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**IPPG CLUSTER ON:
STATE-BUSINESS RELATIONS AND ECONOMIC GROWTH
OBJECTIVES, WORK PLAN AND COMMUNICATIONS STRATEGY
APRIL 2008 – DECEMBER 2009**

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1. INTRODUCTION

The Research Programme Consortium on Improving Institutions for Pro-Poor Growth (IPPG) is a 5-year DFID-funded research programme. Its central aim is to understand how political and social processes and institutions affect economic institutions, behaviour and outcomes and the implications of this for pro-poor growth policies. A number of research clusters have emerged to address these questions, and the cluster on state-business relations (SBRs) is one of these. It is the intention of the programme that research in the SBR and other clusters will deepen our understanding of how pro-poor growth can best be promoted and, in particular, how it is affected by the institutional and political relations between:

- The public and private sectors;
- Formal and informal institutions;
- Formal and informal organizations;
- Organisations and institutions.

Moreover, as the various projects within the SBR and other clusters are completed, we expect to derive policy implications and messages from their findings which will be of use to donors, national governments, business associations and other interests.

The cluster of research on SBRs lies at the heart of the IPPG Research Programme Consortium. 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 organised farmer groups) and the public sector (e.g., different ministries or departments of state, politicians and officials).

A number of exploratory IPPG studies have examined the economics and politics of state-business relations and economic growth, and these have been documented and presented in various fora, see www.ippg.org.uk/publications3.html for further information.

2. OBJECTIVES AND HYPOTHESES OF THE SBR CLUSTER 2008–2009

The objectives of the cluster over the period 2008-2009 are to understand:

- the nature of formal and informal interactions between the state and business, and understand how the institutions governing these have evolved over time;
- the effects of different types of SBRs on measures of economic performance;
- the conditioning factors affecting this relationship.

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.

There are three working hypotheses for the upcoming work:

- it is possible to identify growth enhancing characteristics and functions of SBRs (at country level and perhaps beyond);
- it is possible to identify what drives effective SBRs; and
- it is possible to inform policy makers (in government, in business, and in donors) about effective SBRs (e.g. in terms of growth or pro-poor growth).

3. RESEARCH

3.1 Conceptual paper

This will address methods and methodologies of the study of SBRs and economic growth:

- 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 (organisations, 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 characterisations 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?
- Is it 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?

This paper will result from the interaction between economists and political scientists. This paper will provide the conceptual part which can provide background for the African country case studies and elsewhere where appropriate.

3.2 African case studies

IPPG has already supported exploratory SBR research on African countries. The Chingaipe-Leftwich study on Malawi provides an analytical narrative on the historical and political determinants of state-business relations (SBRs) in Malawi. Te Velde, Sen and Qureshi have done a number of macro and micro econometric studies that have shown a positive and significant relation between measures of SBR and economic performance at both macro and micro level.

The SBR cluster of IPPG has commissioned five African case studies to bring economic and political scientist approaches together at country level. Each case study will examine both the political processes which establish particular patterns of state-business relations and the effects of these on economic performance. Most teams include both economists and political scientists (or practitioners). Each case study was asked to consider the elements summarised below.

Key questions for country case studies:

- 1) Provide an analytical and historical account of the political provenance of SBRs in the country concerned, including discussion of the nature and especially the political relations (eg overlap or separation) of leaderships, elites and coalitions in the formation of SBRs, And discuss issues of transparency, credibility, trust and reciprocity between state and business sides.
- 2) Describe formal and informal institutional and organizational forms in both public and private sectors and the relations between them, and provide tables of main institutions and their functions and operation over time.
- 3) Discuss economic functions of SBRs in the specific country context (prioritising and tackling/ lobbying for economic reforms, improving govt expenditure / allocative efficiency, solving co-ordination failures/dynamic efficiency).
- 4) Discuss specific instances of effective SBRs, or ineffective SBRs (where appropriate back up with data analysis).

Supported by the ODI and University of York, the African case studies will take place in Ghana, Zambia (2), South Africa and Mauritius (see chart 1).



Chart 1 SBR case study work on Africa and India

Research partners in Africa include:

- A team of economists and political scientists of the Institution of Statistical Social and Economic Research in Ghana;
- University of Mauritius and University of Technology, Mauritius;
- University of Cape Town, South Africa; and
- Acumen Consulting and Zambian Revenue Authority,
- African Economic Research Consortium, Kenya (convening)

Five case studies were selected following an open-call for research. The case studies will examine SBRs from a variety of angles. Table 1 provides a summary of the type and focus of the research, especially as it relates to understanding the drivers of SBRs, measurement of SBRs, economic functions of SBRs and the effects on economic growth and pro-poor growth where appropriate. The research covers a range of countries, for more information see www.ippg.org.uk/sbr3.html:

- Mauritius is often held-up as a model of effective state-business relations as SBRs are effectively institutionalised, but it will be important to understand which aspects of SBRs are crucial;
- The reverse has been said about Zambia, as formal SBRs may be seen as less well embedded in actual behaviour, although micro evidence suggests helpful effects from membership of business associations;
- In Ghana the business sector may have advanced at a different pace and civilian governments have generally promoted and enjoyed good relations with the business community;
- South Africa has seen a rather large break in economic performance and relations in the 1990s and the creation of formal SBRs appear good on paper, but reality may differ.

