Why and When African states engage in productive sector development: Comparisons between Mozambique and Ghana

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Introduction

The challenges of economic development….and the challenges to studying it in Africa

Most developing countries that transformed their economies and increased per capita incomes did so through state interventions that provided and effectively managed incentives for accumulating technological capabilities (Amsden 2001; Dahlman et al. 1987; Lall 1992; Sabel 1994).[1] Accumulating capabilities does not occur spontaneously within markets, nor can they by easily copied. In contrast, knowing how to use new technologies and methods of organizing work practice to achieve the potential productivity requires investments in learning and actual experience (learning-by-doing) where tacit knowledge is acquired. Firms need to go through a learning process to build the necessary capabilities to become competitive in new industries. The learning process can be long and involve financial losses. For private entrepreneurs in developing countries, the risk and costs of investing in this type of learning is typically too high to be worth it, given alternative investment opportunities that are less risky and immediately profitable (Lall 1996; Khan 2009a).

Thus, economic development is inherently about overcoming collective action and coordination problems (Evans 1994; Noble 1998; Waldner 1999; Doner 2009). Structural change involves both mobilizing scarce capital and deploying it in new productive activities. The key challenge is socializing risk through low interest loans, tax/tariff incentives, coordinating the provision of complementary assets (e.g. infrastructure), and exposing producers to market discipline. Upgrading or intensive growth requires learning and linkages: learning to operate existing production efficiently, to create new capacity, to innovate products and processes 'new' to the industry and firms, and linking upstream and downstream economic activities. The state historically has played a critical role in the broad processes of structural change and upgrading by facilitating investment of scarce funds in activities whose short-term risks exceed potential but uncertain, long-term development benefits, and by promoting technology acquisition and learning through loss-financing schemes that compensate for uncompetitive cost structures while learning takes place.

This perspective on the challenges of economic development—overcoming collective action problems and accumulating technological capabilities—lead to an industry specific approach, since technologies differ in their learning needs and collective action problems differ with respect to specific economic activities. Thus, state interventions have also tended to be industry specific. The different mechanisms

[1] Technological capabilities are the technical, managerial and institutional skills that allow productive enterprises to utilize equipment and technical information efficiently. For example, in the area of production, they include production management, engineering and scheduling as well as quality control, increasing productivity and marketing products.

that states have used to do this are broadly subsumed under the term industrial policy. There is an emerging consensus across economic schools of thought on the necessity of industrial policy (Cimoli et al. 2009; Rodrik 2007), although the details are still debated (Lin & Chang 2009; te Velde et al. 2011).[2]

Sub-Saharan African countries present a particular puzzle in this context given their generally low technological capabilities and challenge of achieving even structural change much less upgrading. African countries generally experienced a stark economic decline in the 1970s that turned into a protracted economic crisis as many countries continued to stagnate into the 1990s. Although many African countries have experienced higher growth in the 2000s, their economic performance is low compared to other developing countries, especially in terms of accumulating technological capabilities. Two broad explanatory paradigms have dominated scholarship in African studies trying to make sense of Africa's poor economic performance.

One is the neo-patrimonialism paradigm, which posits that African politics is characteristically neo-patrimonial in nature: political authority is based on patronage, various forms of rent-seeking and prebendalism. Africa's neo-patrimonial politics both caused its economic stagnation and prohibit the state from adopting economic reforms and building developmental institution. Some strands argue that the behavior and attitude of the state elite are at the center; other strands argue that the problem is a larger one of African culture around political legitimacy that hooks these elites into neo-patrimonial relations. These approaches are Africa-specific and emphasize ethnicity, political culture, or the triumph of traditional informal institutions over modern formal ones. As an analytical concept, neo-patrimonialism has been used is so many different ways that its analytical utility is questionable (see Pitcher et al. 2009). In addition, its use is often not supported with empirical evidence showing how it works and its affects on policies and outcomes, but rather used in a way that assumes the outcome in advance. More importantly, neo-patriomonialism cannot explain cases of successful state intervention in the economy (only failures), and it cannot explain variation across countries, or across sectors within the same country. In particular, it cannot explain why industrial policies are formulated in some sectors and not others, and why they are implemented with more or less success.

The second paradigm argues that Africa's economic stagnation stems primarily from pursuing structural adjustment in the 1980s and 1990s and what is generally referred to now as neo-liberal economic policies. According to this line of argument, African countries' have pursued too much neo-liberal reform premised on an idealized model of how markets work, which resulted in deindustrialization of what manufacturing existed and neglected agriculture, and which failed to spontaneously lead to building new productive capabilities. Furthermore, international financial institutions and Western aid agencies expanded their influence over policies in African countries, resulting in fragmented authority over policymaking and implementation and a state elite preoccupied with implementing (or perceived to be implementing) donor driven agendas. While this anti-neoliberalism paradigm highlights the shortcomings of the economic policies prescribed for African countries and their limited outcomes, it over-emphasizes external factors and international relations. In doing so, it neglects the importance of domestic politics in shaping the incentives facing state elites as well as how aid relations and domestic politics interact.

These paradigms do not provide convincing explanations of Africa's poor economic performance or an analytical framework that can be used to examine state interventions in productive sectors. Trends in

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[2] Industrial policy refers to state policies that aim to stimulate specific economic activities (usually involving moving into higher productivity activities) and promote structural change. It is not about industry per se but also includes non-traditional agriculture or services (Rodrik 2007).

African studies over the past decades have neglected issues concerning how and why African states have tried to build productive capabilities in the contemporary period. As a result, the empirical material is limited and our understanding is poor. Fortunately, in recent years there has been renewed interest in the study of business-state relations and industrial policy in Africa, with several research programs taking up the issue from new and different perspectives.

The comparative political economy of development literature draws heavily on Northeast and Southeast Asian countries' experiences with economic development in the last fifty years, as well as the experiences of the Indian sub-continent, Latin American and North African/Middle Eastern countries. Sub-Saharan African countries are generally neglected. African countries do share certain common features which set them apart and which make theories devised from the experiences of other developing country regions difficult to apply wholesale in understanding Africa's experiences. This does not mean, however, that we cannot benefit from theoretical developments in comparative political economy and that Africa should be studied separately. Rather, our understanding of Africa can benefit by being seen in a comparative light, and theoretical development can benefit by using African cases.

Several up front lessons from the comparative literature need to be applied in they study of the political economy of development in African countries. First, patron-client relations in African countries can be seen as distinctly modern and a form of political mobilization characteristic of all developing countries and not a uniquely African 'traditional' relic from a pre-colonial past. The motivation behind patron-client networks is primarily economic and constitutes a rational response to economic and political constraints in a country where the formal productive sector is too small to define the distribution of power. Second, economic policymaking and implementation involves more than patron-client relations, albeit they may be a factor (for good, for worse, or both). Third, corruption may be good for economic development as a means of primitive accumulation; whether corruption is predatory or productive depends on how the accumulated wealth is used, but what is clear is that accumulation is a necessary step. Fourth, state support to productive sectors involves the provision of some public goods such as roads, electricity and water, but it also involves the provision of distinctly non-public goods which benefit specific industries (what can be called club goods) and privilege certain economic activities over others. Thus, the current tendency in studies of Africa to focus on the provision of public goods does not help illuminate what is needed to transform African economies from one dominated by low productivity agriculture and informal urban economic activities into one with more productive sector characterized by higher productivity (see McMillan and Rodrik 2011).

What this paper tries to do

We want to show that analysing state interventions to promote particular productive sectors and their relative success or failure can be done without referring to neo-patrimonialism. Talking about 'pockets of efficiency' within a neopatrimonial political system also does not get us beyond the cul-de-sac of neopatrimonialism. Rather we need to ditch the whole concept of neo-patrimonialism in favour of more refined analyses of the political economy of economic development that draw on and contributes to the comparative political economy of development literature. We can explain both success and failure in the country studies presented here without talking about neo-patrimonialism, and we can do it in terms that engage with the comparative political economy of development literature based on experiences in other developing country regions, but also adapt it to Africa specific features.

The paper is based on ongoing research from the Elites, Production and Poverty (EPP) research programme.[3] It draws on the Mozambique and Ghana country studies that are part of the program, and presents our 'work in progress' on developing a new approach to the political economy of development in Africa and how we use it to understand state interventions to support particular productive sectors and their outcomes.

What we do in this paper is to focus on a case of successful state intervention to support a specific industry: the rehabilitation of the sugar industry in Mozambique. It explains why the Mozambican government's efforts to rehabilitate the industry were successful, highlighting four factors. In doing so, it looks at the broader political dynamics underpinning the sustained support of the ruling political elite for rehabilitating the sugar industry over a fifteen year period and how this compares to some other productive sectors (cashew and poultry) to make some more general points about Mozambique. Then the paper briefly considers Ghana's experience with three productive sectors (cocoa export, palm oil and horticulture export) in comparison with the four factors accounting for the successful case of sugar in Mozambique. In concluding, we present the foundations of a new analytical framework for analyzing and explaining how, when and why African states engage in building productive sectors and with what success—the building blocks of which were used in the examination of Ghana and Mozambique and thus their usefulness demonstrated.

The Mozambique case: state-driven rehabilitation of the sugar industry

Overview

Sugar cane has been produced in Mozambique since the end of the 19th century. At independence in 1975, six sugar estates and industrial plants were in operation. The total sugar production capacity was 360,000 tons with a production record reached in 1972 of 325,051 tons, of which 60 per cent was for export. Sugar production was the third biggest export sector and the biggest formal labour employer by the mid-1960s and had the largest private firm in the whole of Mozambique (INA, 2001; Cardoso, 1993). Before independence, sugar production had begun to decline due to the rapidly intensifying independence war in northern and central Mozambique that left investors feeling insecure and led to 'disinvestment strategies' (Castel-Branco, 2002: 83). Furthermore, up to and after independence, the flight of capital and skilled labour of all types added to the decline, just as global market prices made the sector less profitable. As the destabilisation war turned into a civil war through the 1980s, production fell and, as a result, the import of sugar increased.

From the mid-1990s, the Mozambican sugar sector underwent a steady process of rehabilitating four out of the six sugar estates/factories which by that time the government de facto owned.[4] The rehabilitation process involved partial privatisation and large-scale foreign direct investments in both cane production and sugar processing and refining capacities. The sugar strategy *Politica e Estratégias*

[3] For more information on the Elites, Production and Poverty research programme (2008-2011) based at the Danish Institute for International Studies, see www.diis.dk/epp. EPP is both comparative and empirical. It includes five country studies (Bangladesh, Ghana, Mozambique, Tanzania and Uganda) and in-depth research on two productive sectors in each country.

