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Measuring state-business relations in Africa

Dirk Willem te Velde, Overseas Development Institute

There is heated discussion among political scientists and economists studying state-business relations (SBRs) on whether it is possible to measure such relationships meaningfully. SBRs are not always directly observable, yet we still want to assess their importance for economic performance. There have been very few direct attempts to measure SBRs, and none on the basis of objective observable characteristics, although many have focused on related concepts:

- Hyden et al. (2004) focus on six governance categories, including economic society; this (deliberately) includes subjective questions covering perceptions of SBRs.
- Kaufman et al.'s indicators have been used extensively by the World Bank, but these are about perceptions of governance variables such as government effectiveness and rule of law.
- Investment climate measures in the World Bank's Doing Business Reports are objective, but measure e.g. administrative procedures not SBRs and these are unlikely to be fundamental drivers of economic performance (in fact there is little theory surrounding regulation and development) and can be rather seen as outcomes of SBRs.

Of course, condensing relationships into a set of measures could lead to the loss of relevant detail. Done well, though, it could describe the essence of SBRs (e.g. key economic functions). Hence, there was a need to create new measures to reflect objectively the characteristics of good SBRs. We already knew what researchers thought: an analysis of the political science suggested that good SBRs were based on benign collaboration between business and the state (Harriss, 2006; Hyden et al., 2004; Leftwich, 2008; Maxfield and Schneider), 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.

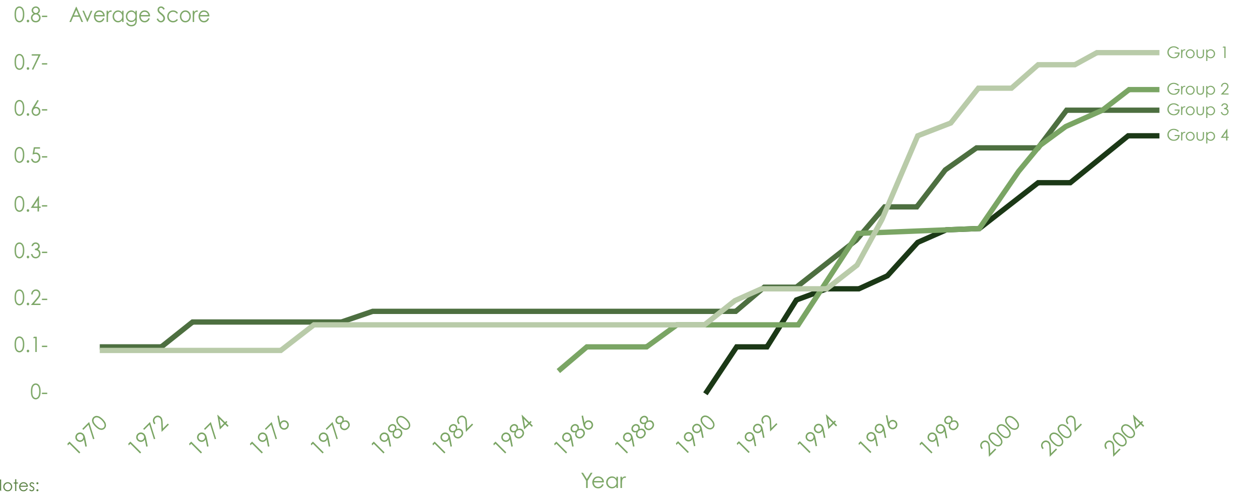
We cannot measure directly many such good characteristics of SBRs, but we can identify the key factors behind them. For example, to obtain credibility and reciprocity, both public and private sectors need to be organised or institutionalised. Positive mechanisms for transparency require that some rules or institutions bring the state and business together. And a set of competition principles is needed to restrain collusive behaviour. In sum, we suggest four factors make for effective SBRs, which can clearly be expanded and improved on in specific research contexts:

1. The way the private sector is organised vis-à-vis the public sector;
2. The way the public sector is organised vis-à-vis the private sector;
3. The practice and institutionalisation of SBRs;
4. The avoidance of harmful collusive behaviour.

These are visible aspects of SBRs that can be measured more or less objectively. Some would argue that less visible, informal aspects are equally, if not more, important. Trust, for instance, is not always dependent on contracts or visible enforcement mechanisms. This we acknowledge. However, we argue that, although the informal aspects may influence the links between measurable aspects of SBRs and performance, they do not do this in such a systematic way that there is no link between formal SBRs and growth. As such, we have focused mostly on understanding the effects of the measurable and formal aspects of SBRs:

1. Measurement of the role of the private sector in SBRs is based on the presence and length of existence of an umbrella organisation linking businesses and associations. There are many other aspects and forms of business associations – the key is to come up with measurable aspects that can be compared across dimensions and over time.
2. Measurement of the public sector in SBRs is based on the presence and length of existence of an investment promotion agency (IPA) to promote business. There is a

Higher SBR scores for faster-growing countries



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

source: TeVelde, 2006

literature on the effectiveness of IPAs.

3. Effective SBRs require the cooperation of the public and private sector, measured by examining a number of factors and forms, for example open to all and autonomous of government intervention, as with a formal existing body, or an informal 'suggestive' body with no entrenched power. One possible measure is based on the format, frequency and existence of SBRs.
4. The presence, length of existence and effectiveness of laws protecting business practices and competition are measures of avoidance of collusive behaviour.

Te Velde (2006) measured each of the four factors over time, focusing on 20 African countries for which data were available. This led to four indicators for each country and at varying times, averaged using a composite measure (attaching the same weight to each, although this could be varied). The chart 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 grew faster. We also used the individual measures rather than a composite to address concerns about weighting.

Improving Institutions for Pro-Poor Growth (IPPG) further undertook a series of country case studies on measuring SBRs. For example, the Mauritius study used three measures of SBRs at the macro level. The first measure uses an average indicator proposed by Te Velde (2006) (based in part on the presence and length of existence of umbrella organisations linking businesses and associations). This idea is that the longer the membership of firms in the umbrella organisation, the more the maturity and the higher the level of collaboration.

A second measure is the number of firms that are members of the umbrella business organisation (the Joint Economic Council – JEC) as a ratio of the total number of firms. It is proposed that, with an increasing ratio, the positions that the umbrella organisation takes during discussions with the state will be strengthened. There are two constraints: 1) this is an input indicator and 2) mature SBRs are based not on confrontation but rather on dialogue and understanding by each party of the other party's position.

A third indicator is output based, unlike the previous two. It captures the economic functions of SBRs by measuring in percentage terms the effectiveness of the umbrella organisation in its demands. This has been addressed, in full or partially, during the Chancellor's budget presentation. It does this for a long time series, with such variables subsequently used in quantitative research (Rojid et al., 2010).

The Zambian study measures one specific economic function of SBRs – whether businesses have been effective in getting their proposals on tax policy into the budget – by comparing the number of proposals submitted with budget outcomes.

Other studies show that SBRs can also be measured at the micro level (see the note on dealing with endogeneity at the micro level in Africa). The ability to describe SBRs using a set of indicators is particularly useful for subsequent quantitative analysis (e.g. Sen and Te Velde, 2009). Moreover, measuring SBRs leads to important discussions between political scientists and economists about the essence of SBRs.

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