



**SET** SUPPORTING  
ECONOMIC  
TRANSFORMATION

AFRICAN TRANSFORMATION FORUM  
2016

PUBLIC AND PRIVATE SECTOR  
COLLABORATION FOR ECONOMIC  
TRANSFORMATION

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March 2016

## Acknowledgements

This paper is part of a series of papers prepared jointly by ACET and ODI's Supporting Economic Transformation programme for the 2016 African Transformation Forum in Kigali 14-15 March 2016.

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ODI's Supporting Economic Transformation (SET) programme is supported by DFID. The views presented in this publication are those of the author(s) and do not necessarily represent the views of **DFID** or **ODI**.



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## ABBREVIATIONS

ACET	African Center for Economic Transformation
BRN	Tanzanian Big Results Now
CPP	Ghanaian Convention People's Party
JEC	Mauritian Joint Economic Council
MITI	Japanese Ministry of International Trade and Industry
POPC	President's Office Planning Commission
TDV	Tanzania Development Vision
TFP	Total Factor Productivity
UNABCEC	Uganda National Association of Building and Civil Engineering Contractors

# EXECUTIVE SUMMARY

The goal of economic transformation raises the stakes for policy-making in Africa. Achieving a pattern of economic growth where productivity, export competitiveness and employment are continuously increased is not just a matter of agreeing a higher level of ambition. It calls for an active search for solutions to numerous specific problems currently blocking or delaying needed investments. Underlying each of those particular challenges, moreover, is a deeper and more general issue: how to establish a strategic relationship between government and private sector actors that makes it possible to address these problems without repeating the errors that derailed transformational ventures in the past.

Reviewing global experience, the roles of state and private enterprises, of large and small firms and of formal or informal business associations have been very different among countries. The successful models have in common, however, that they have been able to satisfy a small number of basic requirements that appear universally relevant. This finding seems to be reinforced, in both positive and negative ways, by Africa's so far limited success in constructing more transformation-friendly state-business relations. The basic requirements seem to include:

- constructing a consensus among key actors that establishes economic transformation as a nation-building project, with shared commitments extending well beyond a single electoral term
- giving at least one public agency sufficient autonomy, budgetary control and political authorisation to override interdepartmental coordination problems and engage in a practical way with credible private sector organisations
- creating institutional arrangements that can coordinate a sufficient set of powerful public and private actors so as to ensure (1) an appropriate level of technically justified public support to promising sectors or firms; and (2) that this support is conditioned on mutually enforceable performance standards
- enabling discovery of approaches that work for transformation in the particular country context by means of explicit experimentation, good feedback and timely correction

## Issues for discussion

Key issues that participants may wish to consider are:

- Which types of public agency are most suited to providing authoritative policy coordination and to leading engagement with the private sector? How can they be empowered to perform effectively?
- What kinds of private sector organisations are likely to prove the most credible strategic partners of governments seeking to support transformation?
- How do we ensure that annual budgets align with the transformation strategy and are implemented effectively? What works best to obtain value-for-money in government investments? What should be the roles of the ministry of finance, the ministry of planning and the coordinating agency, where the three are not the same?
- Are there feasible mechanisms for ensuring that discretionary support to promising sectors or firms is consistent with transformation objectives and governed by enforceable performance standards, so as to achieve results and avoid patronage and corruption? What should they look like?
- What forms of state-business consultation are most likely to deliver fast feedback on the way policies and programmes are working, allowing timely correction of errors and joint discovery of paths of transformation that work?

# 1. INTRODUCTION

The goal of economic transformation raises the stakes for policy-making in Africa. Over the past decades, many countries have made good progress in restoring aggregate economic growth thanks to a combination of sound macroeconomic management, an improving business climate and historically high commodity prices. The challenge now is to move towards a pattern of growth ‘with depth’ (ACET, 2014) in which resources are shifted systematically from low- to high-productivity sectors and subsectors, generating new sources of export competitiveness and formal sector employment on a continuous basis (McMillan et al., 2016).

The need for this higher level of ambition is now widely accepted in African policy circles, with the new uncertainties and possible opportunities generated by the maturing of China’s economy helping focus minds. However, more ambitious aims and policy slogans will not produce the necessary changes on their own. As discussed in the background papers on manufacturing (Ansu et al., 2016) and trade (Amoako-Tuffour et al., 2016), the economic transformation agenda requires an active search for solutions to numerous specific problems currently blocking or delaying needed investments. Underlying each of these particular challenges and solutions, moreover, is a deeper and more general issue: how to establish a strategic relationship between government and private sector actors that makes it possible to address these problems without repeating the ineffective collaborations of the past.

Compared with the 1980s and 1990s, today’s body of research and climate of opinion are much more favourable to interventionist development policies in general and to collaborative problem-solving by public agencies and private sector groups in particular (Lemma and te Velde, 2015; Lin et al., 2011; Page, 2016). However, the record of failed state-led initiatives on the continent cannot be dismissed entirely as a thing of the past. Nor can we ignore the factors leading government–business relationships today to remain dominated by cronyism, protectionist impulses and political deals of dubious social merit, with the established formal mechanisms for consultation over policy directions playing little real role. The question to be addressed is how to learn from experience what kind of institutional mechanisms are most likely to facilitate collaborative problem-solving for economic transformation while avoiding some of the obvious pitfalls.