[4] Ownership after independence and particularly after the Third Frelimo Congress in 1977 when a Marxist-Leninist one-party state was pursued is complex. Some sugar companies became nationalized, others only intervened in by the state meaning that there was no legal transfer of the assets implying that former owners could try to reclaim the assets after 1990 when the new liberal multi-party constitutions was approved.

para o Desenvolvimento do Sector Açucareiro, approved by the Council of Ministers in 1996, focused on issues related to privatisation, ownership structure, attracting experienced investors, cost efficiency, human capital development, market creation, the financial viability of rehabilitation, and the potential impact of the sector for the social and economic rehabilitation of the rural areas (see MAP and INA 1996). The overall objective of the sugar strategy was to: "Produce sugar in order to satisfy the domestic market and the preferential quotas for export in a manner that is economically and socially efficient and sustainable thereby in the long run contributing to a better food security and sustainable economic growth" (MAP and INA 1996: 2). Four out of the six sugar estates were targeted for rehabilitation. Three regional sugar players with productive and marketing capabilities were brought in: the two biggest South African sugar companies at the time (Tongaat-Hulett and Illovo Sugar) and a Mauritian consortium of four companies (FUEL Group, ENL/Savannah, Compagnie d'Investissement et de Développement Ltée and Kalua Properties Ltd and Stam Investment Ltd)[5]

1. Tongaat-Hulett Ltd. bought into the Xinavana and Mafambisse industrial plants and estates, situated in the south and central regions, after 1996.
2. Illovo Sugar Ltd. together with the Petiz Family, the original Portuguese owner who had regained control over the estate after the privatisation process was opened up, took over the Maragra estate and industrial plant, situated in the south, in 1998.
3. Mauritian consortium took over the Marromeo estate and industrial plant in the central-northern region in after the new Millennium, but sold its 50% share in 2007 to the French company Tereos, the world's fourth largest sugar producer.

The Mozambican state, through *Banco de Mozambique*, retained after privatisation at least 51% of the shares in the companies, except for the Maragra estate/plant. The state retained a majority stake in order for the state to lend money for the rehabilitation on behalf of the sugar companies and for the state to monitor the rehabilitation process though representation on the administrative boards. As loans were paid off and/or new investments were made by the companies, the state's shares slowly diminished. However, even today, the state still has shares in at least two of the companies.[6]

The formal target was to bring in private investors with long-term experience and cutting-edge expertise in sugar production and marketing, with solid backup from research (see INA, 1996; FAO, 2000: 5). This would, it was reasoned in the sugar strategy, rectify all the fault-lines from the political experiments of the 1970s and 1980s. Foreign direct investment was not, therefore, in the first instance about bringing in finance, but rather concerned with bringing in productive capabilities. Finance for the first wave of rehabilitation was primarily secured through government guaranteed loans, where the government took "cheap loans" at various multilateral and commercial credit facilities (such as development banks, special funds and facilities providing such loans primarily to countries). The exception was Illovo, where the investors decided to finance the rehabilitation by themselves out of fear of state intervention and because they wanted to test their capacity to work outside South Africa. This said, over time, all the companies made their own substantial investments.

The use of government guaranteed loans had been anticipated by the sugar strategy, which also defined key state and government tasks related to the creation and enforcement of a protected internal market,

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[5] The privatization process was not a one-off event but could span several years where at least one of the investing companies first was hired on a management contract with the Mozambican state so the future investor could "learn to work in Mozambique with the Frelimo regime" (Interview Director of sugar company March 2011) and the state could see that the company had the management capacity and could deliver on what was expected (Interview former Finance minister (2010).

[6] See Buur (2011 forthcoming) on why the government maintained an ownership share.

provision of certain forms of infrastructure like electricity from Cahora Bassa, as well as rail and port upgrading. The strategy also anticipated that the role of the state should be carried out by the restructured National Sugar Institute, which was to move from its past role of running (down) the industry to a more facilitating role, and eventually just a monitoring one.

Since the rehabilitation began, the area under cultivation rose from 7,266 hectares in 1998 to 35,000 hectares in 2009, and sugar production increased to just over 200,000 tons of sugar by 2003. By 2003 sugar exports exceeded local consumption, with total export figures reaching 134,796 tons in 2008, even though the industry-owned *Distribuidora Nacional de Açúcar* (DNA) had managed to double national consumption and distribute Mozambican sugar all over the country. Around 32,000 jobs (permanent and temporary jobs) were created at the four rehabilitated sugar estates (CEPAGRI 2009, 2010). The industry also led to jobs in outsourced service functions in land preparation, planting, maintenance and transport as well as independent producers and down- and upstream jobs created along the value chain. The sugar industry is once again the biggest formal non-state employer in Mozambique. These are jobs in rural areas where those taking up employment are a mix of local populations, rural migrant workers and expatriates. Salary scales in the industry are generally well above what can be earned in rurally based agriculture industries.

Social services such as health, education and housing are to a large degree catered for or strongly subsidised by all four factories. Access to social and financial services around the four rehabilitated estates and plants are well above what one normally encounters in rural areas (Locke 2009). The industry is “creating an income multiplier effect, with sugar workers having money to spend on other goods and services [and] the sector also creates the opportunities for other industries to develop, supplying goods and services to the sugar mills” (LMC 2006: 7, see also INA 2005, Capítulo 7). Furthermore, the EU’s 6 million Accompanying Measures Fund mitigating the effects of changing the European sugar regime led to an increase in the outsourcing of cane production. Whereas only 0.4% of cane was produced by independent Mozambican producers in 2005, this figure increased to 4% by 2008 with around 15 associations involving 1,365 producers. The EU Fund also signals the first direct involvement of donor money as part of the rehabilitation process, which in itself is remarkable considering the levels of aid dependence experienced by Mozambique over the past two decades.

Factors accounting for the successful rehabilitation

The crucial condition for successful state intervention to rehabilitate the sugar industry, especially its design and implementation, was sustained support among the Frelimo government and state bureaucracy. We follow Haggard et al. (1997: 38) and differentiate between government as a shifting and relatively temporary collection of political leaders, while state officials/personnel are the more or less permanent bureaucracy of the public sector. In Mozambique, the ruling political elite and state bureaucrats overlap due to shifting constellations over time as state bureaucrats became politicians, and colonial and post-colonial industry personnel became state bureaucrats.[7] Yet, we can disaggregate this condition into two factors for analytical purposes in order to highlight different but equally crucial aspects of what was going on. The first is sustained political support from the Frelimo ruling elite. The second is that the state organization involved in the process was characterized by what we call an embedded and mediating bureaucracy.

[7] See Macuane (2010) on the state bureaucracy/technocracy and political leadership in general in Mozambique.

There are two other factors that are important in explaining the successful rehabilitation of the sugar industry, but which are underpinned by the first two. The third factor involved changing what we call ‘the rules of the game’: the formal and/or informal rules which govern the distribution of economic benefits and resources. Because changing the rules of the game almost always produces resistance from the losers, it requires political support to do it. In this case, the state bureaucracy and the government renegotiated the rules of the game away from sugar traders and in favour of national sugar producers. The fourth factor involved organization among industry actors and institutionalized interaction between the industry and the state. We refer to this as organizing the industry.

1. Sustained support from the ruling political elite

The Frelimo ruling elite not only provided support for rehabilitating the sugar industry, but also sustained support over fifteen years. An undertaking such as rehabilitating an industry cannot be done quickly; it requires well thought out strategies, trial and error, time for production processes and learning to take place, and building new institutional capacities and institutionalized engagement between the state and industry. Sustained support over a long period of time was crucial. This support involved significant investments and allocation of resources, allowing for the creation of an internal protected market that subsidized the industry while it got on its feet. Lastly, it was support that went against the immediate interests of different economic groups in society financing key parts of the ruling Frelimo coalition, as well as the key financiers of the government budget such as the World Bank, creating resistance that had to be diffused or countered.

Some scholars may refer to this kind of support as ‘political will’, but we need to unpack the notion of ‘political will’, which is too easily used in political analysis as a residual category: something does not happen because there was no political will, or it does happen because was political will. Instead of this kind of argument that makes ‘political will’ a black box, we need to ask what drives state actions and why was there sustained support from the ruling elite. We use the political settlement approach of Mushtaq Khan (2010) to explore the linkages between the structure of the ruling coalition and the desirability and feasibility of the ruling political elite in supporting productive sectors. The ruling coalition refers to those groups in society to which the ruling elites provide tangible benefits in exchange for political support. The broader the ruling coalition, the more political support, but also the more that the ruling elites have to provide benefits to popular sectors (Doner et al. 2005).

One of the most striking features of the organization of power in Mozambique is that it is the same party and more or less the same group of top Frelimo party leaders that has been in charge since independence. They have largely been able to stick together through the ideological shifts of the mid-1980s and the multiparty dispensation of the 1990s and into the first part of the new millennium despite substantial differences and conflicts and tensions within the Frelimo ruling coalition. It is a ruling coalition that is still organized in and around the Frelimo party after surviving three leaderships changes in the ruling party: Samora Machel, Joaquim Chissano and Armando Guebuza.

Sustained support to the sugar industry was possible because the same ruling elite were in power. However, this point has to be nuanced by looking at dynamics among factions within the higher levels of the ruling Frelimo coalition. It was not just the same ruling elite, but the same faction within the ruling elite under the Presidency of Joaquim Chissano from 1986 to 2004, spanning the introduction of multiparty democracy in 1994. Tensions between different factions within the Frelimo ruling elite are important. Later sections of the paper highlight these tensions and how they were overcome so that the outcome was sustained support for sugar rehabilitaiton during the Chissano period.

When Chissano took over, he inherited an authoritarian party coalition at war and was initially vulnerable because lower levels of the coalition became increasing frustrated because their expectations could not be fulfilled. Frelimo's control over the population and territory had since independence been rather fragile, except for the less populous southern and extreme northern provinces, from where most of the Frelimo leadership emerged and where Frelimo's post-independence policies had the greatest resonance. At independence, the party was not entrenched in a majority of provinces, particularly the populous northern provinces of Zambezia and Nampula (which combined account for half the population), while the central provinces of Manica and Sofala had only scantily been affected by the independence war. Thus after independence the rural hinterlands were something to conquer for Frelimo, and this often became, if not directly a violent process then at least quite a forceful course of action (see Mosca 2011) that gradually escalated as the destabilisation war turned into a civil war during the 1980s and Renamo took control over up to 80% of the national territory. In general, the civil war with Renamo turned increasingly into territorial and population contests where both parties tried to conquer as much territory and reign in as much of the population as possible before the peace accord in 1992. But the government was also vulnerable because Frelimo *de facto* governed a limited part of the country with an economy that partly had become a barter economy and a state apparatus without capacity to implement political decisions.