There are similarities (some sectors feature in all countries) and many differences (some would argue unique differences, as institutions are context specific). There will be a synthesis of the findings which will look for common elements in as far as possible.

Table 1: Categorisation of African case studies

| | DRIVERS | DESCRIBE/ MEASURING | ECONOMIC FUNCTIONS | EFFECTS ON GROWTH PERFORMANCE |
|--------------|---|--|--|---|
| GHANA | HISTORICAL INSTITUTIONALIST INDUCTIVE THEORIES OF SBRs IN GHANA | USE EXISTING DATA SETS AND DESCRIBE PUBLIC AND PRIVATE SECTOR ORGANISATION | | MICRO ECONOMETRICS |
| MAURITIUS | ANALYTICAL AND HISTORICAL ACCOUNT | SURVEY MEASURING MEMBERSHIP COVERAGE OF JEC | EFFECT SBR ON INVESTMENT CLIMATE, EXAMINING WHETHER JEC PROPOSALS HAVE BEEN TAKEN OVER IN BUDGET PLANS | MICRO ECONOMETRICS/ FIRM PERFORMANCE/ MACRO ECONOMICS |
| SOUTH AFRICA | TRACING HISTORY OF NATIONAL SBRs (NEDLAC) | ANALYSIS OF THE DISJUNCTURE BETWEEN HOPE/DESIGN AND REALITY | SOLVING CO-ORDINATION FAILURES, SBRs AND SETAs | SHOW HOW THE ECONOMIC EFFICIENCY OF SBRs DEPENDS ON THE NATURE OF THE GROWTH PATH |
| ZAMBIA 1 | | | EFFECT BUSINESS ON ALLOCATION OF PUBLIC SPENDING | DISCUSSION OF HOW BUDGET DECISIONS AFFECT PRO-POOR SPENDING |
| ZAMBIA 2 | | SBR IN THE MINING SECTOR | | |

Source: AERC-IPPG meeting in Nairobi, July 2008

3.3 State Business Relations in India

The IPPG programme includes explicitly or implicitly other case studies related to state-business relations, especially in India. While growth has accelerated in India since the 1980s, the outcomes with respect to growth and poverty reduction have differed widely across Indian states. The differential paths of Indian states with respect to pro-poor growth since the reforms of the 1980s and 1990s seem in some degree to be related to the nature of state-business relations at the state level, and hence are intimately related to political processes within the state, including the distribution of formal and informal power between states and businesses and also ideology and electoral concerns of political parties.

Managed by IDPM, University of Manchester, there will be three sets of sub-projects on Indian states under the common theme of state-business relations:

1. Deploying historical institutionalist approaches, one study will undertake the political and economic analysis of the provenance, forms and functions of SBRs in three states in India, one where we hypothesise that SBRs have remained collusive (Orissa), and the other two where we hypothesise a shift from a collusive to a collaborative SBR mode (West Bengal and Andhra Pradesh).

2. Econometric studies will examine whether the differences in the evolution of state business relations in the three states had clear and robust effects on firm output, productivity, employment, wages and entry/exit. The studies will be particularly interested in understanding whether these effects differed by the size, ownership, location of the firm, and whether the firm belonged to the formal/organised or informal/unorganised sector.

3. Another study will also construct a state-level SBR measure for the 16 major Indian states building on the exploratory work of Cali and Mitra. This index construction will be based on secondary as well as primary data collected through extensive interviews with business associations as well as state ministries in the state capitals (and elsewhere where necessary). The index will be used to analyse the relationship between SBRs and growth across Indian states and over time at the macro level. It will also be used to analyse the impact of SBRs on firms' performance along the lines described in sub-project 2.

The research members for the SBR projects in India are drawn from:

- Centre for Economic and Social Studies (CESS), Hyderabad, India
- Centre for Multidisciplinary Research, Dharwad, Karnataka, India
- Consumer Unity and Trust Society (CUTS), Jaipur, India
- IDPM, University of Manchester, UK
- Indian Institute of Technology, Mumbai, India
- Osmania University, Hyderabad, India
- Overseas Development Institute (ODI), London, UK
- St. Xaviers College, Kolkata, India

3.4 Linking empirical studies back into conceptual framework and previous economic analysis

In the final phase we aim to summarise the findings of the country cases and link this to the conceptual phase and the original working hypotheses.

- It is possible to identify growth enhancing characteristics and functions of SBRs (at country level and perhaps beyond) – for instance, how does the JEC in Mauritius get its messages into the budget?
- Are there differences in the effects of SBRs on growth and employment across states in India? Do small and medium sized firms in India benefit from a more effective SBR?
- It is possible to identify what drives effective SBRs – for example, SBRs appear to be much more fundamentally institutionalised in Mauritius than in Zambia (where forms keep on changing) with obvious results.
- How did business associations in some Indian states effectively lobby for more growth-enhancing policies? What formal and informal mechanisms did they use to communicate their views to policy-makers in Indian states?
- It is possible to inform policy makers about effective SBRs – e.g. NEDLAC in South Africa may need to be revamped in order to perform the functions it aimed to fulfill.
- National level policies to promote industrialisation in India may not achieve much success if there are no reforms of poorly functioning state-level agencies that are responsible for investment and industrial policies.