This paper tackles the question as follows. Based on a brief review of global and especially Asian experience, Section 2 illustrates the great diversity of institutional arrangements among and between public and private sector organisations that have contributed to successful economic transformation in different contexts. It then proposes four key functions that these diverse arrangements have performed more or less effectively, which provides a template for thinking about what may work well to steer and regulate transformation initiatives in the particular contexts of African countries today. The following four sections discuss how recent African experience sheds further light on these challenges, which involve respectively:

- constructing a consensus among key actors that establishes *economic transformation as a nation-building project*, with shared commitments extending well beyond a single electoral term (Section 3)
- giving at least *one public agency sufficient autonomy, budgetary control and political authorisation* to override interdepartmental coordination problems and engage in a practical way with *credible private sector organisations* (Section 4)
- creating institutional arrangements that can coordinate a sufficient set of public and private actors so as to ensure (1) an appropriate level of technically justified public support to promising sectors or firms (based on tackling market and coordination failures); and (2) that this support is conditioned on *mutually enforceable performance standards* (Section 5)

- enabling discovery of approaches that work for transformation in the particular country context by means of *explicit experimentation, good feedback and timely correction* (Section 6)

The concluding section (Section 7) introduces a set of topics for discussion in the scheduled plenary session of the Forum.

## 2. DIVERSITY AND COMMONALITIES IN GLOBAL EXPERIENCE OF PUBLIC–PRIVATE COLLABORATION

Many of the most remarkable experiences of economic transformation in history are in East and Southeast Asia. The large body of high-quality comparative studies devoted to those experiences includes a literature specifically devoted to the role of public and private sector collaboration in enabling transformation. This has two themes. One is diversity. Even if one puts aside the particularly unique and unprecedented transformation of mainland China, the eastern Asian development success stories seem at first sight extremely diverse in terms of the ways the public and private sectors were structured and led, as well as the ways these interacted with each other. The other theme is underlying commonalities. The institutional arrangements adopted were different solutions, reflecting the countries' particular starting points and political realities, to a largely shared set of problems or challenges.

The arrangements of control and collaboration between the political authorities and private economic actors followed no single pattern. Taiwan's development breakthrough is usually represented as the limiting case of a 'strong state' model. State-owned enterprises and the organisational power of the Kuomintang party state played a dominant role. The business community had little formal representation, and technocrats were highly insulated from private interests. This was in part the result of the political divide between the mainlander government and the indigenous economic elite. In Korea, although the state was highly interventionist, the mechanisms it used sprang from the government's greater dependence on the political support of the private sector (Haggard, 1994).

In Japan, Korea, Malaysia, Singapore, Thailand and, to a lesser extent, Hong Kong, governments established deliberation councils 'to promote the flow of information, clarify the division of rents among the elites, signal commitment to announced policies, and provide ways for the private sector to participate in economic policymaking' (Campos and Root, 1996: 109). However, neither Taiwan nor Indonesia had such arrangements. Taiwan's government relied on indirect coordination mechanisms and Indonesia's on opaque informal consultations. Singapore ran its economy as a corporation through the Economic Development Board, which, in tune with the private sector, meticulously planned and implemented a transformation from light to heavy manufacturing to the knowledge and creative economy (Mills, 2016).

Despite this diversity, a strong message from detailed studies is that the most successful models of public–private collaboration in Asia have been different ways of satisfying a small number of basic challenges that all have faced, and which may be inherent in the process of economic transformation. Borrowing the language of Chang (2007) and Rodrik (2007), we may say that, although the institutional *forms* have been quite varied, it makes sense to understand them as ways of performing core *functions* that are central to development and transformation everywhere. *Thus a major message for African policy-makers concerned with designing effective public–private interactions is that form is not as important as the functions they undertake.*

The discussion in the remainder of the paper is structured around what we take to be four such universal challenges of policy support for economic transformation. To support our argument, we draw further specific detail from the main comparative Asian studies, with additional reference to Africa region

pioneer Mauritius. We also aim to point out where the argument is supported, in both positive and negative ways, by continental Africa's so far limited success in constructing more transformation-friendly state–business relations.

### 3. ECONOMIC TRANSFORMATION AS A NATION-BUILDING PROJECT

Economic transformation is a long-term endeavour, requiring a high level of policy consistency through time. It involves tackling deep-seated and long-term market and coordination failures and government failures (ACET, 2014). Private investments in new, more productive economic activities are likely only if government commitments against expropriation of assets and expected profits are not only credible today but also likely to be renewed in future years. Transformation calls for investments in infrastructure and other public goods that pay off over many years. Subsidies and other selective measures to encourage innovation and reorientation to global markets need to be regulated by multiyear plans, with reliable provision for phase-out. All this requires building a consensus around a long-term vision.

One traditional view has been that transformation will be more easily promoted when the political leadership has a secure grip on power and feels reasonably assured it will still be in place when the social benefits of major transformation-oriented initiatives start showing themselves. As a matter of fact, the big breakthroughs in Asia have all taken place under regimes that were formally speaking dictatorships. Contemporary regimes in which there is regular alternation in power between different political parties are not self-evidently well placed to be pioneers of successful transformation policy (Kelsall, 2013; Whitfield et al., 2015).