The constitutional change in 1990 institutionalised a shift from a one-party state to a multiparty democracy, and the 1992 General Peace Accord that ended the civil war also to some extent rewrote the rules for engagement, since elections every five years could formally change the government. The Chissano administration used negotiations leading up to the transition to multiparty democracy to secure a deal that favoured the Frelimo regime and gave the party an advantage before the multiparty elections in 1994 so it could maintain control over the state apparatus and, through it, the economy. It secured a "winner takes all" political system where power was centralized. For example, the president had the power to appoint governors of provinces. As a result, Frelimo could exclude the opposition party Renamo from taking up political positions after the 1994 elections, despite it winning the elections in a majority of provinces but loosing the overall elections. It was the authority of the winning President Chissano to decide if Renamo political leaders should be appointed as governors. Frelimo lost heavily to Renamo in a majority of provinces, particularly the northern ones, as well as the central provinces of Tete and Sofala in the first national elections in 1994 as well as the 1999 elections.

The key constituencies aligned to the ruling Frelimo party coalition changed over time from peasants/workers after independence to state functionaries, and later, after the reforms of the 1980s, expanded to include emerging business groups in communication, tourism, minerals, energy and trading. The business groups aligned to the ruling party became an important constituency in the ruling coalition and in return benefited from privatization and access to state contracts. The lower level factions of the ruling coalition were not very strong, and hence had little influence in the coalition except in the run up to elections, as they were needed in the tight electoral contests with Renamo in the 1990s. Privatization and other government policies were used as accumulation strategies for the Frelimo ruling elite and the ruling coalition's key constituency of the business groups. However, the rehabilitation of the sugar industry had another political purpose. What the neopatrimonial framework does not allow for is the fact that ruling coalitions can have several political strategies and rationales simultaneously.

Frelimo needed to do something to increase its political support in rural areas, and particularly in Renamo strongholds. The rehabilitation of the sugar industry was a means through which the Frelimo ruling elite under Chissano sought to link up with populations and territory in former Renamo areas in the central and northern provinces and to provide jobs for key southern constituencies after 1994. All of the rehabilitated sugar estates/plants were situated in areas that, by the end of the 1980s, were either controlled or strongly influenced by the opposition forces of Renamo or where Frelimo needed to realign itself to key constituencies. In some of these areas, Frelimo lost the 1994 and 1999 and 2004 elections. By creating job opportunities and supporting the extension or directly providing services like health, education, electricity and rebuilding destroyed infrastructure and communication networks, the sugar industry allowed the Frelimo government to provide jobs and income opportunities for demobilised soldiers and slowly to assert its control and reorganise and forge new relationships with formerly 'hostile' populations. This strategy was successful: by 2008 and 2009 Frelimo won both local and national elections in former Renamo areas like Marromeo along the Zambezi River.

The Chissano administration singled out territorial and population control aspects as key factors long before the General Peace Accord in 1992 for two reasons: (1) winning over the large central and northern populations would be crucial for the legitimacy and survival of the Frelimo regime dominating the political organisation of power in Mozambique, and (2) the untapped natural resource endowment in energy, minerals and oil were all situated in Renamo controlled areas. As part of preparing for the end of the civil war, a specialised agricultural "task force" was constituted by high-level members of government ministries and state institutions and tasked with identifying potential agro-industries that could provide income opportunities and crucial export revenues. Equally important was the sector's capacity to provide a certain degree of service provision, so the heavy influx of people to the cities could be stopped and demobilised soldiers would see a future in the rural areas, as well as presenting the Frelimo government in a more benevolent manner than many rural populations had hitherto experienced.

The sugar sector was identified as a core strategic industry based on post-independence policies that referred to the potential of the sugar industry, due to its superior track record as an export commodity, as well as its capacity to industrialize and 'urbanize' the rural areas where 'monetizing rural economies' changed labour relations. This concern for providing superior, quasi-urban social services in housing, education, health and water, besides changing rural labour relations from barter towards exchange based on money, had a particular historical and ideological background. After independence and the Third Frelimo Congress in 1977, when Mozambique formally became a one-party state, the economic and social policies tried to create a new type of modern person – the "New Man" who should run the "New Society" with a "People's Economy" (Frelimo 1978). The transformative capacity of the industry had ideological underpinnings related to modernization of the rural areas, which, after the end of the civil war in 1992, would take place through and with capitalist relations. As both socialism and capitalism are based on a concept of modernization, switching from socialism to capitalism in order to achieve modernization was not as hard as would first seem. The fact that the rehabilitation of the sugar industry could tap into such a long-term ideological project of Frelimo meant that members of the ruling coalition who were strongly against the turn to a mixed capitalist economy could still find reason for not outright rejecting and directly working against the rehabilitation project.

The intense focus on social service provision and infrastructure within the sugar rehabilitation process engendered support for it from the electorate. The creation of employment opportunities for lower levels factions of the Frelimo party worked to maintain the Frelimo ruling coalition and expand its political support among the electorate. Whereas the sugar estates/plants did not become profitable until after 2008, there were immediate benefits from the rehabilitation in terms of job creation, service provision and infrastructure development. It is, therefore, not totally wrong to argue that this was a strategy to build political support that had a long time horizon and it took almost a decade to bear fruit election-wise.

The key question that arises is why did the Frelimo ruling elite (or a significant portion of the factions that comprise it) chose to mobilize political legitimacy, and thus political support at election time, through developing an agro-processing industry, rather than broadening its political support through 'side payments to popular sectors'? The Frelimo ruling elite faced significant internal threats (concluding a civil war and facing limited political support with large parts of the population that disliked it) and they lacked resources with which to make easy side payments, constraining them in their options but pressuring them to do something.

2. An embedded and mediating bureaucracy

Sustained political support during the Chissano period also included support for the state bureaucrats in the National Sugar Institute in terms of resources as well as political back-up, which were prerequisites for the state bureaucrats to play their mediating and embedded roles. By embedded, we mean that the state bureaucrats engaged in institutionalized relations with industry actors, and such interaction was crucial to meeting industry needs and creating credible commitment.[8] The importance of embeddness is much discussed in the literature on business-state relations in developing countries (cf Maxfield & Schneider 1997). The literature argues that embedded bureaucrats have knowledge of the industry and relations with relevant industry actors, which enhances their ability to collect and possess information, monitor business behaviour, and articulate a vision and viable strategy of how to support particular industries (Evans 1997). The credibility of government's productive sector policies in the eyes of business, and thus business's willingness to undertake risks in conjunction with those policies, are undermined when business is out of the policy loop (Biddle & Milor 1997: 280). Movement of actors in and out of the bureaucracy and business can be important in creating the networks that embed state officials (Thorup and Durand 1997; Schneider 1993). The importance of movement as one way of embedded bureaucrats is evident in the sugar case, as discussed shortly.

By mediating, we mean that bureaucrats liaised between business and political interests, technical and technocratic concerns, and administrative and legal procedures. The importance of mediation is less discussed in the literature, but we find it to be very important in the sugar case. There was considerable mistrust on the one hand by parts of the bureaucracy and the political elite concerning the intentions and effects of allowing foreign investors to run the industry, and on the other, the foreign investors in most cases did not have experience working with a de facto one-party state apparatus and political system. The ability of the bureaucrats in the National Sugar Institute to go-between and bridge between different interests and expectations of the political elite and new industry actors throughout the process was crucial to the success of the rehabilitation project.

The origins of the mediating and embedded bureaucracy in the sugar case are to be found in the fact that many of the state and industry actors had worked in relation to the sugar industry in private, bureaucratic and political positions (in different constellations) since the 1970s. It is a phenomenon encountered in some countries that have been a one-party state and are now a dominant-party state. In Mozambique, the political elite and bureaucrats in one way or another--by default, incapacity or structural constraints (but often all of them at the same time)--have ended up running (down)

[8] Capitalists have reason to discount the value of the incentives and withhold investment unless government officials can make credible long-term commitments (Schnedier and Maxfield 1997: 11). Credible commitment means that capitalists believe what state actors say and then act accordingly. For Peter Evans, credible commitment is a key aspect of embeddedness.

productive enterprises in the past while also gaining valuable trial-and-error lessons that could be used in the future. In important ways, this experience created the possibility for some parts of the bureaucracy to operate as a "mediating institution", as state bureaucrats understood both Frelimo's and the sugar industry's needs, perspectives and expectations, while still operating with a keen eye for the pragmatics of the art of government (see Buur forthcoming 2011).

The sugar sector had for the first ten years a functional National Sugar Institute where the director had worked in the sugar industry as a lower level functionary during the colonial era. After independence he continued in the sector and was director for one of the sugar estates and industrial plants during the first attempts to rehabilitate at the end of the 1980s and early part of the 1990s. Notably, the person in charge of writing the 1996 sugar rehabilitation strategy had also worked in the industry since independence before becoming director of the National Sugar Industry in the mid-1980s during the last phase of the state-run era. After rehabilitation began, he became a state-appointed representative on various administrative boards before ending up as general director of the biggest South African investor in the sugar industry in Mozambique, Tongaat-Hulett. The present director of the Sugar Production Association was a politically appointed director (party oversight of a state-run industry) of one of the sugar companies in Sofala during the 1980s, and during the 1990s was advisor to the governor in Sofala when the decision on which of the four estates and industries should be shortlisted for rehabilitation (two out of three in Sofala were selected). In the same manner, the present provincial director for agriculture is a former employee at three sugar estates where he worked during the 1980s and 1990s. Furthermore his education was paid for by one of the sugar companies before independence where his father worked as an office clerk. All the rehabilitated sugar companies have either employed or continue to employ former top state bureaucrats taking up key positions in company agricultural units, small and medium scale cane production units or human resources.

During the height of implementing the surcharge, when a tough stand on contraband sugar imports had to be implemented, the then finance minister, Luisa Diogo, set up a special Task Force comprising representatives from the industry, upstream users of sugar, custom authorities, police and military, besides representatives from all implicated ministries that meet monthly and tasks were delegated. She personally chaired the meetings and the Director for the National Sugar Institute functioned as the acting secretary, making sure decisions were followed up upon. Most of the people involved would have experiences from being part of running an industry at one level, being part of political bodies within the party during the state intervention years or working as a state bureaucrat which allowed for considerable knowledge about how to get politically sensitive, bureaucratically complicated and highly legal issues through the political system without compromising the industrial needs and requirements to such an extent that it would have brought the industry to a standstill.