4. SBR CLUSTER COMMUNICATIONS STRATEGY

There has already been a considerable amount of communications around the IPPG SBR cluster, through DFID, The World Bank, the OECD, ODI and universities. The cluster research is currently moving into the next phase which is more country or state based, in Africa and in India.

4.1 Communication activities in Africa

Research in the next phase will include five case studies in four African countries, and we expect country based communications including country based workshops. Most case studies will involve discussions with key stakeholders (e.g. business associations, government departments concerned with private sector development) from the start of the study and most case studies will organise open workshops as part of the research. Additional resources will be made available for country based workshops and regional presentations. All studies are expected to lead to IPPG working papers and briefing papers. We are using www.internationalgrowth.net for internal communications – to upload documents and share information – as well as closed workshops in Nairobi (AERC) and India.

Dissemination workshops will be aimed at government officials and business associations in order to foster ideas about how to improve SBRs. The working papers are expected to influence the research community. And Africa wide communications will aim to influence the development community more broadly. We will aim to target three key African annual events (AERC, AfDB and ECA). The details can be seen in Table 3.

4.2 Communication activities in India

There will also be extensive communication activities relating to the three Indian case studies.

Policy Reference Group

There will be a Policy Reference Group of eminent experts dealing with SBR issues, drawing particularly from Andhra Pradesh, Orissa and West Bengal and will be chaired by S. N. Menon, (immediate) former Commerce Secretary of India. It will meet in November 2008, March 2009 and August 2009 to review the research and policy influencing part of this project. CUTS will take part in these meetings.

Regional and National Workshops

There will be three regional workshops – in Hyderabad, Andhra Pradesh; Bhubaneswar, Orissa; and Calcutta, West Bengal to present the state-specific micro case studies when they are ready. CUTS will collaborate with a state-level business association in conducting these workshops. Government and business officials will be the target audience.

The India macro study will be presented at a national workshop in New Delhi. CUTS will collaborate with FICCI (Federation of Indian Chambers of Commerce & Industry) in conducting this workshop and will have a similar target audience. Parliamentarians will also be invited.

Outreach

A limited number of copies of the briefing papers and working papers will be printed for distribution to key business leaders, policy-makers and parliamentarians. Papers will be posted onto the CUTS web site and will be disseminated electronically. State-based researchers will be encouraged to write newspaper articles in local language.

WORK ON SBRs SO FAR: SELECTED HIGHLIGHTS

IPPG papers on State-Business Relations:

- 'Measuring State-Business Relations in sub-Saharan Africa' Dirk Willem te Velde (<http://www.ippg.org.uk/3abstract4.html>)
- 'Whither business regulation? Institutions and private sector development' Dirk Willem te Velde (<http://www.ippg.org.uk/PDF/Whither%20business%20E.pdf>)
- 'State Business Relations and economic growth in sub-Saharan Africa' Kunal Sen and Dirk Willem te Velde (<http://www.ippg.org.uk/3abstract8.html>)
- 'State Business Relations and firm performance in Zambia' Mahvash Qureshi and Dirk Willem te Velde (<http://www.ippg.org.uk/3abstract5.html>)
- 'State-Business Relations, Investment Climate Reform and Firm productivity in Sub-Saharan Africa' Dirk Willem te Velde and Mahvash Qureshi (<http://www.ippg.org.uk/3abstract6.html>)
- 'The Politics of State-Business Relations in Malawi' Henry Chingaipe and Adrian Leftwich (<http://www.ippg.org.uk/3abstract7.html>)
- 'The Economics and Politics of State-Business Relations in Africa: Preliminary Findings' A collection of papers on state-business relations, edited by Adrian Leftwich, Kunal Sen and Dirk Willem te Velde. (<http://www.ippg.org.uk/3abstractSBR.html>)

IPPG meetings and seminars on State-Business Relations reviewed in this paper:

- Seminar presentations at DFID (November 2006), University of Manchester (November 2006), University of Reading (January 2008) and Glasgow (May 2008)
- Lunchtime seminar at ODI London (May 2008, see <http://www.ippg.org.uk/news3.html#may081>)
- Workshop at the ABCDE – World Bank/Slovenia (May 2007, see <http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTABCDESLO2007/0,,contentMDK:21397805~menuPK:3958558~pagePK:64168445~piPK:64168309~theSitePK:3147383,00.html>)
- IPPG workshops in the UK, India (see <http://www.ippg.org.uk/news3.html#jul082>) and Kenya (see <http://www.ippg.org.uk/news3.html#aug081>)

For more information on the IPPG generally please see the IPPG website at www.ippg.org.uk

For more information on the State-Business Relations cluster please see www.ippg.org.uk/sbr3.html

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