This interpretation of the Asian experience is potentially misleading, however. The continuity of policy orientation that was achieved was less to do with the type of formal political constitution than it was to do with the type of elite consensus – or informal ‘political settlement’ (Khan, 2010) – that underlay the making of policy. With the possible exception of in Taiwan, transformation efforts were founded on a widely shared vision of building a successful nation or (in the case of China and Vietnam) conducting a comprehensive correction of a previously established trajectory of national development (Altenburg and Lütkenhorst, 2015: 54, 144–46; Coase and Wang, 2012). In all cases, there was a sense of urgency, and a concern to secure widely spread development benefits for the population, arising from one kind or another of internal or external threat to national integrity.

Opinions differ as to exactly which threats are relevant to explain which facts of comparative political and economic development in Asia (Campos and Root, 1996; Doner et al., 2005; Henley, 2015). However, a persistent theme is that commitment to economic transformation is closely bound up with a critical historical juncture that prompted a new elite consensus around the importance of building a national state and economy. The most dynamic arrangements were those – exemplified by Malaysia – where the national elites agreed what Slater (2010) calls a ‘protection pact’ (state resources used in a collective endeavour) rather than a ‘provision pact’ (state resources regularly plundered by parts of the elite).

Another observation about the so-called developmental regimes in Asia is also important for shaping the current discussion in Africa. Across their formal differences, these were regimes with quite highly elaborated systems for ensuring accountability and building consensus, so that the conventional Western distinctions between authoritarian and democratic institutions fail to capture some of their most essential and relevant features (Campos and Root, 1996: 174; Woo-Cumings, 1999: 16). Careful consensus-building was also a feature of the process by which the Africa region's pioneer in economic transformation, Mauritius, achieved success – more important, perhaps, than the fact that its political system was conventionally democratic (Bräutigam et al., 2002). Box 1 briefly describes the Mauritius experience.

## BOX 1: ASPECTS OF ECONOMIC TRANSFORMATION IN MAURITIUS

From the 1970s onward, the public and private sectors in Mauritius built a consensus view around the strategic direction of the economy based on structural transformation away from sugar and towards garments, tourism, financial services and finally an integrated services platform. This government-supported model led to major gains for the productivity and wages of the majority of workers, while also involving adjustment costs for some which needed to be addressed. Rents from the sugar sector were reinvested to stimulate other sectors. Protection at home was reduced gradually while export processing zones boosted garment exports. Preferential trade access for sugar and garments was eventually lost, which required productivity enhancement in surviving firms and retraining and redeployment of labour from existing firms and sectors into other sectors.

This process was driven by public sector bodies such as the Export Processing Zones Development Authority and the Export Development and Investment Authority, the Industrial and Vocational Training Board, the National Productivity and Competitiveness Council and the Ministry of Finance. The finance ministry worked in tandem with private sector associations such as the Joint Economic Council (JEC). The formal and informal collaboration of public and private sector was based on well-established trust (the head of the JEC was a former politician, whereas the private sector was represented on the board of directors of the parastatals). This facilitated key initiatives for economic transformation such as the setting up of an export processing zone, the building of the first hotels, renegotiation of the sugar protocol, the creation of a national airline and the establishment of a stock exchange. It is clear that budget proposals by the JEC are frequently taken over by the government.

*Sources: Rojidi et al. (2010); Treebhoochun (2014).*

There is no doubt that establishing economic transformation as a nation-building project is a big challenge in Africa today, very likely the most fundamental of the challenges we consider in this paper. Even in countries where there is not much alternation in power (of the sort now established in Ghana, for example), rulers are subject to competitive elections every four or five years. The fact that even long-term incumbents are subject to regular electoral contests creates a collective action problem for the political class. Incumbent rulers will tend not to invest their economic and political resources in ventures to initiate transformation if they believe it is primarily their successors who will reap the benefits (Geddes, 1994; Olson, 1993). In countries where electoral politics revolves around the reconfiguring of ethnically based voting blocs into potentially winning coalitions (the Kenya pattern), the chances of constructing an elite consensus around a bold vision of economic transformation may seem even more remote (Hino et al., 2012; Kimenyi and Mbaku, 1999). However, two things ought to provide encouragement to those with a will to tackle this challenge.

First, it is not the case that the association of economic transformation with a nation-building project in Asia presupposed a homogeneous population or a politics free of ethnic tensions. On the contrary, in at least Indonesia and Malaysia, the national project was centrally concerned with mitigating the tensions associated with the dominance of business by a minority of Chinese ethnic origin (Haggard, 1994: 282). In a different sense, constructively managing the ethnic relations legacies of colonial rule contributed to the transformational political dynamic in Mauritius (Subramanian and Roy, 2003). At the very least, these experiences should prompt some serious efforts to think outside of the box about how to address creatively those barriers to a dynamic national vision that have roots in the historic patterning of business success along ethnic lines.

Second, the problem of time-scales and pay-offs may be less severe than it was in the past. Experience in the global economy since the rise of China underlines the relative speed with which it is possible to tackle all of the classic constraints on investment decisions if improvements are delivered in the form of special economic zones rather than across the board. The coordination challenges, the provision of necessary infrastructure and the credible commitments to investors are far easier to provide, and provide adequately, if they do not have to be provided to everybody and everywhere. The challenge is also more manageable if the zone is oriented towards filling a specific gap in a global value chain rather than seeking to generate a fully integrated industry. As currently being piloted in Ethiopia and Rwanda, this can harness the technical and organisational capabilities of international firms that are already in that chain (e.g. approved but foot-loose Chinese companies).