The sustainability of the relationships between state, government and the sugar industry – be they driven by international capital (sugar), political priorities or bureaucratic considerations—were ensured by being 'embedded' in these different ways. The industry's needs and functions were combined with social and political imperatives (whether deliberately or by default), which reduced social and political uncertainties enough to reassure those investing in the sector and also allowed diverse political imperatives to be catered for so that support could be negotiated when needed.[9]

[9] Under Guebuzza, support the sugar industry has waned, partly because all the key players from the state and government by then had left the sector or had been redeployed elsewhere, and partly because of changes in the institutional setup where the National Institute for Sugar was transformed into a Center for the Promotion of Agricultural Investments, which slowly undermined capacity and longstanding relationships between the different interest groups and the state's capacity to fulfil it monitoring mandate.

3. Negotiating market access and renegotiating the rules of the game

Dependency on volatile export markets for primary or value-enhanced products can be devastating for both investors and peasants, with severe implications for the legitimacy of the government promoting such production. There is therefore often a need for securing both access to markets and a certain relative predictability of revenues, particularly during the initial years of production when productivity is lower, sunk costs high, and learning and technological upgrading taking place. Furthermore, supporting higher growth requires interventions that often include changes in institutions or rules (Khan 2000, 2009). Any particular type of change in rules is likely to have detrimental effects for specific groups. Thus interventions to support a particular productive sector can have social costs, which can lead to social conflict and mobilization against changes. If the ruling coalition cannot absorb or tolerate significant social costs from the sources that are affected, then they will not pursue those interventions or abandon such interventions during implementation. Thus, negotiating market access for the nascent sugar industry and protecting it will it grew, which included a strategy of creating a protected internal market, required strong political support from the ruling elite, without which they would not have been possible.

The sugar sector is known for highly volatile markets where the free world market price can often be lower than production costs due to overproduction and price speculation. For the same reason, all the top sugar producers in the world protect their sugar industries through different forms of tariff regimes. The global sugar industry is generally based on production for home markets where some countries like Brazil have diversified the home market early on with, for example, conversion to ethanol so either sugar or ethanol can be favoured depending on world market prices for sugar, ethanol and oil. In Mozambique a protected internal market was necessary in order to create a favourable milieu that could stimulate new investments that promoted efficient production to mitigate the effects of the world market, which was volatile and based on dumping prices. Furthermore the internal market was necessary while negotiations with preferential markets were ongoing. When rehabilitation of the sugar industry began, there were no substantial and favourable trade agreements in place that gave access to preferential markets. A smaller preferential trade arrangement with the US – amounting to 1.3 per cent of total US imports – allowed Mozambique to export between 14,000 and 26,000 tons during the 1990s, stimulating a small increase in production for a period (INA, 2001: 4). In the 2000s, developments around the European market and diverse mechanisms like Economic Partnership Agreement (EPA) and Everything but Arms (EBA) created favourable conditions that allowed unlimited access to the European market (for the history see Goodison 2007). Ironically, this happened exactly when world market prices skyrocketed and honouring the agreement with the EU was less favourable than selling unilaterally through the free market. But, as history had shown, relying on the free market would sooner or later become an industry killer, which made the Mozambican sugar industry cautious about burning any bridges to preferential markets.

Establishing a protected market for sugar had implications for the distribution of benefits and resources in several ways. First, it challenged trade monopolies and the informal (contraband) sugar trade in order to create the space for an internal formal sugar market based on Mozambican sugar production. From the outset of the rehabilitation of the sector initiated in 1997, a ‘price policy’ with a flexible levy (surcharge) on sugar imports that catered for the creation and protection of an internal market had been anticipated. Its implementation had to wait until the new millennium because there was not enough sugar produced in Mozambique to protect.

By the time sufficient sugar became available and the national marketing mechanism needed to be implemented, it had become an important political issue and created substantial public discussion, with the industry pressing for its implementation and different Frelimo and government factions either supporting or resisting it. Particularly, top members of the party who were involved in transporting formal and informal or legal and contraband sugar and party members in economic partnerships with powerful importer groups tried in various ways to undermine the implementation and enforcement of the pricing policy. The party factions in favour were primarily top party, government and state bureaucrats who were in charge of bringing in the foreign investments and who were in charge of the custom reform and the sugar strategy, as well as the powerful factions that for ideological reasons were in favour of an national industry but uncomfortable with foreign direct investment (they reluctantly supported it, but were important for winning the internal battle in the party).

The surcharge became the litmus test for state and government commitment to the sector. It involved a number of ministries and regional coordination of harbour and border control entities, leading eventually to a major overhaul of customs and immigration structures and affecting investment policies already in effect, as well as curbing Indian family trade houses, which earned well on the informal sugar trade. Challenging trade monopolies, which often spanned several continents and had strong economic holding power and internal cohesion (besides paying generously for protection to the Frelimo party and individuals) required considerable political support for the national sugar industry and continual and skilful liaison, both within the governing party and with external actors.

Moving from imported sugar to nationally produced sugar also had implications for the upstream industries, primarily in the beverage sector. The beverage sector had been the site of considerable investments by big multinational companies as well as members of the newly created Mozambican economic elite, which became an important constituency of Frelimo after the first and second waves of privatisations running through the 1980s and 1990s. The shift from import sugar to national sugar increased the price for refined sugar considerably, up to two or three times after the surcharge was implemented. Some beverage industry actors speculated in dumping price setting (for example Coca-Cola), and protected the need for importation by requiring a certain refinement level for the sugar used in soft drink production, which was not available at that time in Mozambique, or if it was available it was produced up-country in Sofala making its use around the downstream companies in Maputo excessively costly. In the end, a compromise was struck where upstream industries bought sugar from the sugar industry at a favourable price that was considerably lower than the reference price used for defining the surcharge, and white sugar was provided for the now considerable local beverage industry, including fruit juice, beer and soft drinks after a “tollgate refining” where brown sugar was exchanged for white sugar from South Africa and the price difference was paid by the Mozambican sugar industry (see CEPAGRI 2009; Interviews DNA 2009; 2010).

Lastly, the steep price increase mentioned above was also passed direct to urban consumers and, over time as the industry managed to set up and expand its national marketing and distributional network, to the rest of the country. This happened during Chissano’s last elected period 1999 up to the local elections in 2003 and national elections in 2004. While the surcharge measurement underwent adjustments after the first period of implementation and was downsized in 2003 for raw sugar and 2004 for refined sugar (LMC 2004:5), this was “relatively fair”, according to FDI industry actors, as it did not undermine industry needs for paying back loans and generating funds for new investments (Interview Executive Director sugar estate 2008).

The Chissano-run dominant Frelimo party coalition, despite being close to losing the 1999 general elections, carried through the sugar policy despite its unpopularity among Frelimo key urban voters.

This was possible probably only because changing the distributional rules did not benefit any particular individuals or groups in the ruling coalition. There are no indications that any from the top leadership benefited directly or indirectly from rehabilitating the sugar sector. Instead, supporting the sugar sector allowed the state and government to fashion new links to rural electoral constituencies in areas it had struggled to assert itself before. It also allowed the government to raise its credit rating, because the foreign companies running the sugar estates paid back their state-guaranteed loans.

4. Organizing the industry

We know that institutionalized interaction between state and business at industry level is important for coordinated (collective) action, for states to meet industry needs, for credible commitment to materialise, and for monitoring and enforcement of conditions related to learning rents and for incentive structures to be effective. Institutionalised interactions requires strong industry associations to interact with the political and state domain, but strong industry organisations often require external pressure for them to come about (Doner and Schneider 2000). Here the role of the state in facilitating industry actors to organize themselves and solve their own collective action problems (often through carrots and sticks) is crucial. One can to some extent argue that industries need to be organized as a prerequisite for success (Taylor 2007; Brautigam et al. 2002)

Importantly, the original sugar rehabilitation strategy anticipated the need for institutional organisation. It aimed to ensure that “the different sector interests – government (economy), industrialists (producers and users) and agriculturalists (cane producers) coordinated their industry interests and managed conflicts emerging from different interests” (INA 1996: 14). But there was no institutional organisation of the industry when the rehabilitation of the sugar industry was initiated besides the National Sugar Institute, which during the one-party years after 1977 catered for both state-industry needs. Organizations were established when the need for organised encounters emerged, and when they were no longer needed they tended to disappear. The institutional organisation of the industry is by implication intimately related to the creation and protection of an internal market. In the concrete programme for the creation of the internal market it was suggested that each company could market and sell sugar individually within a “domestic quota system”, as the sector became liberalised and when production levels allowed for it. For exporting, it proposed defining one single export agency for national sugar in order to reduce transaction costs, which could be a sugar producing association or a commercial company contracted by the association after a public tender. Along the same lines it was further suggested that “a division of revenues provided by the preferential quotas, between the sugar companies in relation to annual production” should be implemented that also included “non-preferential export by each sugar company” so they got “remuneration proportional to exports channelled through the export agency” (INA 1996: 77).

The first organisation to emerge was the *Associaçao dos Produtores de Açúcar de Mozambique*, the national sugar producing organisation also known as APAMO. It emerged after 1998 first taking care of the sugar producers’ interests during the first phase of the rehabilitation process, but it has the potential to become the organisational centre for future investments in cane based bio-fuel as well. APAMO is the organisational centre for the tripartite minimum salary negotiations and the go between state and industry when necessary. The second important institutional access point for state-industry relations was the emergence of the industry-owned National Sugar Distributor (DNA), which was created for marketing all sugar internally as well as externally, which hugely cut down transactions costs[10].

The Frelimo government pressured sugar producers to organise themselves in branch organisations, or what we positively could call 'rent sharing organisations', as key government officials were tired of having to attend to each investors particular concerns and needs, many of which had consequences for other actors. The enforcement was done through cutting communication until an organisation was created with the mandate to speak on behalf of the industry regarding sugar marketing and distribution Intra-industry collective action crystallised around the sharing of rents that the rehabilitation of the industry and creation of the protected internal market created: a) domestic rents generated by the protected market pricing policy (both revenues and taxes); b) international rents generated from first preferential export quotas to US and later on export access to the European and other markets as they became available; and c) rents created by preferential treatment of upstream industries, primarily in the beverage sector. Here a special pact evolved with a sharing deal between producers and the state that by and large eliminated, or at least limited, the shares/rents usually claimed by, for example, domestic traders and/or the international free market industries characterised by dumping prices and industries speculating in such dumping prices. The sugar industry managed to develop mechanisms of coordinating marketing strategies that allowed the different companies to take advantage of international "preferential quotas and avoid having to dump sugar into world markets" (Castel-Branco 2002: 179).

