help innovation and raise productivity growth**.

- More generally, this set of essays suggests several areas of further policy research:

- **Which state-business relations principles matter most?** Systematic analysis on the characteristics of effective state-business relations across case studies in low-income countries (LICs) (e.g. historical institutionalist empirical studies on successful economic functions of state-business relations) examining how they affect policy for innovation and productivity change.
- **Which forms of state-business relations help the most?** Examination of the practice of state-business relations by comparing across locations a few selective indicators that can be measured objectively.
- Bringing the two areas above together: **Which combinations of state-business relations practices and principles are more conducive to good policy-making, innovation and productivity growth? Do they differ when focusing on short-term gains rather than long-term structural transformation?**

1. Introduction and overview

Dirk Willem te Velde, Overseas Development Institute

DEGRP funds world-class scientific research on issues relating to economic growth in low-income countries (LICs), with high potential for impact on policy and practice. In addition, the programme aims to ensure evidence is used to develop the capacity to undertake and use research in developing countries, and has an impact on growth policy.

DEGRP will produce a range of knowledge products aimed at linking the research of the programme to a number of research and policy debates on the following themes: agriculture; financial markets; and innovation and growth. This set of essays has emerged from two sessions on state-business relations and industrial policy during the 2013 UNU-WIDER Conference on 24-25 June in Helsinki, Finland: 'L2C – Learning to Compete: Industrial Development and Policy in Africa'.

This paper relates to DEGRP's innovation theme. The programme has commissioned research on innovation and productivity in LICs under the first ESRC/DFID growth call to: (i) understand innovation better; and (ii) examine appropriate institutional and policy factors behind innovation. The second DEGRP call for research covers, among others, the following areas: (i) Competition, Market Structure and Productivity Growth; (ii) (Economic) Institutions, Industrial Policy and Productivity Growth; and (iii) Service Sectors and Productivity Growth.

The links between state-business relations and industrial policy are central to the second of these areas: Institutions, Industrial Policy and Productivity Growth. This paper summarises the contributions to two parallel sessions on state-business relations at the UN-WIDER conference. The aim is to make DEGRP and other research accessible for wider audiences.

This note includes a number of contributions by experts on state-business relations spanning policy and research communities:

- State-business relations and industrial policy: an introduction – by Dirk Willem te Velde of the Overseas Development Institute (Research Leader for the DEGRP Evidence and Policy Group)
- State-business relations and economic development – by Kunal Sen of Manchester University
- Industrial policy and state-business relations: towards a heuristic approach – by Lars Buur (DIIS) and Lindsay Whitfield (Roskilde University)
- State-business relations: structural change and industrialisation in Africa – by Margaret McMillan (IFPRI, Tufts University) and Dani Rodrik (Institute for Advanced Study, School of Social Science, Princeton)
- Industrial Policy in Practice: Africa's Presidential Investors' Advisory Councils – by John Page of the Brookings Institution
- Attempt to develop a global indicator on private-sector involvement in public policies and strategies - by Benjamin Herzberg and Lili Sisombat of the World Bank.

These essays summarise current research and policy debates in the area of state-business relations and industrial policy. The essays provide up-to-date insights into the economics of state-business relations (te Velde, Sen) and the politics and appropriate institutional settings for state-business relations (Buur and Whitfield, McMillan and Rodrik). They also include examples of the impact of state-business relations, e.g. with respect to Africa's Presidential Investors' Advisory Councils (Page), and how state-business relations might relate to economic development (Sen) or structural change (McMillan and Rodrik). The essays suggest a number of avenues for further policy research, e.g. constructing a global index on state-business relations (Herzberg and Sisombat) or future policy-relevant research on the importance of the practice of state-business relations or detailed institutional studies of state-business relations (te Velde).

What do the essays tell us?

- ***Policy matters***. While manufacturing productivity is converging internationally (regardless of policies and institutions), because manufacturing is a very small part of many LICs, and because resources do not flow into manufacturing sufficiently rapidly, there is still low aggregate productivity growth in LICs. Therefore, there is a role for industrial policy in increasing productivity.

- ***Institutions matter***. Research and policy communities appreciate the crucial role played by an appropriate institutional setting for effective industrial policy.

- ***The principles behind effective state-business relations are largely known***. The understanding of what makes appropriate institutional settings behind industrial policy is advancing, especially with respect to effective state-business relations. Different researchers use different terms to describe a range of institutional factors (in relation to state-business relations) crucial for effective industrial policy:

  - Mechanisms that enable transparency, ensure the likelihood of reciprocity, increase credibility of the state among capitalists and establish high levels of trust between public and private agents (te Velde);
  - Mutual interests, pockets of efficiency and learning for productivity (Buur and Whitfield);
  - Embeddedness, discipline and accountability (McMillan and Rodrik); and
  - Commitment, focus, experimentation and feedback (Page).

- In this context, it is interesting to note that recent discussions also point to the importance of accountability of state-business relations to civil society or the public at large.

- High-quality evidence using long-runs of data is lacking. So far, we have only scratched the surface of identifying and measuring the contribution of different types of state-business relations (te Velde, Sen) and more needs to be done as this can help in understanding more precisely the factors behind improved industrial policy-making. For example, we do not even have a global index of state-business relations (Herzberg, Sisombat).

2. State-business relations and industrial policy: an introduction

Dirk Willem te Velde, Overseas Development Institute

1. Introduction

There has traditionally been much debate about the role of industrial policy in development (e.g. Pack and Saggi, 2006). The key questions concern whether and how low-income countries (LICs) can industrialise, what effective industrial policies (as opposed to other factors) are conducive to industrial development, and what factors lie behind such effective industrial policies. This paper examines the link between state-business relations and effective industrial policies, reviewing what we know and what we need to know, building on previous review essays that examined related areas (te Velde, 2010 and Peiffer, 2012).

The policy context in which this research takes place has been changing rapidly in recent years. Less than a decade ago, major policy documents such the World Bank's World Development Report 2005 on the investment climate mentioned 'industrial' only in the appendix. Now IMF and the World Bank both acknowledge that targeted intervention can help economies transform structurally (IMF, 2012) with headings such as 'Market failures that can justify innovation and industrial policies' (World Bank, 2012a) and 'The case for targeted management training' (World Bank, 2012b). The growth policy pendulum is swinging.

Recognising that (nearly) all countries are using industrial policies, the next key policy question is: What types of institutional contexts (Rodrik, 2004) are conducive to effective industrial policies (i.e. those that achieve stated objectives, for example, industrialisation)? Institutions and the rules of the game (North, 1990) normally evolve slowly. They can involve either tightly controlled or loose relationships between state and business, and can be formal or more informal. Sometimes, institutions change rapidly if some critical juncture has been passed, such as a big internal or external shock.

This essay suggests that a lot of progress has been made in the study of institutional contexts behind industrial policy, in particular on state-business relations. Progress has been made by political scientists in studies that examine political incentives for growth (Booth and te Velde, 2009, Leftwich, 2009); studies

that examine the economics and measurable aspects of state-business relations (te Velde, 2006, Sen, 2013); and careful case studies of formal and informal state-business relations (Schmitz and Abdel-Latif, 2009). While these studies have progressed the boundaries of our knowledge, they have also hit methodological challenges. We will introduce the main issues and then think ahead.

The structure of the note is as follows: It will first introduce some definitions and then ask what we know about the role of industrial policy in development (section 3), the role of state-business relations for industrial policy (section 4), the characteristics of good state-business relations (section 5), methodologies used (section 6) and possible ways forward (section 7).