This approach still requires strong political commitment at the highest level, but has the enormous advantage from the point of view of the ambitious politician that the pay-offs, in terms of jobs and export production, may be visible within a single electoral term. If, as some of the leaders of the current Chinese relocation claim (Helen Hai), the right investor with the right political support can produce both large increases in employment and substantial exports, the terms of the political leader's calculation are radically changed. Giving heavy priority to demonstration initiatives in economic transformation will never be free of political risks and management challenges. But if the next election can be fought on the results, many more political leaders should be willing to tackle them, and by doing so begin to create a climate in which successor leaders want to do the same.

To conclude, a necessary first step is the building of a shared vision on economic transformation that is embedded deeply in the mind-sets of politicians despite the presence of electoral cycles. While this is hard to do, experience in, for example, Mauritius suggests it is not impossible. Further, success does not require an ethnically homogeneous country and can potentially have short-term pay-offs, such as by using special economic zones to focus on world-market niche industries.

## 4. A PUBLIC AGENCY ENGAGING WITH CREDIBLE PRIVATE ORGANISATIONS

Next, we argue, successful public–private collaboration depends crucially on (1) the ability to effectively coordinate the government position through one agency with sufficient power; (2) the achievement of sufficient embeddedness of public agencies in the realities of the private sector through formal and informal linkages; and (3) the credibility of the organisations enabling the private sector to speak with one voice.

### 4.1 COORDINATION IN GOVERNMENT

Impressive development results in Asia have seldom been associated with *general* improvements in the efficiency and effectiveness of government bureaucracies. Although some countries famously inherited strongly meritocratic civil services and others improved their bureaucracies over the years, the most usual pattern is one in which particular public agencies were targeted for improvement in ways that made them highly effective coordinators of the government system as a whole.

Beginning with the experience of the Japanese Ministry of International Trade and Industry (MITI) in the decades after World War II (Johnson, 1982), ambitious governments established effective coordinating agencies that operated initially as islands in a sea of public inefficiency and corruption. They adopted the recommendation of Schneider and Maxfield's (1997: 31) global survey of business and the state in developing countries, that of delegating the 'authority to interact with capitalists' to the most competent and professional agencies of the national economic bureaucracy.

ACET's 2014 *African transformation report* (2014) contains the names and some of the features of six notable coordination agencies in Asia in addition to the Japanese MITI. The details are reproduced as Box 2. These agencies typically reported to a high level in the central political leadership and were supported from the very top. They were given an unusual level of protection for their bureaucratic integrity on the basis of the high strategic stakes attached to their role by the political leadership (Campos and Root, 1996: 5). Importantly, protected coordination agencies were not just concerned with industrial transformation. They were also, and at an earlier stage of development, especially in Indonesia, Malaysia and Thailand, a key instrument in rural modernisation (Henley, 2015).

## BOX 2: EXAMPLES OF CENTRAL COORDINATION AGENCIES IN ASIA

- the Economic Planning Board of South Korea, under a deputy prime minister
- the Council for Economic Planning and Development and Industrial Development Bureau in Taiwan (China)
- the Economic Development Board of Singapore, initially under the Ministry of Finance, but later under the Ministry of Trade and Industry.
- the National Economic and Social Development Board of Thailand, under the Office of the Prime Minister
- the National Development Council of Malaysia, under the prime minister and in charge of coordinating implementation of the development plan at the federal level
- the Planning Commission of India, with the prime minister as chair but run by the deputy chair, who is of cabinet rank.

Source: ACET (2014).

The political protection the leading agencies received gave them the authority to coordinate actions across government. The leading agencies were empowered to override the barriers that typically impede effective coordination across ministries, departments and agencies in developing countries. This muted the kind of coordination problems typically created by the use of ministerial appointments to reward the political loyalty of presidential allies. It was possible to control bureaucratic rivalries leading to non-cooperation – another typical problem.

Importantly, high-level authorisation gave the coordinating agencies the necessary budgetary clout. Where they were not themselves the budgetary authority, they exercised strong influence over the effective allocation of resources and were able to monitor and regulate the efficiency of public spending. A key element in the fiscal policy of the most successful Asian transformers was maintenance of a hard budget constraint in the context of sound overall macroeconomic management (Campos and Root, 1996: 155).

While in Africa today the importance of sound macroeconomic management is now generally recognised and much progress has been made, it is a familiar observation that planning agencies and budgetary authorities are often distinct entities reporting to different ministers. This arrangement hinders effective coordination of the annual budget with long- and medium-term development plans. In the cases where countries have also created overarching investment boards, implicitly or explicitly emulating the best Asian experience, the relationship to planning authorities and budget offices has not always been as clear as it could be. The effects include an inability to effectively prioritise public spending in line with the plan, project contracts that fail to deliver value for money and weak monitoring of the execution of major projects.

This is not a new topic in debates about the institutional architecture of African governments, but it is a highly relevant one when considering public–private collaboration for economic transformation and therefore worthy of discussion at this Forum. The potential for private sector interest groups to play a part in this is discussed further on. Box 3 reviews illustrative aspects of recent experience in Tanzania.