In reality the union for sugar workers, SINTIA, became reorganised and strengthened (making it after a few years the largest affiliate under the national federation) right from the outset of the rehabilitation process as part of trying to managing labour conflicts and disputes during the privatization phase. SINTIA became an important union as the president also became president for the national federation. Other organisations that emerged in order to take care of collective action problems was an upstream organisation for industries depending on sugar – the Organisation for Sugar Using Industries - comprising both multinational and national beverage producers. Particularly during the creation of and enforcement of the internal market where the organisation participated in the Task Force and in negotiations around the surcharge was the organisation active, but as demands were catered for it vanished. The same happened to a consumer organisation, which was also created during the implementation of the surcharge when prices for ordinary urban residents rose sharply. It also seems to have disappeared from the picture since as the price setting stabilised.

Through the organisational engagement, institutions are created which have a certain durability. As a director for a sugar company phrased it "Systems are resilient. They don't depend on one person or the order of a minister" (Interview 2008 Maragra). But importantly, the organisational features of the industry evolve as needs, demands, policy requirements and so forth produce new situations. In other words, it allows for constant accommodation and alignment to political, organisational and industrial sector requirements and needs in an organised manner. As such it forms part of creating predictability as the combined effects allow the government and subsequent governments to commit scarce resources (infrastructure, political etc.) to the development of the sector despite resistance from other sectors of

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[10] The industry tried at first to run the National Sugar Distributor (DNA) with each of the four companies nominating a person. But later on a public tender gave the managing contract to an internationally recognised company with a solid managerial track record, capacity to mediate between different business interests and the state, as well as international networks spanning Europe, Asia, Latin America and USA, bringing substantial organisational, marketing, and business knowledge to the sector. Much suggests that the role of DNA will change as the ownership structure of the 4 rehabilitated estates and sugar plants change and they become part of even larger corporations with their own corporate strategies for marketing, access to markets, distribution networks and so forth.

society and donor groups like the World Bank and IMF. Organising the industry also means that institutional assurance can be given in contrast to personalised assurance to shore up commitment by different political groups even within the same ruling coalition.

Isolated factors or broader trends?

Is sugar unique due to the particular characteristics of the global economy and consolidation and vertical integration of multinational sugar companies? Is the sugar industry unique in Mozambique in the sense that the four factors discussed above do not exist in any other productive sector? We briefly address both of these questions.

The sugar sector in Mozambique is generally considered by commodity and value chain analysis an exceptional case due to the fact that it is a vertical integrated sector involving regionally and internationally powerful sugar companies with considerable holding power (management and technological capacity, access to finance etc.). However, when the rehabilitation began between 1994 and 1996, the situation in Mozambique was risky and not conducive to foreign sugar investment. The infrastructure was in ruins and all services monopolised, making transport costs three times higher than elsewhere in the region. The industry was confronted with severe human resource gaps caused by war, neglect and policy failures. Even though at least two of the three initial investment groups from South Africa came from solid companies, they still needed the state bureaucracy and the government on their side for accessing cheap loans through state guarantees (Buur forthcoming 2011).

The four factors identified above can explain the varying degrees of success in other formerly strategic sectors that the Frelimo government attempted to rehabilitate, including cotton, cashew and fisheries. They also created either job opportunities for former state and party employees or income through cash crop participation (for example cashew, cotton and tobacco) and supported the extension of social services like health, education, and electricity besides technical extension and rebuilding destroyed infrastructure and communication networks. It was through the productive sectors, usually based on foreign investments though in some cases (like cashew and cotton) with national participation, that the Frelimo government tried to assert its control and increase political support. By doing this through foreign direct investment or concessions, the Frelimo government could largely control accumulation streams in opposition areas, ensuring that independent accumulation would not support Renamo. None of the investments in former strategic sectors including sugar created any structural changes to the economy, but they did allow the ruling coalition to reproduce itself as the legitimate government.

The cashew industry illustrates how the four factors are important and play out different. The Frelimo government's initially ambivalent relationship to the cashew sector should be seen in the context of Frelimo's control over accumulation. After the sector was privatised, it was pressured by the World Bank to liberalise its export market for raw nuts, undermining the vast and quite uncontrolled industry in key opposition strongholds. On the one hand this was problematic as it removed employment for key urban constituencies, but on the other hand it allowed the Frelimo government to get relative control over accumulation patterns while securing access for some members of the ruling coalition to enter the lucrative export regime.

Before privatisation and liberalisation during the 1970s and 1980s, the cashew industry benefited from export restriction of raw nuts in order to protect and secure sufficient volumes of raw nuts for the industry. By the end of the civil war the cashew sector was debilitated and clearly needed state assistance and protection. Export tariffs were considerably lowered, making it more profitable to export raw cashew to India and some new exporters emerged affiliated to the Frelimo party were licensed in addition to the Asian family based trade-houses, making huge profits in this realm. The local industry nonetheless totally collapsed but as many exporters also had stakes in the industry, the losers were largely industrial workers and a few people who had bought themselves into the sector during the privatisation process but then had been trapped by the changing export regime.

When attempts, by national industry players and the USAid funded American NGO Tecnoserve, were made after the new millennium to restructure the industry and bring in new technology and management skills, there was a need to renegotiate the export tariffs with the mainly Asian family-based trade houses and the new members of the ruling coalition that got export licenses. Such negotiations involved, among others, then President Chissano, who personally met with the biggest Asian trader in the sector and persuaded him to accept changes over time, and a new cashew industry is slowly but steadily emerging. The owners of the emerging industry include some of the Asian based trader-families also involved in the export of cashew, as well as newcomers and people who during the privatisation phase bought themselves into the industry who are affiliated to the Frelimo party. With new affordable technology and access to assistance and raw cashew nuts former unused industrial plants have become resurrected sometimes in joint ventures with investors in other cases based on own access to finance.

It is with regard to these changing rules that the biggest difference between sugar and cashew emerges. Both sectors were singled out as long-term strategic sectors but cashew received concrete political support much later than sugar. While changing the rules of the game was necessary for both sectors, for cashew it required a redistribution of resources between groups forming part of the ruling elite coalition, whereas there were no individuals or groups in the ruling coalition that benefited directly or indirectly from rehabilitating the sugar sector.

An important characteristic of all sectors that have had some recent success in Mozambique is that many of the state and sector leaders have worked within the industry or sector in both private and state capacities since the 1970s in different constellations. There is therefore a group of people with experience and knowledge about both the industry and the bureaucracy, besides having good political networks to liaison between business and political interests. The organisational model for cashew differed nonetheless from the sugar model. The US-based NGO Technoserve, which to some extent drove the process of technological upgrade of the cashew sector, contracted key sector personnel, hiring the person in charge of producing the sector plan in the National Cashew Institute. This person had long-term experience during both the post-independent period and after liberalisation and privatisation. Despite the existence of a formally independent National Cashew Institute, it was considered necessary to push for changes in the sector (including how raw cashew was distributed between exporters and industry groups) by a person liberated from the shackles of being a state employee. This was considered necessary because being within a state institution governed by the ruling Frelimo coalition while at the same time having to negotiate changes to the rules of the game with top members of the ruling coalition was not considered viable due to political pressure.

Ghana Comparison[11]

Ghana's political settlement

Compared to Mozambique, Ghana has very different distribution of power within society and thus different characteristics of the ruling coalition and its stability. In the contemporary period (1980s to the present), and almost the same time while the Chissano-led Frelimo ruling coalition was in power in Mozambique, Ghana had three different ruling coalitions: the Provisional National Defence Council (PNDC) under the leadership of JJ. Rawlings and after the introduction of multiparty elections, the National Democratic Congress (NDC) government under the Presidency of Rawlings and the New Patriotic Party (NPP) government under the Presidency of JA Kufuor. By the beginning of 2009, it had yet another ruling coalition: the JA Mills-led NDC government. The Ghanaian political landscape became characterized by two strong political factions organized around the NDC and NPP. Thus, there has been little stability of the ruling elite in power, even during the PNDC and NDC periods.[12] Ghana also does not illustrate the same stability in particular state-owned or intervened in industrial sectors (created since the 1960s), largely because parastatal managers were changed with each change of regime—and there were many. But it must be recognized that Ghana and Mozambique had different colonial legacies in terms of the development of manufacturing (including agro-processing). The British did not leave that kind of colonial legacy.

Ghana's bipolar coalition formation is the result of path dependence in elite formation and the mythologies surrounding the two political traditions. However, the ruling elite within these two coalitions are not very cohesive. There are strong forces driving elites to be aligned with one pole or the other, but not strong centripetal forces within the poles. Fragmentation within the higher levels of the ruling coalition result in weak internal discipline among the ruling elite and little control over elite accumulation strategies or rent-seeking (as long as some of it goes to the party coffers).

The lower level factions of the ruling coalition (whether NDC or NPP) are strong. Party delegates are in charge of selecting parliamentary and presidential candidates, and it is not uncommon for incumbent ministers to loose their party primary. The constituency level party activists (referred to as party 'foot soldiers') are critical to delivering votes at election time, and thus also wield significant pressure within the ruling coalition. These structural features of the internal structure of ruling coalitions constrain the ruling elites' ability to enforce discipline within their coalitions.

Another key constituency of the ruling coalition (whether NDC or NPP) are businessmen aligned to the political parties. Much of the business sector in Ghana is aligned with the NDC or NPP and expect to benefit when their party is in power. This alignment is the result of historical legacies (NPP is the party of the merchant class) as well as trends in the contemporary period where much of the formal private sector are in businesses that depend on state contracts and/or the entrepreneurs owe their start in business to privileged access to the state. As a result, business-state relations in contemporary Ghana have been unstable. They changed depending on which party controlled the state. Increasing

[11] This section is based on work that is not yet published, but in progress as a book-length manuscript. Some of it will be available in DIIS working papers shortly.

[12] There was great instability in the composition of the PNDC elite, and most of the key political elite who spearheaded economic reforms under the PNDC did not remain in the NDC by the late 1990s. The PNDC did include many technocrats who had been in government under earlier regimes and brought that experience to bear on the general economic restructuring under structural adjustment programs, but their experience centered on macroeconomic reforms and largely account for Ghana's success in that area in the 1980s.

vulnerability of ruling coalitions to losing power at the next election resulted in two tendencies. First, the ruling political elite focused on extracting as many rents through political office as possible. Sometimes this involved creating their own businesses to take advantage of opportunities created by state regulation or intervention, but often in areas that were not directly productive. Second, businesses attached to the ruling coalition had short time horizons, with entrepreneurs focused on sectors with quick, certain returns to investment (again, often not in production).

