

Why State–Business Relations Matter for Sustainable Development

The ways in which states and businesses engage and influence one another profoundly shapes the progress of nations towards the Sustainable Development Goals (SDGs). Governments shape business activities through policies and regulation. Businesses affect government objectives and strategies, for instance through investment decisions, lobbying, or partnership proposals. In a globalised world, state–business relations operate at multiple levels from transnational to local, involving actors ranging from microenterprises to global institutions. What matters for development is: how do these relations work in practice, and how can they be made effective for multifaceted goals such as zero hunger or decent work? Political economy analysis tells us that the preferences and strategies of state and business actors are not fixed, but evolve over time, often through processes of negotiation. Recognising this fluidity, and highlighting how powerful interests play out, are essential to identifying where collaboration can deliver mutual benefit, highlighting risks such as collusion, ensuring that no important actors are excluded, and that the distribution of benefits is fair.

What do we know?

The recognition of [developmental states](#) as models for development and the shifting contours of [state–business relations](#) since the end of the Cold War have led many people to rethink how they understand the political economy of development. State–business relations are arenas shaped by power, interests, and ideas. But, as IDS' research has shown, state–business relations are also fluid spaces with dynamic engagements, particularly where both sides share some interests (and diverge on others) and neither side has sufficient power to drive the agenda by themselves, and must negotiate to achieve outcomes (see Figure 1). This is true especially where pathways toward reaching goals are unclear, as is typical in the SDG era, where the goals extend [beyond economic growth](#).

For example, national, regional and multilateral development banks exemplify the virtues and challenges that public-private collaboration presents, with an [increasing focus on funding green and inclusive growth](#).

These institutions involve concrete collaboration between public and private sectors, with capital typically being government-owned, but funding

often relying on private sources, as well as on lending through private banks to mainly private enterprises, including SMEs.

Even in development initiatives that appear to be entirely private sector-driven, such as microfinance and financial inclusion, a [complex political economy](#) is at work, with government action often shaping the financial market.

Our research also finds that state-business relations depend not only on formal interactions and structures, but also on [informal relationships and institutions](#), such as [trust and personal networks](#). In efforts to tackle youth unemployment in Africa, for instance, where changes to legal frameworks and formal market structures have had limited effects, [informal barriers](#), [personal relationships](#) and [socio-cultural norms](#) matter more.

Whether for food security or job creation, there are multiple pathways through which the SDGs may be achieved. State–business relations strategically shape these pathways, which may lead, for example, to [employment and economic inclusion](#) or jobless growth.

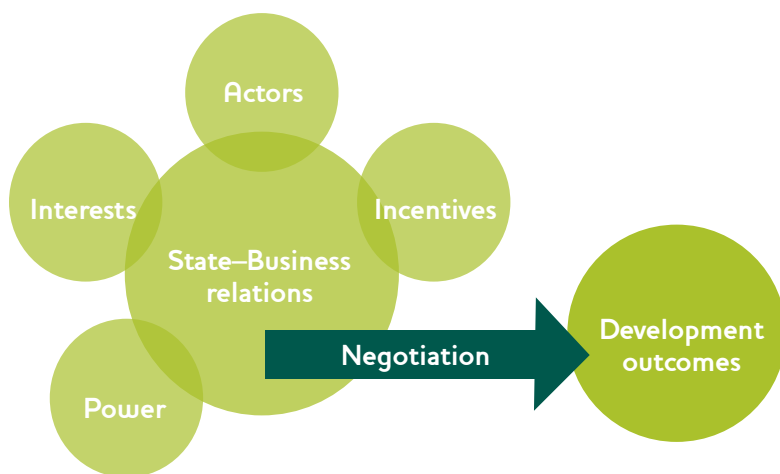


Figure 1. The state-business negotiation process

Source: Authors' own

The participation in these processes by empowered and accountable representatives – of workers, producers or communities – can support more inclusive economic outcomes. Interest in intentionally [brokering public-private and multi-stakeholder solutions](#) is growing, often led by UN, multilateral, donor or government agencies. These collaborations exchange knowledge and mobilise resources, [seeking to align actions towards systemic challenges such as agricultural transformation](#), green growth and job creation. Our analysis finds that these approaches enable dialogue and alignment of efforts, but as yet little evidence exists that they have created incentives for systemic change.

How we work with others toward sustainable development

[State-business relations](#) are an increasingly core area of inquiry for [business and development studies](#). Our contribution is to help governments, business leaders and development decision makers understand [how state-business relations can work more strongly towards outcomes](#) such as health, nutrition and decent work.

We have worked with the UN and donor agencies to [reveal strategic assumptions](#) (e.g. in the rationale for development cooperation

projects promoting trade and investment), assess their theoretical underpinning (e.g. of how enterprise development best contributes to employment) and analyse [the determinants of business investment](#) (e.g. in agricultural commercialisation). We have produced [theoretical frameworks](#) for examining state-business relations across sectors, providing evidence that has informed both the process of state-business interactions and [policy reforms](#), receiving recognition from [government bodies](#) and international organisations.

We also enable interactions between state, business and society representatives. We have convened and supported dialogue between CEOs of national development banks, policymakers, private sector representatives and academics to discuss functions, scale and instruments of national development banks. We have offered practical guidance to those convening and [brokering public-private](#) or multi-stakeholder partnerships, informing the rationale, design, implementation and sustainability of arrangements, and the role of brokers at each stage. We have also helped to realise a multi-donor learning journey and a [Wilton Park Youth Dialogue](#) on youth employment in Africa, bringing together representatives of the public and private sector from 15



The Business, Markets and the State cluster investigates how businesses enable or constrain pathways that deliver development and curb inequalities, and how the relationships between business and the state influence these processes. Our interdisciplinary research builds on IDS' well-established track record working on value chains and market systems, complemented by political economy and participatory perspectives.

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Further reading

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Credits

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