2. What is industrial policy and what are state-business relations?

Industrial policies are those that, by design, target the (dynamic) development of a sector or sub-set of activities in the whole economy. They are not limited to policies affecting industry but could also include policies aimed at services or agricultural development. Pack and Saggi (2006) argue industrial policies are any type of selective intervention or government policy that attempt to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention.

State-business relations are relations between the public and private sectors. The forms vary significantly, ranging from formal, regular co-ordination arrangements to informal, ad hoc interactions. They can cover the whole economy or target specific sectors, types of firms or policy processes. In some situations they involve highly organised relationships, in others they are loose relationships between the state and business.

In practice, it can be complicated further by the fact that ownership of the business sector lies with the state, and vice versa, that business leaders are politicians: sometimes we do not know. At some point, the state controlled 50% of the Malawian economy and it 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 Leftwich, Sen and te Velde, 2008).

3. What do we know about the role of industrial policy in development?

There has been a long-standing debate on the role of the public and private sector in driving growth and productivity change, which is highly relevant to research projects in the DFID-ESRC Growth Research Programme (DEGRP). Lin (2012) reviews the debate in his book on structural economics. On one leg of the pendulum are the old structuralists of the 1950s who argued that import substitution and heavy manufacturing was the way to grow. The failures of these policies and the resulting debt crisis led to the adoption of the Washington consensus in the 1990s, when international competition and deregulation ruled. The 2005 World Development Report still did not mention industrial policy, but by then a new strand of growth diagnostic studies had begun to take hold which focused on the most binding

constraints to growth. This involves, by definition, targeted solutions to specific constraints. Further, the 2008 Growth Commission report examined a range of successful growth cases and highlighted leadership as an important ingredient. A special issue of the Development Policy Review (Lin et al., 2011) featured a discussion on the role of the state in growth identification and facilitation; the lead article suggested a six-point plan involving a strong role for the state, such as building special economic zones or industrial parks to overcome barriers to firm entry and foreign direct investment (FDI), and encouraging the formation of industrial clusters. Commentators such as K. Y. Amoako suggested an even stronger role of the state. The growth policy pendulum had swung back.

Industrial policy can be important in theory. Industrial policy can help address market and co-ordination failures (te Velde and Morrissey, 2005). The process of innovation involves learning, institutional development and systematic interactions between various actors (Nelson, 1993) and is beset by a range of market, co-ordination (Rodenstein-Road, 1943) and government failures. Market and coordination failures are prevalent in areas such as skills development, technological development and knowledge externalities (Pack and Westphal, 1986, Lall, 2001), infrastructure provision, and capital markets (Stiglitz, 1996). Co-ordination failures also operate between linked firms, in clusters of firms and relating to the economy as a whole, and might prevent an economy from reaching a higher development path (Rodrik, 1996). The debate has never been about whether such market failures existed, but to what extent they do; we have never been good at measuring the degree of market failure. The Stern report (2006) called climate change the greatest market failure ever: how do we know the size of the market failure in industrial development?

Beyond theory, we also know that industrial policy can work in practice to help develop some countries structurally, although it fails in other countries. Industrial policy has worked in countries such as Singapore, Ireland, Taiwan, Malaysia and Mauritius who managed to direct the market into sectors using clustering and targeted technology and human resource development (te Velde, 2003). There are doubts in other cases, e.g. in Eastern Europe before the fall of the wall (Stiglitz, 1996), Latin American countries during the import substitution period, or failed experiments in Tanzania where public technology institutes were delinked from private sector users (Lall, 2001).

There have also been attempts to identify principles behind effective policy. Rodrik (2004) lists a number of design principles for effective industrial policy:

- Incentives should be provided only to 'new' activities
- There should be clear benchmarks/criteria for success and failure
- There must be a built-in sunset clause
- Public support must target activities, not sectors
- Activities that are subsidised must have the clear potential of providing spill-overs and demonstration effects
- The authority for carrying out industrial policies must be vested in agencies with demonstrated competence
- Implementing agencies must be monitored closely by a principal with a clear stake in the outcomes and who has political authority at the highest level

- The agencies carrying out promotion must maintain channels of communication with the private sector
- Optimally, mistakes that result in 'picking the losers' will occur
- Promotion activities need to have the capacity to renew themselves so that the cycle of discovery becomes an on-going one.

The World Bank (2012) suggests that lessons from past successes and failures of standard industrial policies are clear: governments should subject firms to competition, have clear sunset clauses and focus on well-identified market failures (Baldwin, 1969, Pack and Saggi, 2006), spill-over or latent comparative advantages.

So a lot is known and a more pragmatic view is emerging: industrial policy is important in theory and practice and it is possible to identify a set of design principles behind effective industrial policy. Increasingly, there is recognition that most countries practice industrial policy to some extent, and with the growth policy pendulum swinging once more we should examine what makes good industrial policy that helps to promote growth and productivity change. This paper examines the role of state-business relations in this.

4. What is the role of state-business relations in industrial policy?

It is not too difficult to see state-business relations operating in practice, e.g. when discussing investment incentives, taxes or red tape. Less is known about the economic functions of state-business relations. Doner and Schneider (2000) discuss a number of market-complementing functions of business associations as key agents in the conduct of organised state-business relations: macroeconomic stabilisation, horizontal and vertical coordination, lowering costs of information, standard setting and quality upgrading.

The role of agencies and their effective interactions complement price mechanisms in allocating resources and promoting industrial development. State-business relations have a role because: (i) there are market failures (the market alone cannot achieve an optimal allocation of resources); and (ii) there are government failures (state actors may not be able to address market failures on their own). As discussed in te Velde (2010) effective state-business relations can address market and coordination failures and government failures, and can reduce policy uncertainty.

Business associations and government departments may help coordinate dispersed information among stakeholders. They can lobby the government to provide more appropriate and good quality education and infrastructure, which is unlikely to be supplied through a fragmented private sector which relies on a price mechanism based on incomplete markets. Econometric work based on a large survey of firms in a number of Sub-Saharan African countries (Qureshi and te Velde, 2007) suggests that firms derive growth benefits from being a member of a business association, consistent with their stated preferences that business associations lobby on their behalf (in addition to direct lobbying) and provide relevant information.

Effective state-business relations address failures in government policy designed to overcome market failures. Governments can fail as they are unlikely to have perfect information and perfect foresight; suffer from moral hazard problems (Hausman and Rodrik, 2002); or are captured by elites. Effective state-business relations (e.g. a democratic way of conducting state-business relations underpinned by the principles enshrined in an effective competition policy) provide a check and balance function on government policies and their tax and expenditure plans—Bwalya et al., 2009 suggest how the private sector in Zambia can be successful in its budget proposals. Effective state-business relations may improve the relevance of government spending. The design of effective government policies and regulations depends on, among other things, inputs 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 actions and that local-level issues are fed into higher-level policy processes. The private sector can identify constraints, opportunities and possible policy options for creating incentives, lowering investment risks and reducing the cost of doing business. This can facilitate appropriate and active market-friendly interventions. More efficient institutions, rules and regulations might be achieved through policy advocacy, which could reduce the costs and risks faced by firms, and enhance productivity.

Effective state-business relations and membership of business associations may help reduce policy uncertainty. Firms operate in an uncertain environment and frequently face risks 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, and hence wealth creation, 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). Policy uncertainty is an important source of uncertainty. Businesses that have a good relationship with the government may be able to anticipate policy decisions. Evidence from around 1,000 firms in a number of Sub-Saharan African countries (Qureshi and te Velde, 2012) finds that firms which are a member of a business association pay a lower percentage of revenue as informal payments to government officials, face lower costs of insufficient water supply and make more use of information and communication technology facilities. This suggests that organised state-business relations play an important role in the creation of good institutions and governance, and the establishment of a better investment climate.