## BOX 3: SOME RECENT EXPERIENCE IN TANZANIA

Tanzania's rekindled interests in a long-term development agenda were articulated in the Tanzania Development Vision 2025 (TDV2025) adopted in 2000. In 2010, the then-President's Office Planning Commission (POPC) assessed Tanzania's progress toward the Vision and found that, although ministries, departments and agencies all had action plans for TDV2025, these were not generally being implemented in an organised manner, targets were often going unmet because of implementation bottlenecks and there was a lack of accountability for delivering outcomes, particularly where tasks required budgetary and implementation coordination between more than one agency.

The POPC looked for a systematic delivery methodology that would increase discipline, focus and accountability for the goals. After various consultations, the government decided to adopt Malaysia's Big Fast Results, 8-Steps of Transformation, methodology, adapting it for the Tanzanian context as Big Results Now (BRN).

Implementation by BRN appears to have been challenging. BRN has performed best when implementing projects with a strong lead ministry and minister that have fully internalised the methodology, but it has had less impressive results in areas that require more extensive inter-ministerial coordination, with unclear accountability lines arguably a part of the problem. It has had even less success in areas that involve public–private partnerships. The reasons are various and depend in part on changing old habits and mentalities in both the public and the private sectors. Financing has also been a consistent problem for results areas. It is not clear whether this is a question of political commitment and coordination, or whether it reflects deeper-seated problems in Tanzania’s public finances.

Thus, although on the face of things, BRN is exactly the kind of agency Tanzania needs to implement some priority areas within its second Five-Year Development Plan, certain aspects of its operation will need to be adapted or improved if it is to be a credible implementation partner. More forceful support from the top; timely disbursement from the Ministry of Finance; more vigorous inter-ministerial coordination; and a more innovative approach to public–private partnerships seem essential. After the elections of October 2015, Tanzania moved the Planning Agency into the Ministry of Finance, which is now called the Ministry of Finance and Planning. It is hoped that this will support more coherent planning and implementation of long-term plans for economic transformation.

*Source: SET (2016).*

The importance the literature on Asia gives to the empowered coordination agency is not only about the challenge of getting government to act in a joined-up way. It is also about creating the conditions under which government can engage with the existing and emerging private sector in a way that favours effective policy-making for transformation. A typical initial situation – still the norm in much of Africa – is that policy is distorted by the influence of formal or informal lobby groups on whose political support and campaign contributions politicians depend. The lobby for special favours, including notably tax and tariff exemptions, is able to override declared government policy priorities and destabilises the expectations of other investors. A critical role of the empowered coordination agency is to interrupt the circuits of influence that produce these effects (Altenburg and Lütkenhorst, 2015: 169; Schneider and Maxfield, 1997).

## 4.2 ENGAGEMENT WITH THE PRIVATE SECTOR

The implication of this is not, however, that the coordination agency can afford to be aloof from private sector interests. We have already noted the important contribution of consultative committees or deliberation councils bringing together public and private sector actors, in at least five of the successful Asian economies – Japan, Korea, Malaysia, Singapore and Thailand. These entities were essential sources of the three foundations of effective governance for transformation – commitment, coordination and consultation (Campos and Root, 1996: 78, 107).

Some of this is about getting the private sector committed to a new strategic vision – for example one in which there is a stronger export orientation or willingness to participate in global value chains. Some of it is about assuring investors of the stability of the policy framework or the reliability of arrangements for investment coordination. Much of it is about information. It has been argued that the growing complexity of markets and technologies today means that central decision-making authorities are less than ever able on their own to process all of the relevant information. Modern industrial policy needs to include a strong element of network-type governance, based on self-organisation and voluntary horizontal coordination (Altenburg and Lütkenhorst, 2015: 49).

Horizontal information-sharing and problem-solving relationships between officials and business people are unlikely to be exclusively formal. A famous proposition based mainly on experience in Korea (Evans, 1995, 1998) is that leading agencies on the government side need autonomy (especially to be able to resist the kind of non-strategic lobbying by private interests mentioned above) and also to be embedded in the networks of the economic sectors whose transformation they are directing.

The importance of this embeddedness, which in the Korean case was based partly on education- and profession-based social networks among officials and entrepreneurs, is hard to overstate. It is supported by recent comparative research identifying the features of more and less successful economic

subsectors in Africa. Success is strongly associated not only with a coincidence of interest between powerful political and economic actors but also with sectoral bureaucracies that are exceptionally well informed about and networked with the relevant business interests (Whitfield et al., 2015). In some countries, statistical analysis suggests informal networks and connections help raise firm performance. For example, Ackah et al. (2010) analysed panel data on 256 Ghanaian firms over the 1991–2002 period. They found total factor productivity (TFP) was positively correlated with social networking – that is, when there are better connections between entrepreneurs and politicians.

While informal networking appears essential, there is strong evidence that formally constituted business associations, especially of the most encompassing kind, have considerable benefits both for their members and for the development process. The statistical association between the quality of formal state–business relations (including the contribution of well-established business associations) and economic outcomes is significant, and stronger than other, more often investigated, relationships between institutions and outcomes. With the help of rich data on India and a bit of theory, researchers have made a good case for believing that the casual chain runs from quality government–business relations to economic performance (te Velde, 2010, 2013).