In addition to the structure of the ruling coalitions, the closeness of elections in Ghana has a significant impact on the actions of ruling elites. In Ghana under the Fourth Republic, the NDC and NPP became increasingly competitive after several electoral cycles. This situation led to a strengthening of the lower level factions, but also to the increasing importance of ‘floating voters’, who are not party loyalists and may change their vote with each election. Loyal voters of each party are not enough to win elections, so political parties must capture swing votes. Electoral contests are about winning swing voters, and so the ruling elite pursue ‘election-driven’ initiative which are defined by the characteristics they have in common: aim for a large geographic coverage, produce immediate, visible results, and are implemented in ways where the government can take direct credit.

In sum, political coalitions of the NDC and NPP are similar, and thus they illustrate similar tendencies in office. Key constituencies of the ruling coalitions are higher level factions of the political elite, lower level party executives and activists, and aligned businesses, but the ruling elite are also influenced by wooing swing voters in the electorate. The four year term in office means there is not much time to recoup political investments and reward loyal party members, and coalitions are vulnerable to losing the next election.

Access to state resources is crucial to holding both the NDC and NPP political coalitions together. There are no large sources of finance outside of the state that political factions can easily tap into, such as finding big capitalists as clients. One might wonder then why the very competitive elections in Ghana do not spin out of control into violence. This is because the Electoral Commission in Ghana is independent and strong, the political elite have agreed to share power in this way, and the constituencies of the ruling coalitions cut across ethnic cleavages (Whitfield 2009). Ghanaian history has left an impression among the political elite that other means of rotating the elite factions in power (i.e. through military coup) leads to economic decline. Having said that, the very close electoral contests in Ghana leads to legal and illegal political accumulation by the ruling elite to fund election campaigns as well as public-spending aimed at loyal and swing voters, that create macroeconomic instability and thus serious negative effects on the economic transformation process. For example, Ghana’s economic crisis at the end of 2008 was not caused by global financial markets, but was largely of its own creation (see Whitfield 2010a).

The government’s budget is dependent on foreign aid direct transfers (money that goes through the state), but the ruling elite are also dependent on foreign aid administered outside the state in meeting societal needs in social services and goods. The state used to heavily dependent on export taxes from the cocoa sector, but this dependence declined in the 2000s as VAT tax became more important. Another important source of tax revenue is customs tax, especially since Ghana serves as a gateway for many countries around it. Thus, it is not surprising that the state agencies responsible for governing sectors important for financing the state (such as the Cocoa Board, the Internal Revenue Service and Customs Service, and the Ports and Harbours Authority) are very effective state agencies. It is also not surprising that the ruling elite sign off on many donor-funded projects just for the resources without caring too much about the content and supporting technocrats to negotiate the content.

This section presents a brief, stylized summary of three productive sectors in Ghana that are characterized by different levels of support by the ruling elite, which corresponds with differing levels of success in either developing new industries or expanding and upgrading old ones. These sectors are cocoa, oil palm and horticulture export. In each sector, we briefly explain the reason for political support (or political neglect) and the degree of success of state actions targeting the sector, by looking at the four factors identified in the successful Mozambican sugar case. This is a first take at comparison across Ghana and Mozambique, so it is more about flagging issues than a fully-fledged argument. It is also illustrates the usefulness of key analytical concepts and theories, which we are working with in the analytical framework presented in the conclusion (which is also still work in progress):

Cocoa export: this is Ghana's 'sugar'

Cocoa export in Ghana strongly resembles the sugar case in Mozambique on all of the four factors, which, we argue, explains its relative success in Ghana. Of crucial important is the sustained support that the cocoa sector has received since the 1980s—support sustained across all three ruling coalitions. When the PNDC government had to revive the economy in the early 1980s, the ruling elite chose cocoa as the center of its economic recovery strategy because of its history as the pillar of the colonial and post-colonial economy. Cocoa dominated exports (over 50 percent of export revenue), was the main foreign exchange earner, was a key source of state finance because a significant portion of cocoa revenue stayed with the state through export taxes, and was a key source of income in rural areas in the southern part of the country. Overtime other sources of government revenue increased (and cocoa taxes decreased), but cocoa continued to be a key source of income in the rural south (produced in almost all southern regions) and a key driver of poverty reduction over the 1990s and 2000s. Thus, all ruling coalitions have used it to generate political support, and would not risk doing anything seen to undermine this 'holy cow'. In this sense, cocoa was to Ghana's ruling coalition what sugar was to Frelimo.

The different ruling coalitions' political support for cocoa is evident in the ability of ruling elite to negotiate hard with the World Bank and IMF on cocoa sector reforms over the course of the 1980s, 1990s and 2000s, and to largely succeed in getting their way: to only partially liberalize internal and external marketing and partially privatize the state buying company. Ghana is the only cocoa producing country in the world that has maintained a heavy state presence in the cocoa sector, and all other West African countries completely dismantled there cocoa marketing boards under Bank and Fund pressure. There is a consensus across the NDC and NPP that full liberalization is not desired. Through the Cocoa Board, the Ghanaian state plays an important role in assuring bean quality, which secures Ghanaian beans a premium on the international market. International buying companies supported the governments and the Cocoa Board in fighting off Bank and Fund pressure for full liberalization of the sector.

Cocoa is the main (successful) example of the Ghanaian government developing a productive sector as a means to increase political support. In terms of exports, it is the only success. Cocoa constitutes at least one third of exports. Gold exports constitute another third but have marginal benefits for the population and building technological capabilities (because mining capabilities have limited spillovers to other sectors). There is no other large export sector (horticulture and palm oil largest non-traditional exports in 2007 but only accounted for about 4 percent), nor is there another productive sector that affects incomes significantly.[13]

On the second factor, of strong bureaucratic support for the sector along with an embedded and mediating bureaucracy, the cocoa sector scores quite high. The sector has its own state agency, the Cocoa Board, which is under the authority of the Ministry of Finance and not the Ministry of Agriculture (indicating its importance).[14] The Cocoa Board has generally been empowered by the ruling elite to play a key role in negotiations over cocoa sector reforms and with running the sector. Cocoa Board technocrats have a lot of experience and expertise, even though they may have presided over running down the cocoa sector in early decades (No research yet on continuity of personnel). Reforms of the Cocoa Board across the 1980s and 1990s acted to strengthened the organization—made it more efficient, but also more capable. The Cocoa Board is no longer dependent on government resources for buying cocoa, but raises finance through international syndicated loans, although the government gives it resources for other programs administrated by the Board such as increasing productivity and providing social benefits. Cocoa Board bureaucrats have institutionalized interactions with cocoa farmers and the licensed buying agents, especially through the Producer Price Review Committee that sets the producer price for cocoa. There are weaknesses in the Cocoa Board's performance, though, especially in increasing productivity of smallholders, because extension service hived off to the Ministry of Agriculture (as part of a concession to the World Bank in negotiations).

Regarding the third factor, the Cocoa Board is in charge of negotiating access to export markets. Its de facto monopoly on export marketing means that it ensures the quality of all exports and deals with large volumes and thus has significant leverage within international markets. The Cocoa Board controls the rules of the game, which are in favour of cocoa bean exports. It is not a case of an import-substitution good, so importers are not relevant. A few cocoa processing factories have emerged in the 2000s, but the Cocoa Board allows only a limited amount of beans to be processed, so the rules of the game are in favour of exporting beans not further value-added. However, the extent of opportunities in domestic processing in the cocoa value chain has been questioned (Fold 2002).

Regarding the fourth factor, the cocoa industry is very organized. The heavy presence of the state in organizing the sector was necessary due the fact that production was dominated by a very large number of smallholders. The state organizes quality check and assurance to international buyers, export marketing, support to farmers in increasing productivity, and secures finance for the sector. It used to organize collection and internal marketing until that was liberalized in early 1990s, and the state buying agent remained the dominant internal buyer until very recently (but was partially through listing on the Ghana stock exchange in 2000).

However, a key difference between sugar in Mozambique and cocoa in Ghana concerns the economic implications of the two sectors. Sugar is a processed good, and as with the manufacturing sector, it has more positive effects on the economy: it involves developing domestic manufacturing capabilities (managerial, technical, artisan) that can spillover to other sectors, more linkages with the economy (upstream and downstream), creates more jobs, and higher multiplier effect within communities. The sugar estates also provide social services. The cocoa sector has less economic effects. Cocoa production is still characterized by low-technology cultivation, very small farms and a high use of

[13] In 2007, there were an estimated 720,000 cocoa farmers with an average productive cocoa area per household of about 5 acres (or 2 hectares).
[14] The Cocoa Board consists of several arms: Quality Control Division, Cocoa Marketing Company (under which is the Produce Buying Company), Cocoa Services Division, Cocoa Research Institute, and Cocoa Processing Company.

family labor. There is limited value-addition, and limited linkages between the cocoa sector and other sectors of the economy.

Another difference is that the sugar industry is largely driven by foreign investors and the state, whereas the cocoa industry is largely driven by smallholder farmers, licensed buying agents (for collecting and selling to the state, which include foreign and Ghanaian companies), and the state (in charge of export marketing and finance). But they share two common features: (1) the absence of a domestic capitalist class driving production, and (2) the ability of the ruling elite to monitor the accumulation process within the sector. The two are probably connected, and flag an important issue within the politics of building productive sectors in African countries.

Palm oil: a largely neglected industry, followed by a failed industrial policy initiative

The palm oil industry shares many structural similarities to sugar in Mozambique, but also important different. Palm oil is a processed good, with many possibilities in moving up the value chain. The fruit of oil palm trees are processed into a crude palm oil (by extracting oil from the nuts), which can then be refined into various types of oil products that can then be used as an input into many types of edible and non-edible manufactured goods. The Ghanaian palm oil industry consists of four former state-owned estates and processing mills, or government majority shares in foreign joint ventures, which were privatized in the 1990s and early 2000s. However, unlike the Frelimo government, the ruling coalitions in Ghana did not have a strategy for the palm oil industry when they privatized the estates; rather the focus seems to have been on getting the most money out of privatization, and there was no strategic government support to rehabilitate the industry. The new foreign owners were left to do their thing.