5. What are the characteristics of effective state-business relations for good industrial policy?

A number of studies have suggested possible effective state-business relations for good industrial policy. Studies often emphasise consistency (education policies in Ireland) and leadership (Singapore) in policies. The World Bank (2012) argues that industrial policies need strong institutions, as they are vulnerable to capture and rent-seeking and to inefficient micromanagement of the innovation and investment process. Rodrik (2004) argues that the right model for industrial policy is not that of an autonomous government applying Pigovian taxes or subsidies, but of strategic collaboration between the private sector and the government, with the aim of uncovering where the most significant obstacles to restructuring lie, and what type of interventions are most likely to remove them. He lists three key

elements for appropriate institutional architecture: (i) political leadership at the top; (ii) co-ordination and deliberation councils; and (iii) mechanisms of transparency and accountability. He suggests focusing on the process of industrial policy is more important than policy outcomes.

Rodrik's work appears to have been inspired by the work of Evans (1995) of an 'embedded autonomy' in which the public and private sectors form a strategic relationship. Examining the contributions by Evans (1995) and Maxfield and Schneider (1997), good state-business relations tend to be based on benign collaboration between business and the state, with positive mechanisms that enable transparency, ensure the likelihood of reciprocity, increase credibility of the state among capitalists and establish high levels of trust between public and private agents.

te Velde (2006) identifies a set of key measurable factors behind them. For example, to obtain credibility and reciprocity, both public and private sectors need to be organised or institutionalised. Positive mechanisms for transparency require that some rules or institutions bring the state and business together, and a set of principles is needed to restrain collusive behaviour. He suggests four factors make for effective state-business relations, which can clearly be expanded and improved on in specific research contexts: (i) the way the private sector is organised vis-à-vis the public sector; (ii) the way the public sector is organised vis-à-vis the private sector; (iii) the practice and institutionalisation of state-business relations; and (iv) the avoidance of harmful collusive behaviour. While informal aspects may also influence the links between measurable aspects of state-business relations and performance, it is not clear how this would affect the link between formal state-business relations and growth.

Some authors argue that informal state-business relations are more important for growth and structural change. Often, formal relationships are effective because informal ties exist underneath. Abdel-Latif and Schmitz (2010) stress the importance of informal ties and the inter-connection between formal and informal ties – and their relevance for growth – in Egypt. Peiffer (2012) suggests that providing a formal setting for state and business actors to meet will not necessarily result in a reform coalition. Instead, informal coalitions could facilitate appropriate policy, as in the food sector in Egypt (Abdel-Latif and Schmitz, 2010). Another example includes Seekings and Nattrass (2011) who find that not all formalised state-business relations structures work effectively, e.g. NEDLAC in South Africa.

A different strand of thought has focused on the role of different types of interactions among stakeholders as part of national innovation systems (NIS). NIS are networks of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies (Freeman, 1995). Non-market institutions play a vital role in building technological capabilities, in addition to addressing market failures, as discussed in the evolutionary approach to industrial development (Lall and Pietrobelli, 2001).

In conclusion, there is a set of important state-business relations characteristics, including consistency, leadership, transparency, competition and collaboration in networks.

6. What methodologies have been used to examine state-business relations?

Recent years have seen different types of studies on state-business relations using various methodologies (see Sen, 2013). Some case studies have used historical institutionalist approaches which use detailed historical and analytical work (Leftwich, 2009, Seekings and Nattrass, 2011) to trace the evolution of state-business relations. Other studies used economic approaches involving measuring of state-business relations and examining their impact on economic performance, at both micro and macro levels.

These studies tend to find that agencies and their effective interactions complement the price mechanism in allocating resources and, in positive cases, promoting growth. They also suggest that formalised state-business relations can promote economic performance, e.g. through more efficient allocation of government spending and better growth and industrial policies (e.g. Mauritius and Zambia through affecting budgets). In Zambia, business associations are both perceived to be effective and have actually been shown to be effective through providing information and lobbying government (Qureshi and te Velde, 2013). Yet, state-business relations need to be disciplined by a set of competition principles, or risk becoming collusive rather than collaborative. Not all formal state-business relations work well (e.g. South Africa, where formal state-business relations were avoided), and informal state-business relations (e.g. Egypt) or individual networks (Ghana) can play a key role. Harmful collusive relationships can be turned into more collaborative relationships (India), e.g. when leaders and elites work to form positive growth or developmental coalitions.

But studies also suggest that there are challenges with the methodologies. Economic studies are based on measures which describe only certain aspects but perhaps not the ones that matter, or those that are hard to measure. The detailed case studies may find it hard to uncover cause and effect (e.g. Peiffer, 2012), construct counterfactuals, describe the essence of state-business relations or abstract from policy suggestions.

7. Future research directions on state-business relations and industrial policy

There have been rapid changes in the policy environment: now accepting a role for industrial policy, the emphasis has shifted to examining the appropriate institutional settings within which industrial policy is designed and implemented. There are a number of gaps in our understanding.

1. **There is a lack of systematic analysis on the characteristics of effective state-business relations across case studies in LICs**. We have not yet brought together all the rich experiences in case studies and analysed them in a consistent way. As a first step, there seems to be mileage in building up a set of empirical studies across locations on successful economic functions of state-business relations. This could explain the importance of trust building, transparency, leadership etc., in the conduct of state-business relations.

2. **Some studies have used measures of state-business relations which could be improved on the basis of better case studies**. As a first step, it might be useful to examine a few selective indicators which can be measured objectively (e.g. how often do the sides meet, are there informed positions, does membership pay fees for a business organisation, involvement of external actors, characteristics of leaders involved, etc.). These data could be examined for commonalities across states, countries, etc.

3. **While studies have examined the effect of state-business relations, none of them have examined the effects of such institutions on big shifts or structural transformation**. Do state-business relations that can help structural transformation differ from those that help day-to-day policy?

References

Abdel-Latif, A. and Schmitz, H. (2009) *State-Business Relations and Investment in Egypt*. IDS Research Report 61. Brighton: Institute of Development Studies, University of Sussex.

Abdel-Latif, A. and Schmitz, H. (2010) 'Growth Alliances: Insights from Egypt', *Business and Politics* 12(4): 1-27.

Baldwin, R. E. (1969) 'The Case Against Infant-Industry Tariff Protection', *Journal of Political Economy* 77(3): 295-305.

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

Booth, D. and te Velde, D. W. with Frederick Golooba-Mutebi (2008) *Political Interests and Incentives for Economic Growth: Integrating "Drivers of Change" with Growth Strategies* (Overview Paper). London: ODI.

Chingaipe, H. and Leftwich, A. (2007) *The Politics of State-Business Relationships in Malawi*. Manchester: IPPG.

Dixit, A. and Pindyck, R. (1994) *Investment under Uncertainty*. Princeton, NJ: Princeton University Press.

Doner, R. and Schneider, B. (2000) 'Business associations and economic development: why some associations contribute more than others', *Business and Politics* (2)3: 261-288.

Evans, P. (1995) *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press.

Freeman, C. (1995) 'The National System of Innovation in Historical Perspective', *Cambridge Journal of Economics* 19: 5–24.

Hausmann R. and Rodrik, D. (2002) *Economic Development as Self-Discovery*. Cambridge, MA: National Bureau of Economic Research.

Hausmann R., Rodrik D. and Velasco, A. (2005) *Growth Diagnostics*. CID, Harvard working paper. Cambridge, MA: University of Cambridge Press.

IMF (2012) *Regional Economic Outlook: Sub-Saharan Africa*. Washington DC: International Monetary Fund.