The best surveys of country experience agree that the positive functions of credible business associations can be substantial and wide-ranging, including in the areas of protection of property rights, facilitation of vertical and horizontal coordination, reducing information costs and upgrading worker training (Doner and Schneider, 2000). Qureshi and te Velde (2013) analysed firm performance in Zambia using World Bank Enterprise Survey data for 200 firms (focusing specifically on measures of firm productivity and institutional context and perceptions). They found membership in a business organisation was associated with higher firm productivity of between 37% and 41%. Business association effectiveness was based on capacity to lobby governments and (to a lesser extent) ability to reduce market informational asymmetries and coordination failures.

Collaborative relations between state and business organisations can help align national budgets with development policy objectives. Bwalya et al. (2009) examined how non-state actors influenced budget outcomes in Zambia following formal submissions to the Zambian tax policy and expenditure committees in the year 2008. The research found formal submissions by companies and business and professional associations were the most successful non-state submissions in terms of the volume of successful changes. Such collaborative arrangements that channel budget proposals are, however, most effective when civil servants are used to shepherd proposals.

### 4.3 BUILDING THE CREDIBILITY OF PRIVATE SECTOR REPRESENTATION

The difficulty, of course, is that not many business associations in Africa today are fully credible. The above-mentioned global survey finds that the ability of currently existing associations to perform the listed functions is highly variable. Production systems in developing countries are typically highly fragmented, with large gaps between large and small and domestic, state-owned and foreign firms in terms of productivity, formality and relationship to the regulatory regime (Altenburg and Lütkenhorst, 2015: 155–57). Common interests may not be perceived. In addition, the theory of collective action (Olson, 1965) states that individual actors, including firms, will tend not to club together to pursue perceived common interests without some strong incentive to do so because of the ‘free-rider’ effect. Because free-rider effects are worse for large groups than for smaller ones, lobbyists working on behalf of a small number of powerful players will have more influence than those speaking for large constituencies. Apex business associations, which may be the most beneficial, will be harder to organise than sectoral ones.

Casual observation of the panorama of business associations in Africa, with the possible exception of South Africa, suggests these problems are very much in evidence. Typically, sectoral associations and apex bodies represent only a fraction of their potential membership and have only a limited ability to

discipline their members and exercise leverage on government. Box 4 notes aspects of the influence of business representation in Mauritius on the one hand and Ghana and Zambia on the other.

#### **BOX 4: THE INFLUENCE OF BUSINESS REPRESENTATION IN MAURITIUS, GHANA AND ZAMBIA**

The primary institution for state–business relations in **Mauritius** is the Joint Economic Council (JEC). The JEC meets with the prime minister on a regular basis and participates in budget proposals. It is funded entirely by its members, which include the Chamber of Commerce and Industry, the Chamber of Agriculture, the Employers' Federation, the Sugar Producers' Association, the Export Processing Zone Association, the Bankers' Association, the Insurers' Association, the Association des Hôteliers et Restaurateurs and the Association of Mauritian Manufacturers. The JEC is managed by a council of 18 members, with a chair who rotates every two years and a full-time director. Its top goals are to ensure a stable macroeconomic environment, foster greater fiscal discipline, restore financial health and integrate all sectors of the economy in order to reduce distortions and improve efficiency of investment. A key priority of the JEC is to align government budgets (allocation of spending and related economic measures) with development priorities. Evidence has been collected showing it is indeed effective in this, its proposals frequently being taken into the Mauritian budget.

The relationship between the state and business community in **Ghana** has been uneven since independence. Although each government has had distinct relations with business and private sector, civilian governments have generally promoted and enjoyed a good rapport with the business community whereas military governments, especially in the 1980s, have tended to have confrontations with the private sector. Irrespective of formal regime changes, however, informal ties have been continuously important to the evolution of state–business relations in Ghana. Under civilian rule particularly, different business networks have been linked to different parties. Under Nkrumah there were 'CPP-favoured businesses' under the statist development model of the Convention People's Party. Under Busia relations were more market-oriented, although party stalwarts sat on private company boards. In recent years, firms have tended to side with and be favoured by either the National Democratic Congress or the National Patriotic Party governments, although some formalisation of associational representation has also taken place.

During the past decade in **Zambia**, particularly during the tenure of office of the late President Mwanawasa, the government and the private sector agreed to initiate more formalised consultative process in which key government institutions and the private sector would dialogue on key policy issues. One study of the resulting process concludes that, although the president spearheaded the establishment of the Zambia Business Council to consolidate engagements with the private sector through the Zambia Business Forum, this institutional arrangement is not formalised and is not backed by any legal framework, which threatens its continuity and effectiveness. The study suggests the Zambia Business Council should formally report to the president through the Office of the Economic Advisor or directly to Parliament. On the other hand, the Zambia Business Forum requires deeper reforms to enable it to function as a cohesive and stable private sector organisation. This may in part require affiliated associations to coordinate their lobbying activities through the Zambia Business Forum to ensure the Forum speaks with one voice on issues of national policy.

*Sources: Ackah et al. (2010); Bwalya et al. (2009); Rojidi et al (2010).*

It is not the case, however, that nothing can be done about these limitations. Donor support to business representation has generally been abandoned, for the good reason that organisations are more credible when they are member-funded and not otherwise. However, governments are a different matter because of the way legislation can influence the incentive to join. Doner and Schneider (2000) found that the ability of associations to perform their key functions depended on (1) high member density, (2) valuable benefits reserved for members and (3) effective internal mediation of divergent member interests. One of the policy implications of this survey and others (e.g. Schneider and Maxfield, 1997: 30–33) is that governments can help resolve with appropriate legislation the problems of collective action that hold back associational development. There are strong theoretical reasons and much international evidence for seeing effective interest representation as intrinsically linked to membership benefits reserved by law.