One reason why the Ghanaian governments may not have wanted to support the newly privatized palm oil estates has to do with the structure of the industry, which is fragmented into two sub-sectors. The modern sector which produces oil for industrial purposes consists of the four large estates/mills that were privatized and a handful of medium and small mills owned by Ghanaians. The traditional sector which produces oil for the domestic market (because crude palm oil is used in cooking) consists of large number of informal processors (who use very basic technology or even do it manually) and many smallholder farmers. The smallholder farmers straddle both sectors, as the estates only produce about 50 percent of their raw supply and have to buy the rest from smallholders, including formal contracts with outgrowers. Ghanaian governments in the 1960s and 1970s that created the large estates ran into many problems with expropriating land and with smallholders who were to be outgrowers for the estates. In the contemporary period, smallholders see the foreign-owned estates exploitative. Thus, the ruling elite would probably not want to be seen as supporting the foreign-owned estates, and as not supporting smallholders. The fact that the NPP government's initiative to support the palm oil industry directed itself to the smallholder production side of the industry and did not really engage with the estates in designing or implementing the initiative seems to support this hypothesis (but more evidence is needed). The sugar industry in Mozambique does not have this formal/informal or industrial use/consumption divide; there was not a history of smallholder production of sugar (the sugar estates just started smallholder outgrower schemes).

As mentioned, the palm oil industry in Ghana was largely ignored under the PNDC and NDC, apart from improving the efficiency of the large state-owned estates in the lead up to privatization. President Kufuor of the NPP government included oil palm production as one of his President's Special Initiatives (PSI) announced in 2001, which aimed to develop new pillars in the economy. In short, the oil palm PSI aimed to support smallholders to increased oil palm production and link them with newly created mills, in which they would have ownership. Arguably, this initiative was a strategy to expand political support for the NPP, especially as it came just after the 2000 national election which the NPP had just barely won in a second round of voting. The Oil Palm PSI was clearly not an initiative to build the industry, but rather to support smallholder farmers with the aim of winning swing votes at election time. It was politicized from early on, with politicians visiting areas where it was to be implemented and telling farmers that the government would provide everything for them. These were supposed to be loans, but from the rhetoric of the politicians, the farmers could be forgiven for thinking they were gifts. It was very clear that the government wanted to take direct credit for the benefits. For that reason, the initiative was rushed, because it needed to deliver quickly. There was no clear strategy behind the initiative and planning was ad hoc. It was also expanded quickly to reach a larger number of farmers, but without the requisite resources, undermining the implementation.

However, the ruling NPP elite factions did not unite behind the initiative. The PSIs in general do not seem to have had broad support among the NPP ruling elite. Rather, they came to be seen as the pet project of one faction of the NPP elite, and became caught up in the power within the NPP among the higher level factions over control of the party. The PSIs lacked significant funding to implement them. This situation partly stemmed from an initial design for the PSIs to funded by domestic banks, when the necessarily amount of funding was not forthcoming by the banks, there was not much finance from the government budget, despite it being the president's initiative.

Regarding factor two, there was no mediating and embedded bureaucracy. The PSI Secretariat, a new state agency, was created in order to implement the PSIs and placed under the Office of the President. However, the agency was not staffed with the most qualified or well-resourced. Personnel appointed for political reasons who were not the best. The agency was not strong on the ground and could not adequately monitor and control implementation. It did not make much use of existing expertise at the Oil Palm Research Institute. The location of the PSIs was moved several time to different ministries, undermining who had authority and control over the PSIs.

Furthermore, the design and implementation of the Oil Palm PSI did not involve institutionalized interaction with palm oil industry actors from the modern sector. On the industry's side, its association was weak and basically defunct. After privatization, with the exit of the state's role, the industry faced severe collective action problems. The only thing the association does is set the price of domestic palm oil (see point 3 below). The PSI Secretariat did not really engage with existing industry actors and try to bring them together. When it did engage, it largely ignored their suggestions on what the industry needed and how to build the industry. Implementation by the Secretariat was very poor. Something was achieved in terms of modest expansion in oil palm cultivated, but not nearly what was envisioned, and funds were wasted on farmers that could not keep up the size of farms they had planted when government resources ran out. Some farmers succeeded, but many failed, especially ones that were not close to existing mills.

Palm oil is an import-substitution good, in the sense that it is produced largely for the domestic market. The domestic industry cannot meet the country's demand and thus palm oil has always been imported. The foreign investors who took over after privatization did not intend to export outside of the West African regional market. Ghana cannot compete on the international market. Furthermore, there is no need to export when producers can get the same price domestically as they could on the export market due to an agreement among palm oil producers and users in Ghana. Through their association, they agreed in the 1980s that users would only import palm oil (or substitute oil) to meet their demand in excess of what domestic producers could supply. The price of domestic palm oil is set through a formula that was collectively agreed, and which adjusts the domestic price to be equal to the price of oil that is imported. This formula clearly benefits the producers, rather than the users, and was negotiated at a time when the producers were trying to get on their feet. Downstream producers of goods that use palm oil, especially soap manufacturers, complain of the flood of cheap imports.

Regarding factor four, the industry is not organized, as already mentioned. The industry is dichotomized into two sub-sectors which are largely parallel but overlap through smallholder production. This structure makes it difficult to expand and improve the performance of the industrial sector. The actors are not organized within, much less across, the two sub-sectors. The state has no role in the industry.

Horticulture export: a neglected opportunity

Ghana began exporting pineapples to Europe in small quantities in the mid1980s and exports grew slowly. At that time, the Ivory Coast almost monopolized the supply of fresh pineapples to the European market. Ghana carved out a niche in the European market as a primary supplier of top quality pineapples shipped by air, and in the second half of the 1990s began shipping pineapples by sea. However, from 2005 Ghana's pineapple export industry went into crisis, as it failed to remain internationally competitive. Total exports decreased and the industry was restructured. Just before the crisis, pineapple production for export was split between approximately 12 large farms (300-700 ha), about 40 medium farms (20-150 ha) and possibly as many as 10,000 smallholders (0.2-10 ha). The crisis led to the exit of smallholders from export production and to the collapse of many medium and large producer-exporters. In 2009, total pineapple exports began to rebound, but production had become concentrated among a handful of very large farms.[15]

Pineapple export has been the largest of Ghana's horticulture exports, and to date, none of the other fresh whole horticulture products have really taken-off. Nor has the horticulture export sector received significant government support, which arguably could have helped to avert the crisis. The horticulture export sector has all the features that should make it matter to the ruling elite. It is a non-traditional export, grown in the rural areas, and predominantly controlled by Ghanaian entrepreneurs. So why was the sector neglected? The short answer is that it could be neglected. There was no state presence in the sector: no state agency in the sector, no history of horticulture exports, and no role for the state in accessing markets. The political elite across the different ruling coalitions did not perceive horticulture export as means to generate political support, even though many smallholders were involved in 1990s and early 2000s.

There was a small initiative of the PNDC Minister for trade and industry, in collaboration with the Ghana Export Promotion Council, to support pineapple exports in the 1980s, but it was very significant for the industry which was in its infancy. However, it was the initiative of one individual and when he 'fell out' of the ruling elite, it was ended. Initiatives to support horticulture exports in the 1990s and 2000s were donor-driven, particularly by the World Bank, and primarily targeted at smallholders and not at building the industry. Thus, the needs of the industry as a whole were not met, particularly in terms of the provision of public and industry-specific goods necessary to make the industry more competitive.

[15] For the detailed case study of pineapple exports, see Whitfield (2010b).

Regarding factor two, there is no mediating and embedded bureaucracy. Bureaucrats involved in the horticulture export sector have not been given political support. A small unit devoted to horticulture export within the Ministry of Agriculture has developed significant expertise and experience since the 1990s, but it has largely been ignored, lacked political leverage in negotiations with donors, and has not been embedded with industry actors. Regarding the latter, it has supported smallholder production, without considering the needs of the industry as a whole, although the crisis sparked a rethink and reorientation of many of the horticulture technocrats towards looking at the industry as whole. On the industry side, the industry associations are fragmented and weak. They have not been proactive in lobbying the government due to internal collective action problems. There is no institutionalized engagement between industry associations and the bureaucracy or between the association and the ruling elite.

The horticulture export sector, and the pineapple export industry in particular, is not very organized, and has been identified as one of the factors undermining its competitiveness (see Whitfield 2010b). After the crisis in 2005, the numbers of producers shrank, so it is more organized now, but is still plagued by significant collective action problems. Marketing is done by individual companies, with significant negative effects on quality, price, cost of production and leverage in international markets, in contrast to the cocoa sector.

Conclusions: Introducing a new analytical framework

As mentioned already, this research and arguments presented here are part of the Elites, Production and Poverty research program looking at state interventions to support productive sectors, and asking the following questions: Why do ruling elites support productive sector initiatives? What kinds of productive sector initiatives do ruling elites support? How are these initiatives implemented, and with what success? In answering these questions, we are putting together an analytical framework for explaining the political logics driving state actions or non-action and their consequences for particular industries and economic development in general. It is not an entirely new framework, but rather builds on different works within the comparative political economy of development literature. We use Mushtaq Khan's theory of political settlements, growth-enhancing policies and governance capabilities as a foundation, on top of which we add key findings from the business-state relations in developing countries literature. The framework is also the outcome of an iterative process, where empirical evidence from our research in four African countries (including two productive sector case studies in each country) was continuously compared to the theoretical literature in order to expand the theoretical explanations as well as to recalibrate the scope and focus of the empirical studies.

The result is what we call the *elaborated political settlement framework*. The framework hinges on the concept of political settlement, which explains the distribution of power in a society, but considers it alongside the structure of the economy and levels of perceived crises (what we refer to as the level of systemic vulnerability). Within our understanding of the political settlement, we also make some additions to Khan's framework, as briefly indicated here.

Khan (2010) uses the term *political settlement* to refer to a compatible system of institutions and a distribution of power, where the resultant economic outcomes and levels of political stability are sustainable for that society. Social order in turn requires formal and informal institutions (such as property rights and distribution of benefits) that create benefits in line with the relative power of powerful groups. A political settlement is only likely to be viable if it is underpinned by a viable combination of institutions and a distribution of power between organizationally powerful groups in a society.

Khan argues that in developing countries, political settlements are clientelist. These are structurally different from capitalist political settlements in richer countries, where formal productive institutions dominate politics and the economy because formal productive institutions provide sufficient incomes to ensure the dominance of capitalists as the most powerful class. In *clientelist political settlements*, there is a general mismatch between the existing distribution of power and the structure of formal productive institutions. Capitalists are too small to generate benefits compatible with the distribution of power. Thus, a society has a clientelist political settlement when significant holding power is based on sources outside the incomes generated by formal productive institutions. The ability to impose costs on others and the ability to absorb costs inflicted on them are key factors contributing to a group's holding power. How the power of competing factions is organized and deployed is significant in determining the outcome of conflicts over resource allocation and enforcement of rights. The sources of holding power in different clientelist political settlements cannot be generalized, but rather described in historical narratives of how different groups and factions were organized to manage societies in the aftermath of the collapse of pre-capitalist empires or the end of colonial rule.