Leftwich, A., Sen, K. and te Velde, D. W. (2008) (http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3266.pdf).

Lall, S. (2001) *Competitiveness, Technology and Skills*. Cheltenham: Edward Elgar Publishing Ltd.

Lall, S. and Pietrobelli, C. (2002) *Failing to Compete: Technology Development and Technology Systems in Africa*. Cheltenham: Edward Elgar Publishing Ltd.

Lin, J. Y. (2012) *New Structural Economics: A Framework for Rethinking Development and Policy*. Washington D.C.: World Bank.

Lin, J., Monga, C., te Velde, D. W., Tendulkar, S., Amsden, A., Amoako, K. Y., Pack, H. and Lim, W. (2011) 'Growth Identification and Facilitation: The Role of the State in Dynamics of Structural Change', *Development Policy Review* May 2011 (http://onlinelibrary.wiley.com/doi/10.1111/j.1467-7679.2011.00534.x/abstract).

Nelson, D. (1993) *National Innovation Systems: A Comparative Analysis*. New York: Oxford University Press.

North, D. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Pack, H. and Saggi, K. (2006) *The Case for Industrial Policy: a critical survey*. World Bank Research Observer.

Pack, H. and Westphal, L. (1986) 'Industrial Strategy and Technological Change', *Journal of Development Economics* 22: 87–128.

Peiffer, C. (2012) *'Reform' coalitions: Patterns and hypotheses from a survey of the literature*. DLP Concept paper 03 May.

Qureshi, M. and te Velde, D. W. (2012) 'State-Business Relations, Investment Climate Reform and Firm Productivity in Sub-Saharan Africa', *Journal of International Development*. Article first published online: 02 Mar 2012 DOI: 10.1002/jid.2823.

Qureshi, M. and te Velde, D. W. (2013) 'State-business relations and firm performance in Zambia', in K. Sen (ed.), *State-Business Relations and Economic Development in Africa and India*. London: Routledge.

Rodenstein-Rodan, P. N. (1943) 'Problems of industrialization of Eastern and Southeastern Europe', *Economic Journal* 53: 202-11.

Rodrik, D. (2004) *Getting Institutions Right*. Cambridge, MA: Harvard University.

Rodrik, D. (1996) 'Coordination Failures and Government Policy: A Model with Applications to East Asia and Eastern Europe', *Journal of International Economics* 40: 1-22.

Seekings, J. and Nattrass, N. (2011) 'State-Business Relations and Pro-Poor Growth in South Africa', *Journal of International Development* 23: 338-357.

Sen, K. (2013) *State-Business Relations and Economic Development in Africa and India*. London: Routledge.

Stern, N. (2006) *The Economics of Climate Change*. London: Cabinet Office.

Stiglitz, J. E. (1996) 'Some Lessons from the East Asian Miracle', *World Bank Research Observer* 11: 151-177.

te Velde, D. W. (2010) *Effective state-business relations, industrial policy and economic growth*. London: ODI.

te Velde, D. W. (2006) *Measuring State-Business Relations in Sub-Saharan Africa*. IPPG discussion paper 4 (http://www.ippg.org.uk/PDF/State-business%204.pdf).

te Velde, D. W. (2003) 'Policies towards Foreign Direct Investment', in G. Wignaraja (ed.), *Competitiveness Strategy and Industrial Performance: A Manual for Policy Analysis.* London: Routledge.

te Velde, D. W. and Morrissey, O. (2005) *Supporting Industrial Development: Overcoming Market Failures and Providing Public Goods. Combating Marginalization and Poverty through Industrial Development*. Project 3, United Nations Industrial Development Organization, Vienna.

World Bank (1993) *The East Asian Miracle: Economic Growth and Public Policy*. Oxford, UK: Oxford University Press.

World Bank (2013) *World Development Report 2013, Jobs*. Washington, D. C.: World Bank.

3. State-business relations and economic development

Kunal Sen, IDPM, University of Manchester, UK

The nature of the relationship between the state and business lies at the heart of the big debates on economic development. While there is much literature on how effective state-business relations have evolved in East Asia and Latin America and how they mattered for economic development in these regions (Johnson, 1987, Maxfield and Schneider, 1997), we know surprisingly little about the nature of state-business relations, how effective they were, how they evolved, and whether they mattered for economic performance in the two regions of the world which matter most from the viewpoint of economic development – Sub-Saharan Africa and South Asia. A recent volume edited by myself (Sen, K., 2013, *State-Business Relations and Economic Development in Africa and India*, Routledge, UK) based on original empirical research undertaken in Africa and India attempts to address this important gap in the literature. The volume (Sen, 2013) addresses three core research questions that have had little previous study in literature. First, what characterises effective state-business relations and how have they evolved over time across Africa and India? Second, what are the implications of effective state-business relations for economic performance in Africa and India? In particular, how do effective state-business relations affect economic performance at the micro, meso and macro levels? Finally, how do effective state-business relations emerge? What political factors explain their provenance, and why do collusive state-business relations that are not growth enhancing persist over time?

Each of the contributions in Sen (2013) addresses one or more of these core research questions, combining quantitative and qualitative methods wherever appropriate, and using interdisciplinary perspectives drawn from economics and political science in the analysis of state-business relations. Three features of the empirical analysis presented in Sen (2013) deserve special mention: first, the approach to measurement of state-business relations in Africa and India is the same across both contexts, and provides a way of measuring effective state-business relations that is innovative in its use of secondary data, and can be applied to other contexts and regions. The study of state-business relations in Africa poses a fertile ground for empirical research for both economists and political scientists. As Sen and te Velde (2012) argue, 'the context for state-business relations research in Africa is rich, diverse and dynamic. Some countries have long had official relations separating the state and business, while in other countries the relations are difficult, complex and based on mistrust. In many countries, a significant portion of business is owned by the state. In some countries, such as Mauritius and South

Africa, there is an institutionalised form of state-business relations, while in other countries, such as Malawi, the state and business were brought together through a facilitated forum. Some countries have a developed entrepreneurial business sector; in others this is largely absent' (Sen and te Velde, 2012).

The second feature of the analysis presented in Sen (2013) is the common approach that authors use to examine the effects of state-business relations on economic performance, and that the relationship between effective state-business relations and economic performance is examined at the micro and macro levels. At the macro level, this involves the use of panel regressions or time-series methods to test for the effect of state-business relations on economic growth. Sen and te Velde in Sen (2013) show that effective state-business relationships contributed significantly to economic growth in a panel of 19 Sub-Saharan African countries over the period 1970-2004; countries which have shown improvements in state-business relationships have witnessed higher economic growth and control over other determinants of economic growth, independent of other measures of institutional quality.

The contributors in Sen (2013) assess the impact of state-business relations on productivity growth at the firm (micro) levels using state-of-the-art econometric methods to address endogeneity in productivity estimates. For example, Qureshi and te Velde examine whether an effective state-business relationship facilitated by an organised private sector improves firm performance in Zambia. Exploiting the enterprise survey data of the World Bank Group, they find that being a member of a business association improves firm performance in Zambia in the form of productivity. They also find that joining a business association is particularly useful for small and medium-sized firms.