For example, medical and veterinary professionals have gained the considerable influence and ability to promote professional standards that they enjoy in many countries thanks to laws that require practitioners to be recognised members of specified associations (Leonard, 2000). No equivalent

restriction is placed on those undertaking business and seeking public contracts in most developing countries, but this does not need to be the case. One example worth citing is the road construction industry in Uganda. Legislation that would make association membership a condition for the official registration of companies, and hence their eligibility for contracts, is considered the key to strengthening the role of the roads branch of the Uganda National Association of Building and Civil Engineering Contractors (UNABCEC). Such provisions are included in a National Construction Industry Bill, which is awaiting final approval (Booth and Golooba-Mutebi, 2009, 2015).

Surveys of African government engagement with the private sector in the current period emphasise the diversity of approaches, including the use of very different methods in different sectors or with different types of investors. For example, Altenburg and Lütkenhorst (2015) contrast the pattern in Mozambique – where bilateral elite deals continue to dominate – with that of Namibia, judged to be a case of relying too exclusively on setting ‘good governance’ parameters and leaving the rest to private initiative. In Ethiopia, the government simultaneously pursues a ‘heavy-handed’ and a ‘light-handed’ industrial policy in its two most dynamic export sectors: ‘While the government’s attitude to the leather industry is one of educating, nurturing and handholding, its support for the cut flower industry is one of removing hurdles on request of the private industry and its association’. The differences reflect in part the different ownership structures of the industries: a traditional sector including many small Ethiopian firms as compared with a new industry led by foreign firms (113–15).

Experience in Rwanda has included the creation of an apex business organisation, the Public Sector Federation, on government initiative in view of the absence of any credible interlocutor in the years after the genocide. In other respects, however, the Ethiopian multi-method style is followed, with one approach taken in pyrethrum agribusiness and road and housing construction and another in mining (Behuria, 2015). In these and other cases, the diversity of approach may well be a permanent necessity, since sectors will continue to have different needs and possibilities. It may also, however, be the reflection of an incomplete learning process in which governments that have espoused economic transformation as a national project, and have begun to create protected and empowered coordination bodies, feel their way towards a viable model for engaging with credible private sector organisations.

To conclude, despite the difficulties in establishing effective public–private collaboration, experience suggests much can be done by (1) putting in place a strong agency that effectively coordinates the government position; (2) ensuring public agencies develop formal and informal networks and information-sharing platforms with the private sector; and (3) incentivising collective action in the private sector.

## 5. SELECTIVE SUPPORT WITH MUTUALLY ENFORCEABLE PERFORMANCE STANDARDS

We identify the introduction of mutually enforceable performance standards as a third prerequisite of effective public–private collaboration for economic transformation.

The recent literature on industrial policy and economic transformation (e.g. Altenburg and Lütkenhorst, 2015: 57–58; McMillan et al., 2016; Rodrik, 2007: Ch. 4) is clear that success calls for a sound balance between improving the general investment climate and targeted interventions to develop promising sectors or firms. This implies that general or cross-cutting measures are unlikely to be enough on their own. In particular, they will not bring about a change in the structure of growth, with more productive and internationally connected (and thus potentially employment-creating) activities playing an increasing role.

Several of the countries whose governments are most committed to transformative economic development, including Rwanda, have invested heavily in improving their ratings in the World Bank Institute’s Doing Business Survey, whose indicators include such measures as the average speed taken

to process a new business licence or approve major investment proposal. The results are impressive and not to be disregarded. When linked to a broader attack on public sector corruption, the benefits to smaller businesses and farms as well as to the quality of life of citizens of the country at large are probably considerable. However, comparative historical experience does not suggest improving the general business climate is sufficient for industrial and agricultural breakthrough.

The need for targeted initiatives (or, more accurately, a change in the way bilateral ‘deals’ are done) is supported by recent analysis by Hallward-Driemeier and Pritchett (2015). This compares the average speed at which regulatory hurdles can be cleared according to the Doing Business survey with firm-level reporting under the Bank’s worldwide Enterprise Surveys. A key finding is that the difference in treatment for the ‘fast’ firms and the ‘slow firms’ in the sample is very large, a fact the Doing Business aggregate results conceal. The authors’ interpretation is that ‘deals’ are more important than ‘rules’ when doing business in developing countries – that is, for better or worse, what matters most is the understanding arrived at among relatively small groups of players, including at the one-to-one level.

The key thing, therefore, is to get the right *kind* of deals. An obvious first requirement is that selective support is reserved for sectors that are technically assessed as promising in the perspective of economic transformation (e.g. Balchin et al., 2016) and to ‘new’ activities (new to the local economy or using new technology; Rodrik, 2007: 114). The second is that support should be time-limited and conditional on an agreed performance level, such as demonstrated international competitiveness achieved by a given date (Rodrik, 2007; Leipziger, 2015). Finally, the performance-based accountability should be mutual in the sense that the government partner is held accountable for the delivery of its part of the bargain. This combination of requirements may well call for some form of third-party monitoring and a robust appeal process (Altenburg and Lütkenhorst, 2015: 50–54).