Usage of the term clientelist in Khan's framework is different from the ways in which the term is employed in the neo-patrimonial arguments prominent in the African studies literature. Neo-patrimonial arguments generally posit that politics in Africa is the result of the superimposition of the modern state (rational-legal authority in Weber's terms) on top of the traditional forms of political authority based on personal relationships between leaders and subjects or patrons and clients (patrimonalism in Weber's terms). Many refer to clientelism as a cultural feature of African societies. In contrast, Khan understands *patron-client networks* as a form of political mobilization characteristic of all developing countries and that is distinctly modern. The motivation behind patron-client networks constitutes a rational response to economic and political constraints in a country where the formal productive sector is too small to define the distribution of power.

Clientelist political settlements exhibit important variations, with different levels of sustainability in terms of political stability and economic performance. The differences between clientelist political settlements have many dimensions, but Khan argues that some key dimensions are sufficient to explain differences in their economic performance, namely the *organization of the ruling coalition* and the *technological capabilities of productive entrepreneurs and their relations with the ruling coalition*. We add a third dimension related to the *characteristics of bureaucrats*, especially their relations with the political elite and with the relevant (emerging) capitalists.

Khan analyzes ruling coalitions in terms of two features: (1) the relative power of excluded coalitions and the mechanisms through which they are excluded, and (2) the internal distribution of power within the higher and lower level factions that constitute the ruling coalition. He calls these the *horizontal distribution of power* and the *vertical distribution of power*, respectively. The relative strength of excluded factions can be assessed by looking at the organization and strategies of excluded organizations, the success with which they have engaged in conflicts, and the formal and informal distributions of benefits that they have been able to achieve. The vertical distribution of power describes the relative power of higher compared to lower level factions within the ruling coalition. The lower factions must in general be weaker and in a position of dependence on the leadership of higher level factions, but there is a significant range of variation from one where lower-level factions have little bargaining power to one where lower-level faction leaders can hold higher levels hostage if their demands are not met. The stronger the lower level factions are, the more resources (share of rents) they will demand that the higher levels distribute down to them.

Khan argues that the horizontal distribution of power affects the time horizon of the political elite, and the vertical distribution of power affects the political elite's ability to enforce decisions. These differences in the informal distribution of power characterizing the ruling coalition are more subtle than the differences in formal political institutions, but they may be more important for identifying the incentives and limitations of governments. If excluded factions are weak, the ruling coalition is likely to take a longer-term view, as their incumbency is more secure. When the lower level organizations are weak, the leadership of the ruling coalition has greater implementation powers. However, time horizons can change in crises situations, as discussed below.

We find that within the structure of the ruling coalition, we find other important aspects. First is the degree of cohesiveness and centralized authority within the higher level factions, and thus the ability to enforce discipline at the higher level. Second, we find that exclusion takes place within the ruling coalition in former one party states where one finds dominant party systems. As a result, competing centers of power within the higher levels of the ruling coalition can lead to fragmentation and factional leaders jockeying for control over the ruling coalition, which in turn leads to a lack of discipline and thus weak enforcement capability, especially in control over the creation and use of rents.

Elections are likely to affect the time-horizon and priority setting ability of the ruling coalition. Even in dominant party systems where there are few excluded factions, the ruling coalition will have to legitimize its rule through wining a majority of the votes as well. This may lead the ruling elite to pursue policies and expenditures that aim at country-wide coverage; that have immediate short-term and visible results; and that are implemented through the public sector rather than the private sector so that their results can be clearly associated with the government. Elections can also lead the ruling elite to spread its resources around, rather than prioritize, and to emphasize welfare transfers and untargeted subsidies over expenditure aimed at increasing production and productivity. In aid dependent countries, the ruling elites' incentive structure is exacerbated by the incentives structure facing donors that also encourages them to finance projects and programs with immediate, wide and visible impacts. Notably, social services and infrastructure are distributed widely, but not necessarily economic opportunities. Economic opportunities are more likely to be reserved for factions in the ruling coalition in exchange for support and as reasons why lower level supporters of excluded factions would join the ruling coalition. This situation is intensified under competitive clientelism.

The characteristics and holding power of productive entrepreneurs determine the incentives and opportunities of ruling coalitions to pursue particular policies and the institutions those policies may create. Khan identifies two aspects of (emerging) productive entrepreneurs that are relevant:

(1) the technological and entrepreneurial capabilities of the entrepreneurs in question, and
(2) the holding power they can deploy with respect to the ruling coalition.

The technological and entrepreneurial capabilities of the entrepreneurs in question are defined by historical processes of accumulation and learning and are relatively slow to change. On the other hand, their organizational and political integration into the ruling coalition and their dependence or otherwise on patrons at different levels can change with important implications. Emerging capitalists may network into ruling coalitions to secure their profits and that their enterprise survives. But emerging capitalists may also be powerful individuals who accumulated through their political position and who retain political networks. Furthermore, for a productive entrepreneur to be networked politically could depend on the resources the entrepreneur or group of entrepreneurs make available from their formal productive enterprises, or from other networks, which can be used to generate resources for political patrons or factions. Productive entrepreneurs can be politically weak if the ruling coalition can operate without their support.

High capability entrepreneurs are needed to drive industries. Khan argues that they need to be networked with patron-client organizations in ways that allow them to deploy significant holding power. However, powerful entrepreneurs are not necessarily conducive for changing productive structures and for upgrading particular industries if industry policies are difficult to enforce.

We find that African countries generally lack a moderately capable domestic capitalist class with any significant holding power in most African countries, which means that the nature of the ruling coalition is important for determining state-business collaboration. Taylor (2007) and Brautigam et al (2004) also make this point. Therefore, dimensions 1 and 2 are increased in importance, but also that most of the key differences between Asia and Africa as a developing region can be explained by the absence of domestic capitalist class with whom the ruling elite have to bargain and who become important players in funding ruling coalitions. This point is emphasized by the fact that the two Sub-Saharan African countries that have transformed their economies the most (Mauritius and South Africa) had a strong national capitalist class at independence in the case of Mauritius or after the end of apartheid in South Africa. The capabilities and holding power of the (emerging) productive entrepreneurs can be analyzed at the national level, but also within the relevant productive sector when looking at particular productive sector initiatives.

The nature of the bureaucracy and the role of the bureaucrats feature strongly in the developmental state and business-state relations literature. Our African cases also pointed to the need for an additional set of variables that included bureaucrats and the bureaucracy, in order to explain different outcomes across our African countries. We argue that two characteristics of bureaucrats are important:

(1) the level of political support that bureaucrats have from key political elite with relative autonomy from political interference; and
(2) the level of knowledge about the industry that bureaucrats have and their embeddness in the industry, i.e. their connections with productive entrepreneurs in the relevant industry with relative autonomy from those entrepreneurs.

The higher the political backing that a bureaucrat has, with relative autonomy, the more influence the bureaucrat has over policy content and his/her ability to implement it or enforce changes in institutions. The greater knowledge a bureaucrat has about an industry and its needs and the greater his/her embeddness in the industry, the more likely the bureaucrat to advocate and formulate initiatives in the interests of the industry as a whole, rather than the needs of individual entrepreneurs or groups of entrepreneurs that do not help to advance the industry in terms of expanding, increasing competitiveness, or upgrading. Analysis of the characteristics of bureaucrats along these two dimensions cannot be undertaken at the general level, but rather requires focusing on a particular productive sector or industry.

Two other factors shape the political settlement and in particular the constraints that the ruling elite face: the level of perceived crisis and structure of the economy. When crises are severe and sustained, the ruling elite can be pushed to take long time horizon, or such crises can result in the changing of the ruling coalition. This argument is based on Doner, Ritchie and Slater (2005), who developed the concept of systemic vulnerability to explain the emergence of developmental states in Northeast Asia. They are argue that developmental states are scarce because the ruling elites in developing countries are primarily motivated by concerns with securing their power, which they generally do through clientelist connections to business or distributing patronage to popular sectors. As a result, they treat the bureaucracy as a means to fulfil these goals and face few incentives to build new institutions for economic transformation. The existence of a few developmental states in Northeast Asia, they argue, can be explained by the exceptionally political environment constraints that ruling elites faced in these countries: (1) a credible threat that any deterioration in the living standards of popular sectors could trigger unmanageable mass unrest; (2) the heightened need for foreign exchange induced by national insecurity; and (3) a scarcity of easy revenue sources. This 'systemic vulnerability' of ruling elites presses them to respond to popular pressures without draining the national treasury, and thus through economic opportunities.

The structure of the economy is important for shaping what the ruling elite perceive as desirable and feasibly. As we showed, existing productive sectors or sectors with a history will grab the attention of the ruling elite over sectors that have not yet been tried. The structure of the economy also shapes the constraints the ruling elite face in terms of easy access to resources (mining and oil revenues or foreign aid) as well as whether a strong domestic capitalist class exist.[16] Structural changes in the economy as the result of successful developing productive sectors and/or accumulation strategies, therefore, can change the incentives or constraints facing the ruling elite.

These factors shape the kinds of productive sector initiatives that ruling elites pursue through the various causal mechanisms described above. They are not linear causal relationships, given that the theoretical framework allows for contingency on several variables, and thus outcomes cannot be predicted.

For the discussion, we would like point out that this analytical framework of the Elites, Production and Poverty research program, and the general thrust of the arguments in this paper, are very much in line with the work of the business-state relations strain of the Africa Power and Politics (APP) research program (based at the Overseas Development Institute in London). We are working with some of the same building blocks and working towards similar arguments and conclusions. The study of the political economy of development in Africa would benefit from trying to synthesize our work in order to move knowledge-creation forward. However, our analytical approach is distinct from that of the APP program in two key ways. First, we have moved into a more complicated explanation than a focus on rent management and time horizon. In a way, these are effects of something deeper going on, which we refer to as the structure of the ruling coalition. It is how ruling coalitions are put together, and the strength of excluded factions, which affect centralized or decentralized rent management and the stability or instability of patron-client relationships. These aspects are at the heart of time horizons of ruling elite, and also explain whether the political leadership have a vision and whether it is implemented. Furthermore, the APP approach cannot explain variation within countries across different sectors, which do occur and have to be explained. The second key difference is that the APP approach does not take into consideration the nature of the domestic capitalist class and its importance in explaining variation among developing countries in terms of rent-seeking and its outcomes. We think this is central, and must be included.

[16] Most discussions of the structure of the economy only refer to the composition and level of development of productive sectors, but we also add the ownership structure (smallholder dominated, foreign-owned dominated, or domestic capitalist-dominated). Thus, our analysis of the structure of the economy includes the genera capabilities of the domestic capitalist class.

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