The third feature of Sen (2013) is the use of a common approach – the 'historical institutionalist' approach – among the contributors in explaining the emergence of effective state-business relations in some contexts and not in others. The 'historical institutionalist' approach involves the use of detailed and painstaking historical and analytical work, involving 'thick description' (Leftwich, 2009), and the contributors use this approach to trace the evolution of state-business relations in Sub-Saharan Africa and states in India. The contributors identify specific 'critical junctures' which are 'moments when institutional innovation or change may be initiated or, at least, which create the opportunity for it to occur' (Leftwich, 2009, p. 9) in the evolution of state-business relations. These 'critical junctures' may explain why there may have been a change from collusive to synergistic state-business relations (or a return to collusive state-business relations from collaborative state-business relations) in a given historical context. However, the contributions also highlight the importance of path dependence, that is, when 'an institutional choice/decision has been made or formed and sustained/consolidated over time, it sets the pattern and gets 'locked in' (Leftwich, 2009, p. 8). This may explain why particular collusive state-business relations which are clearly growth impeding may persist over time, if such relations benefit a narrow powerful economic and political elite who gain from the rents accruing from such a relationship. For example, in Sen (2013), Chingaipe, in his analysis of the institutional and organisational evolution of state-business relations in colonial Malawi, illuminates how state-business relations were central to the politics of state formation and the evolution, form and character of state-society relations, and demonstrates that the distribution and exercise of power between state and business elites, and the relative financial and political importance of the business sector to the state shaped the institutional and organisational forms, as well as the content of state-business relations.

The main conclusion of Sen (2013) is that where effective state-business relations are established – either through formal or informal institutional patterns and relationships – the growth effects are generally positive. But forming such institutions of cooperation and credibility cannot be made to order and is not a simple matter of administration or pragmatism. Establishing, sustaining and renewing effective state-business relations are political processes, and the better organised the business community and the government are for purposes of such relations, the more effective state-business relations will be in negotiating growth-enhancing policies.

References

Johnson, C. (1987) 'Political Institutions and Economic Performance: The Government-Business Relation in Japan, South Korea and Taiwan', in F. Deyo (ed.), *The Political Economy of the New Asian Industrialism.* Ithaca: Cornell University Press.

Leftwich, A. (2009) *Analysing the Politics of State-Business Relations: A methodological concept note on the historical institutionalist approach*. IPPG Discussion Paper No. 23A (www.ippg.org.uk).

Sen, K. (2013) *State-Business Relations and Economic Development in Africa and India*. London: Routledge.

Sen, K. and te Velde, D. W. (2012) 'State-Business Relations, Investment, Climate Reform and Economic Growth in Sub-Saharan Africa', in A. Noman, K. Botchwey, H. Stein and J. Stiglitz (eds), *Good Growth and Governance in Africa: Rethinking Development Strategies.* Oxford: Oxford University Press.

Maxfield, S. and Schneider, B. R. (1997) (eds), *Business and the State in Developing Countries.* Ithaca: Cornell University Press.

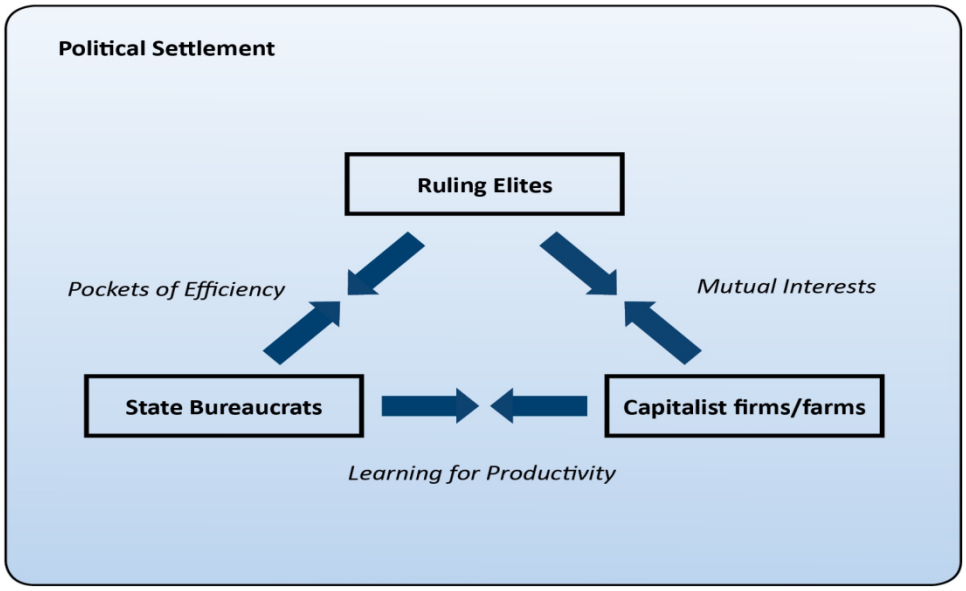
4. Industrial policy and state-business relations: towards a heuristic approach

Lars Buur, Danish Institute for International Studies and
Lindsay Whitfield, Roskilde University

Industrial policy requires changing the distribution of economic benefits and prioritising among economic sectors, which experience shows is always contested. The greater the contest among political elites over redistribution and prioritisation, the harder it is for ruling elites to look beyond their immediate political survival and strategies. Short-term political survival imperatives constrain the ability of ruling elites (or a faction of them) to prioritise and pursue industrial policies, whose results are uncertain and can take a long time to deliver (Whitfield and Therkildsen, 2011). The result is that support for industrial policies is often piece-meal and fragmented.

The fact that industrial policy is always contested does not mean that no forms of industrial policy will work (Amsden, 2001). We argue that successful industrial policy requires the simultaneous occurrence of three conditions related to state-business relations: mutual interests, pockets of efficiency and learning for productivity. These relationships are illustrated in Figure 1, a three-dimensional heuristic device to explain the conditions under which successful industrial policy is likely to occur. For that purpose, the roles of capitalist, ruling elite and state bureaucrats are depicted as distinct. However, in reality the lines between the positions in the figure can be blurred, and they are usually in tension. When the tensions are overcome, there is a 'fit'.

Figure 1 Politics of Industrial Policy



One caveat is that it is very difficult to make predictions based on our model. The Elites, Production and Poverty Programme has so far found that the factors motivating ruling elites and shaping implementation can differ across productive sectors, as contestations within ruling coalitions vary, the group of capitalists involved can vary by sector, sectors have different economic characteristics, and sectors can be embedded in different institutions and sets of political and socio-economic relations. Thus, state interventions to support certain sectors can be relatively successful in one sector, while interventions to support other sectors will be much less successful, or fail. For the same reason, we can observe different outcomes in the same sector across different countries during the same time period (Whitfield et al., forthcoming). But when the three conditions have come together, it has generally been when ruling elites faced severe internal and external threats in the context of limited resources—what is referred to as *systemic vulnerability* (Doner et al., 2005). Systemic vulnerability pressures, or what can resemble such pressures, can compel ruling elites to support processes of industrial policy and economic transformation in order to ameliorate opposition pressures, hereunder electoral pressures, besides mass unrest, and meeting external security or existential threats to the country.

How do mutual interests emerge?

For ruling elites (or a faction) to address the productivity-constraining problems in a particular productive sector, they must have the incentive to do so. They must have some kind of general *mutual interest* with the relevant group of capitalist firms/farms (we draw here on Moore and Schmitz, 2008). What capitalists need is for problems that are related to their ability to profit in the future from investment decisions to be settled. This is true regardless of the mix of objectives to promote investment from private-owned firms, state-owned firms, public-private joint ventures or party-owned firms. Political support is important because:

- It can reduce uncertainty, and state support can be provided in many ways

- Capitalists want predictability of government actions, including that the promised political support is credible, i.e. it will be provided (Maxfield and Schneider, 1997)
- Predictability and credible commitment can occur even when the overall business environment is poor.

The technological capabilities *and* relative holding power of domestic capitalists shape the incentives facing ruling elites, where capitalists will usually ask for access to rents. Rent-seeking activities by capitalists are not necessarily damaging if they can induce the ruling coalition to promote productive sectors (Khan, 2010). Whether or not they can do this depends on their power; the ability of capitalist firms/farms or their industry association to engage successfully in activities to protect or further their interests through a political process.