The key challenge is to stop these close relations becoming collusive, so they do not degenerate into business capture of the state and diversion of the policy from its objectives. Especially where the government decides to subsidise learning with important spill-over benefits to other firms in the sector by providing subsidies to new entrants in one form or another, experience suggests it is vital that firms understand they have to deliver according to pre-agreed standards, such as employment generation and export performance, and that if they do not show timely signs of doing so the public support will be withdrawn. This element of discipline will be best backed by a mutual accountability framework under which, as mentioned, not only the firms but also the government are held responsible for delivering what was promised (e.g. on providing an agreed quality of infrastructure and enforcement of agreed tariff and non-tariff and tax rules).

In short, governments should promote the use of enforceable performance standards by incentivising behavioural change over a certain period of time in those firms and sectors that are technically assessed as promising in the perspective of economic transformation. There should be mutuality in this arrangement, so the state is equally accountable for its contributions, particularly commitments directly affecting firms’ performance.

## 6. EXPLICIT EXPERIMENTATION, FEEDBACK AND CORRECTION

Finally, we argue, effective public–private collaboration for transformation involves experimental learning and a willingness to solicit and respond promptly to feedback. As Altenburg and Lütkenhorst (2015: 61) summarise today’s view of industrial policy for transformation, it should be designed as ‘a systematic process of experimental learning’. Experience suggests countries arrive at solutions to the challenges of effective industrial policy through multi-level joint learning processes based on strong formal or informal relations between key officials and actual or potential investors, backed by the necessary political

support and an element of independent monitoring and evaluation (likely to remain important as a guarantee against political capture).

A minimum requirement would seem to be that the relationship between government and private investors is structured in a way that enables and encourages rapid feedback on policies that are not working or need to be adjusted. There is much to be done to make this a reality in African countries that are embarking on policy-making for transformation.

For example, presidential investors' advisory councils have been adopted widely in Africa to enable national political leaders to relate constructively to domestic private business. However, the central finding of a study by Page (2013) is that the performance of these bodies, as judged by external evaluators, has been quite varied. This is possibly because of differences in the level of interest that the incumbent heads of state have shown in them. In general, however, the councils examined have been better at focusing attention and provoking action on the reform agenda already identified by the World Bank and donors. None has shown a track record of experimentation (that is, asking and then trialling what might work in the local context). Feedback on previous actions taken by the government has not been central to the councils' agendas, even though there is general agreement that this is one of the primary functions to be performed by state–business interactions.

In short, governments should embed a process of feedback and learning into the public–private collaboration.

## 7. CONCLUSION AND ISSUES FOR DISCUSSION

To sum up, an effective set of responses to the four major challenges to public and private sector collaboration discussed in this paper include:

- building of a shared vision on economic transformation that is embedded in the mind-sets of politicians, the private sector and general citizenry
- putting in place a strong agency that effectively coordinates the government position, ensuring public agencies develop formal and informal networks and information-sharing platforms with the private sector and incentivising collective action in the private sector
- promoting mutually enforceable performance standards by promoting behavioural and productivity change over a certain period of time in those firms and sectors that are technically assessed as promising for economic transformation and
- building an effective process of feedback and learning into the public–private collaboration

This task list may seem very daunting indeed. However, none of the experience reviewed has suggested that such processes are anything but stepwise learning processes in which progress is made over time. Anyway, there is some good news: things may get progressively easier over time, as synergies and mutual reinforcements kick in. This may apply even if the country is not endowed with the visionary political leadership and large body of effective entrepreneurs it might wish for.

To quote at length from Altenburg and Lütkenhorst's wise summing up (2015: 169–170), incremental improvements at the level of meso institutions and specific policies and instruments may, in some cases, have a positive impact on the underlying politics, because:

- If economic institutions are improved, such as by introducing compulsory performance measurement of economic programmes or by institutionalising feedback mechanisms from the target group back to public service providers, the cost of bad policies becomes more

transparent, which may mobilise the business community, civil society and reform groups within the government to sustain and deepen reforms.

- If a considerable number of indigenous businesses start to grow as a result of reforms, the constituency for these reforms may grow.
- And more exchange with private sector organisations and professional service providers is likely to improve the government's understanding of the importance of a growing private sector and the need for effective industrial policies.

Decisions regarding industrial policy should thus take the possibility of policy learning into account. Hence industrial policies should not be easily dismissed on the grounds of weak present industrial policy management capabilities.'

In this spirit, key issues that participants may wish to consider include:

- Which types of public agency are most suited to providing authoritative policy coordination and to leading engagement with the private sector? How can they be empowered to perform effectively?
- What kinds of private sector organisations are likely to prove the most credible strategic partners of governments seeking to support transformation?
- How do we ensure annual budgets align with the transformation strategy and are implemented effectively? What works best to obtain value for money in government investments? What should be the roles of the ministry of finance, the ministry of planning and the coordinating agency, where the three are not the same?
- Are there feasible mechanisms for ensuring discretionary support to promising sectors or firms is consistent with transformation objectives and governed by enforceable performance standards, so as to achieve results and avoid patronage and corruption? What should they look like?
- What forms of state–business consultation are most likely to deliver fast feedback on the way policies and programmes are working, allowing timely correction of errors and joint discovery of paths of transformation that work?

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