What are pockets of efficiency?

The group of ruling elites pushing a particular industrial policy must be able to exert enough control over factional demands within the ruling coalition to implement the policy—this creates the 'pocket' in which state bureaucrats can work in relative autonomy from demands within the ruling coalition. On the part of state bureaucrats in charge of the details of designing and implementing the industrial policy, these bureaucrats must be trusted by the ruling elites, but also be knowledgeable of the targeted industry (Maxfield and Schneider, 1997)—this creates the efficiency. When this occurs, we can say that a *pocket of efficiency* exists, which lends the impression of strong 'state capabilities'.

The less centralised control or authority over higher- and lower-level factions, the more difficult it is for political leaders to create pockets of efficiency. It forces them to focus on keeping coalitions cohesive by buying off elites or acquiescing to their individual demands. Industrial policies typically involve a certain amount of social conflict that comes from changes in the existing distribution of benefits or in the allocation of state resources, which can have detrimental effects for specific groups. The more fragmented the ruling coalition is, the more difficult it will be for top political leaders to resist distributional demands:

- Retaining the support of the lower-level factions is critical for remaining in power
- Strong factions within the ruling elite can resist particular policies or their implementation.

State bureaucrats in charge of industrial policy must have political backing from ruling elites and a significant degree of autonomy from political pressures stemming from within the ruling coalition. This stems from competence and from being trusted by the ruling elite, and thus deemed to be loyal. As a result, pockets of efficiency are not permanent but have life spans that depend on the ruling elites remaining in power. The more frequent the turnover of ruling parties (or ruling coalitions), the shorter the life span of pockets of efficiency and the need to continuously recreate them. In countries with large pools of competent technocrats who can be employed, this is less of a problem. In contrast, in less developed countries, where the pool to choose from is not very big, it can be a major problem.

Why is learning for productivity important?

The last leg in the triangle is *learning for productivity*, which is conditioned by the relationships that evolve between relevant state bureaucrats and capitalists (Doner and Schneider, 2000). Where capitalists pursue profit above all else, often by asking for rent from political leaders, they must be conditioned towards increasing productivity and upgrading, in order to be beneficial for industrial policies. This requires that state bureaucrats:

- Are embedded in order for them to know the productivity constraints facing individual firms and the industry as a whole
- Must be able to translate needs into effective industrial policy through mediating the political objectives of ruling elites and the economic needs of the industry (Buur et al., 2012)
- Must be able to enforce the new rules or conditions attached to rents for the relevant capitalists.

Although overall political imperatives drive major policy decisions and orientations, state bureaucrats can be influential in shaping the exact implementation arrangements of industrial policy in terms of how policies are designed to meet the political objectives of ruling elites (including objectives driven by mutual interests with capitalists). This requires that capitalists are not able to use political connections and influence to undermine enforcement. Rents given to capitalists by ruling elites must have conditions for learning, as capitalists tend to pursue the easiest option and may not invest in learning to turn a profit. It is common that industry associations in developing countries can be weak and thus undermine effective interaction with state bureaucrats and ruling elites.

For further information see UNU-WIDER paper by Lindsay Whitfield, Lars Buur, Ole Therkildsen and Mette Kjær: http://www1.wider.unu.edu/L2Cconf/sites/default/files/L2CPapers/Buur.pdf

References

Amsden, A. H. (2001) *The Rise of 'The Rest'*. Oxford: Oxford University Press.

Buur, L., with Mondlane, C. and Baloi, O. (2012) 'The White Gold: The role of Government and State in Rehabilitating the Sugar Industry in Mozambique', *Journal of Development Studies* (48) 3: 349–362, March 2012.

Doner, R. F., Ritchie, B. K. and Slater, D. (2005) 'Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective', *International Organization* (59) (Spring 2005): 327–361.

Doner, R. and Schneider, B. R. (2000) 'Business Associations and Economic Development: Why Some Associations Contribute More Than Others', *Business and Politics* 2(3): Article 1.

Khan, M. (2010) *Political Settlements and the Governance of Growth-Enhancing Institutions*. July 2010 (http://eprints.soas.ac.uk/9968/1/Political_Settlements_internet.pdf).

Maxfield, S. and Schneider, B. R. (1997) 'Business, the State and Economic Performance in Developing Countries', in S. Maxfield and B. Ross Schneider (eds), *Business and the State in Developing Countries*. Ithaca: Cornell University Press.

Moore, M. and Schmitz, H. (2008) *Idealism, Realism and the Investment Climate in Developing Countries*. IDS Working Paper 307.

Whitfield, L. and Therkildsen, O. (2011) *What Drives States to Support the Development of Productive Sectors? Strategies ruling elites pursue for political survival and their policy implications*. DIIS Working Paper 2011:15

Whitfield, L., Therkildsen, O., Buur, L. and Kjaer, M. (forthcoming*) The Politics of Production: African experiences in comparative perspective*.

5. State-business relations: structural change and industrialisation in Africa

Margaret McMillan, IFPRI, Tufts University and
Dani Rodrik, Institute for Advanced Study, School of Social Science, Princeton

Recent patterns of employment shares in Africa fit the stylised facts of other regions' historical development (McMillan, 2013). In other words, employment shares in agriculture, industry and services are roughly what we would expect given African levels of income and based on what has transpired elsewhere. However, between 1990 and 1999, structural change was a drag on economy-wide productivity in Africa: overall growth in labour productivity was negative and largely a result of structural change. But from 2000 onward, structural change contributed around one percentage point to labour productivity growth in both the weighted and the un-weighted sample. Moreover, overall labour productivity growth in Africa was second only to Asia where structural change continued to play an important positive role. There is however an important difference between the two regions: the share of employment in manufacturing in Asia is roughly double the share of employment in manufacturing in Africa.

The manufacturing deficit in Africa cannot be overlooked. In a recent paper named 'Unconditional Convergence in Manufacturing' (QJE, 2013), Dani Rodrik demonstrates the supreme importance of manufacturing as a driver of productivity growth. In this paper he shows that manufacturing, or more correctly, organised manufacturing, exhibits a tendency to converge on the labour productivity frontier unconditionally, that is, even in the absence of supportive policies and institutions. Surprising as it is, he points out that this result holds equally well for the 20 or so Sub-Saharan African countries that are in his overall sample.

The reason convergence in manufacturing does not aggregate up to convergence for the economy as a whole is that: (a) manufacturing is a very small part of the economy, especially in African countries; and (b) resources do not flow into manufacturing sufficiently rapidly, or at all. These results highlight the significance of the manufacturing deficit in Africa, and the importance of policy frameworks that can address it.

According to Rodrik, industrial policies, along with competitive exchange rates, can play a role in expanding manufacturing. But these policies have demanding prerequisites. At a recent gathering of academics and policy-makers, Rodrik discussed these prerequisites in the context of a simple institutional framework, emphasising three key ideas: embeddedness, discipline and accountability.

Embeddedness refers to the idea that policy-makers must be sufficiently close to the real economy that they are in a position to elicit information about opportunities and obstacles that businesses encounter as they try to grow or enter new activities. Embeddedness requires a range of institutions – from deliberation councils up top to informal exchanges below – that ensure the two-way flow of information and prepare the groundwork for strategic collaboration between the government and business in the productive sphere.

But embeddedness does not mean 'in bed with' and that is where discipline comes in. Policy-makers need to ensure that business lives up to its side of the bargain and does not toy with the government. This in turn requires a range of safeguards, such as explicit targets and objectives, monitoring and evaluation, and support phase-outs.

The relationship between business and policy officials needs to be accountable to society at large. This can be achieved by ensuring transparency in the relationship and by making sure there is a clear political champion who oversees the process and is accountable for its potential failings.

In closing, Rodrik discussed the political conditions that enable the establishment of such institutions. The literature stresses the importance of an appropriate configuration of political power and vested interests in favour of developmental policies. It talks about political settlements or social contracts that set the stage for East Asian style industrial policies. Without denigrating the importance of political power, Rodrik argued that ideas about what could be achieved, and how, are also quite important. Political leaders can forge the requisite coalitions by articulating an appropriate narrative about productive diversification and its importance in achieving the ends that powerful groups desire. Ideas can help shape (perceived) interests.

Several recent trends in the global economy provide Africa with unprecedented opportunities that could make these ideas easier to sell. Increasing agricultural productivity in Africa and rising global food and commodity prices, coupled with stable macro and political trends, have made foreign and local entrepreneurs more willing to invest in agribusiness in Africa (Radelet, 2010). Rising wages in China make Africa a more attractive destination for labour-intensive manufacturing, and the global search for natural resources leaves African governments with unprecedented bargaining power and financial resources.

At least a few African countries are taking advantage of these trends and could end up serving as role models. For example, the government of Ethiopia is working closely with entrepreneurs in the leather and shoe industries to foster industrial upgrading and employment growth in that sector (Brautigam, McMillan and Zhang, 2013). There is also some evidence indicating that the spread of democracy in Africa makes it more likely that Africa's citizens will hold both business and policy-makers accountable for their actions (McMillan, 2013).

References

Brautigam, D., McMillan, M. and Xiaoyang, T. (2013) *Flying Geese in Ethiopia's Leather Cluster? Understanding Asian/Chinese Impact*. Draft.

McMillan, M. (2013) *The Changing Structure of Africa's Economies*. Draft.

Radelet, S. (2010) *Emerging Africa*: *How 17 Countries Are Leading the Way*. Baltimore: Brookings Institution Press.

Rodrik, D. (2013) 'Unconditional Convergence in Manufacturing', *Quarterly Journal of Economics* 128 (1): 165-204 February, 2013.

6. Industrial policy in practice: Africa's Presidential Investors' Advisory Councils

John Page, The Brookings Institution

* *The research was supported by the African Development Bank under its project 'Vision for Accelerating Growth and Structural Transformation in Africa'.*

Recent writing on industrial policy has emphasised the need to 'embed' it in a process of consultation and coordination with the private sector, both to assist in the design of appropriate public actions and to provide feedback on the implementation of policy. In 2001, both the IMF and the World Bank urged African governments to establish Presidential Investors' Advisory Councils (PIACs), a forum for private-public dialogue. The councils were expected to enable African presidents to hear the views of experienced and successful business leaders and to 'identify constraints to foreign and domestic investment, generate recommendations for concrete action, and reinforce and accelerate policy reforms'. In short, they were public-private coordination mechanisms.

PIACs were launched in Ghana, Tanzania and Senegal in 2002 and in Mali and Uganda in 2004. Subsequently, councils were set up in Mauritania, and Benin[1]. Over slightly more than a decade, the councils have evolved in different ways, both in terms of their mandate and structure and in terms of their impact. Ghana's council disappeared, while Ethiopia, which had a history of deep distrust between business and government, felt the need to introduce a council in 2010. Uganda's council has been judged by external evaluators to have been the most successful; a judgment validated by the generally high marks given to the council by private investors in the country. The councils in Senegal and Tanzania have had some impact, but fall between Ghana at one extreme and Uganda at the other in terms of their performance.

[1] The names of the PIACs have adapted to local circumstances. In the text that follows the term 'councils' will be used generically to describe the investors' advisory group that is chaired by the head of state or head of government.

This paper draws on case studies of PIACs in four countries (Page, 2013) –Ethiopia, Senegal, Tanzania and Uganda– undertaken in 2012 by the African Development Bank (AfDB) to answer the question: To what extent have the councils succeeded as business-government coordination mechanisms?. The evaluation is based on the performance of the councils in four thematic areas –commitment, focus, experimentation and feedback– which were associated with successful business-government coordination in East Asia

Commitment: While the senior political leadership in each country has remained as the chair of the council, the amount of high-level commitment varies quite substantially. Uganda is the only country in which the president has found time to hold more than one council meeting per year and in which he has a reputation for following up on council deliberations. Ghana and Ethiopia represent the other extreme. In Ghana, the President quickly lost interest and the council lost momentum. In Ethiopia, the prime minister, who had a track record of close engagement with private investors at the sector and industry level, failed to call for a national meeting of the newly created council.

Focus: In general, the councils have been better at focusing attention and provoking action on a donor-driven agenda of previously identified reforms than they have been at setting their own agenda. Ethiopia is the only country in which the council has not used the World Bank regulatory reform menu as a basis for action. Especially in Senegal and Tanzania, the agenda has been aligned to the nine *Doing Business* indicators, and impact has been judged by movements in the countries' relative ranking. Before it collapsed, the reform agenda of the council in Ghana was similarly structured.

Outside of regulatory reform, councils have taken a broad-based approach, rather than focusing on a limited number of specific constraints to firm performance and attempting to resolve them. In Senegal, Tanzania and Uganda, they have been used as sounding boards to test the reaction of the private sector to national development initiatives. This has led to multiple recommendations for action – often unsupported by analysis – that, for the most part, have not been taken up.

Experimentation: None of the councils has established a track record of experimentation. This lack of innovation derives from two sources. The first is the agenda-setting role of the World Bank and the broader donor community. From the perspective of donors, the councils are often seen as an implementation mechanism for their own policy reform agenda. The second limit to experimentation comes from the restricted membership of the councils. While council membership has shifted to include more domestic investors, there is a still a distinctly large-scale bias. With the possible exception of Uganda, the Working Groups do not appear to have made sufficient efforts to include members with the knowledge and interest to suggest innovative solutions to problems.

Feedback: One of the key reasons to develop coordination mechanisms is to provide feedback on the impact of prior public actions. Where these do not have their intended outcomes, mid-course corrections can be made or bad policies can be abandoned. The African councils have failed to put in place adequate feedback mechanisms. In the first instance, the secretariats have often lacked the capacity to follow up

recommendations of the councils. This has led to delays in implementation or simply lack of action. The monitoring and evaluation capacity of the secretariats is similarly poor. No council has made a systematic effort to monitor and evaluate the impact of decisions taken.

It is doubtful that the IMF and the World Bank saw the councils as coordination mechanisms, but once their operational staff linked the councils to the private sector development operations of the bank and to the policy agenda of the government through the Poverty Reduction Strategy Paper (PRSP), they became, at least in principle, policy-setting institutions. Whether intended or not, the councils became an experiment in using Asian-style public-private coordination in Africa. They have neither been wholly successful nor complete failures, and they provide some useful insights into implementing industrial policy.

References

Page, J. (2013) *Industrial Policy in Practice: Africa's Presidential Investors' Advisory Councils*. Paper presented at the UNU-WIDER Conference 'Learning to Compete: Industrial Development and Policy in Africa', Helsinki, Finland 24-25 June 2013 (http://www1.wider.unu.edu/L2Cconf/sites/default/files/L2CPapers/Page.pdf).

7. An attempt to develop a global indicator on private-sector involvement in public policies & strategies

Benjamin Herzberg and Lili Sisombat, World Bank Institute, Private Sector Engagement for Good Governance (PSGG) Program

Abstract

This note outlines a proposal currently discussed in the Secretariat of the Global Partnership on Aid Effectiveness for the elaboration of an indicator to assess private-sector engagement for the purpose of monitoring the implementation of Busan commitments in this area at the international level. It will draw on the existing methodology developed in the context of the public-private dialogue, which is based on 12 good practice principles[2] to design it, operate it and exit it. These can be measured and acted upon at the start (baseline), during and at the end at the process (measurement of process effectiveness). The proposal has been elaborated by the World Bank Institute's Private Sector Engagement for Good Governance, in collaboration with the OECD/UNDP joint support team and the Building Block on Public-Private Cooperation.

Background - Fourth High-level Forum on Aid Effectiveness (HLF-4)

At the Fourth High-level Forum on Aid Effectiveness (HLF-4) in Busan, Republic of Korea (29 November – 1 December 2011), a joint statement on 'Expanding and Enhancing Public-Private Partnership for Broad-based, Inclusive and Sustainable Growth' was endorsed by governments and more than 40 representatives from both the public and the private sector. The outcome statement, entitled 'the Busan Partnership Agreement' recognises that the for-profit private sector is a central driver of development and defines five principles for guiding future collective actions of the Private Sector Building Block.

[2] 'Charter of good practice in using public-private dialogue for private sector development' adopted by DFID, OECD, World Bank and IFC at the international workshop on Public-Private Dialogue, Paris, February 2006.

On the basis of the shared principles, representatives from the public and private sectors will engage in a new process for cooperation between governments and private sector entitled, the Private Sector Building Block. It aims to develop concrete initiatives for improving understanding of the role of the private sector in development and sharing lessons learned, in order to propose specific actions for greater development effectiveness.

The Busan Joint Statement[3] on Expanding and Enhancing Public-private Co-operation for Broad-based, Inclusive and Sustainable Development emphasises the importance of inclusive dialogue for building a policy environment. This commitment is encapsulated in paragraphs 32a and 32b of the statement, the implementation of which will be monitored by a global indicator to measure progress on the engagement and contribution of the private sector to development.

The Post-Busan Interim Group (PBIG), an interim group of senior representatives mandated to lead a broad consultative process with a view to operationalise the statement and prepare for the establishment of a Global Partnership for Effective Development Co-operation, agreed that the most important aspect of paragraph 32 that should be captured by the indicator is whether there is progress in private-sector involvement, i.e. the engagement of partner countries with representative business associations, rather than in the quality of the business environment itself. Measuring progress in private-sector involvement at the global level strengthens incentives for partner countries and donors alike to scale up and deepen public-private dialogue and other forms of private-sector engagement with the public sector[4]. Even though it is true that, in the end, intense public-private dialogue should lead to a better business environment, the PBIG assesses that no new information will come from measuring the quality of the business environment as there are already a number of global rankings that cover this (e.g. Doing Business, Competitiveness Index, etc.). The purpose of the Busan global monitoring framework focuses on behaviour change in development co-operation rather than development outcomes, which are addressed through other processes.

Experience to date in elaborating an indicator on private-sector engagement

The development of an indicator on private-sector engagement is challenging as comprehensive private-sector engagement would need to involve a wide range of public and private sector actors (such as domestic and foreign companies, large companies and small and medium-sized enterprises, professional associations, etc.). This would require the development and implementation of a complex methodology, particularly business surveys which necessitate significant resources.

Several initiatives have attempted to measure the degree of public-private cooperation, but all methodologies have proven to be difficult and frustrating. Notable work includes a measure of public-

[3] Please refer to the Busan outcome document: http://effectivecooperation.org/
[4] BMZ March 2013 'Background note - The Global Partnership indicator on private sector involvement'. Berlin.

private cooperation in delivering health services in Africa (Healthy Partnerships, World Bank, 2011)[5], a series of studies in Measuring State-Business Relations (Overseas Development Institute, UK, since 2007)[6], the European Union reference model and indicators for a consultation process (2005)[7] and the Public-Private Dialogue Monitoring and Evaluation Framework (WBG, OECD, DFID)[8].

Indicator to measure public-private cooperation in the context of the Busan Partnership for Effective Development Cooperation

In a discussion between the UNDP/OECD Joint Support Team and interested stakeholders from the Building Block on Public-Private Cooperation at a workshop on measuring results of public-private cooperation in December 2012, participants agreed that the monitoring and evaluation framework provided in the Public-Private Dialogue Handbook provides a useful starting point to develop a proposal to assess the quality of public-private dialogue (PPD) as a proxy for public-sector engagement.

The indicator would consist of a multi-dimensional index to assess the quality of public-private dialogue that would serve as a proxy for measuring public-private cooperation in selected countries, and the extent of private-sector engagement. It is proposed to simplify the evaluation wheel in keeping only critical dimensions that will assess how countries are doing in terms of involving the private sector in developing public policies and strategies, and provide a basic indication of the outcome/output of public-private dialogue. The proposed dimensions would capture:

- Capacity and commitment of the public sector (capacity, political will to engage and leadership)
- Capacity and representation of private sector (organisation, leadership, motivation, representation)
- Presence of champions (existence of credible and respected individuals with the motivation and ability to attract the attention of stakeholders)
- Quality of instruments (quality of programmes and mechanisms to help private-sector development)

The indicators measuring the performance of these four dimensions can be objectively verified by evaluator(s) through interviews (with internal and external stakeholders), a desk study of the PPD's reporting and other available written material, and observations of a PPD in action. Usually, all three methods will be needed to ensure proper coverage of the set of evaluation criteria. Regarding interviews, the first activity will be to list all relevant internal and external stakeholders and establish an order of priority of key persons. Good interviewing skills and techniques are required to produce good data.

[5] https://www.wbginvestmentclimate.org/advisory-services/health/upload/Healthy-Partnerships_Full-Rpt-bkmarks-2.pdf
[6] Work led by Dirk Willem te Velde, Head of Programme, International Economic Development Group, Overseas Development Institute, UK (http://www.odi.org.uk/publications/4998-state-business-relations-state-business-industrial-policy).
[7] European Commission, Enterprise and Industry Directorate General 2005 'Consultation with Stakeholders in the Shaping of National and Regional Policies Affecting Small Business, Final Report of the Expert Group'. Brussels.
[8] 'Charter of good practice in using public-private dialogue for private sector development' adopted by DFID, OECD, World Bank and IFC at the International Workshop on Public-Private Dialogue, Paris, February 2006.

Initial discussions between OECD and WBI suggest a possible approach which would be carried out through a step-by-step approach involving: (1) developing a comparative measurement tool, drawing on a simplified evaluation wheel methodology and providing a multi-dimensional measure of the quality of public-private dialogue (organisational effectiveness) in the form of an index; (2) piloting the tool in a targeted group of countries; and (3) reviewing the findings from the pilot and validating the proposed methodology through a broad consultative process involving the full range of stakeholders engaged in public-private dialogue.

This approach would have the advantage of providing some initial benchmarking on the quality of public-private dialogue in a selected number of countries. This would provide a useful basis to inform the ministerial-level discussions within the Global Partnership scheduled for the end of 2013. Given the capacity and resources needed to support such a complex process, the desirability and feasibility of undertaking such an assessment on a regular basis would need to be reviewed carefully by the steering committee of the Global Partnership. This could include further consultations with a view to promote the integration of the indicator in existing private sector surveying processes.

The proposed approach is developed with the aim to ensure that the analysis is context specific. The use of an independent assessment would provide a safeguard against collusion of interests and prevent the legitimising of rent-seeking behaviours when conditions for effective dialogue are not in place.

The development of this indicator is an on-going exercise and the WBI, as well as the OECD, would welcome your comments and participation in this project.