

State Capabilities Overview: Public Organisations and Public Finance

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Africa Growth Forum

Kampala, December 2013

State Capabilities

- Public sector plays a key role in economic development
 - Provides building blocks of growth: infrastructure, health, education
- To be effective, public sector needs:

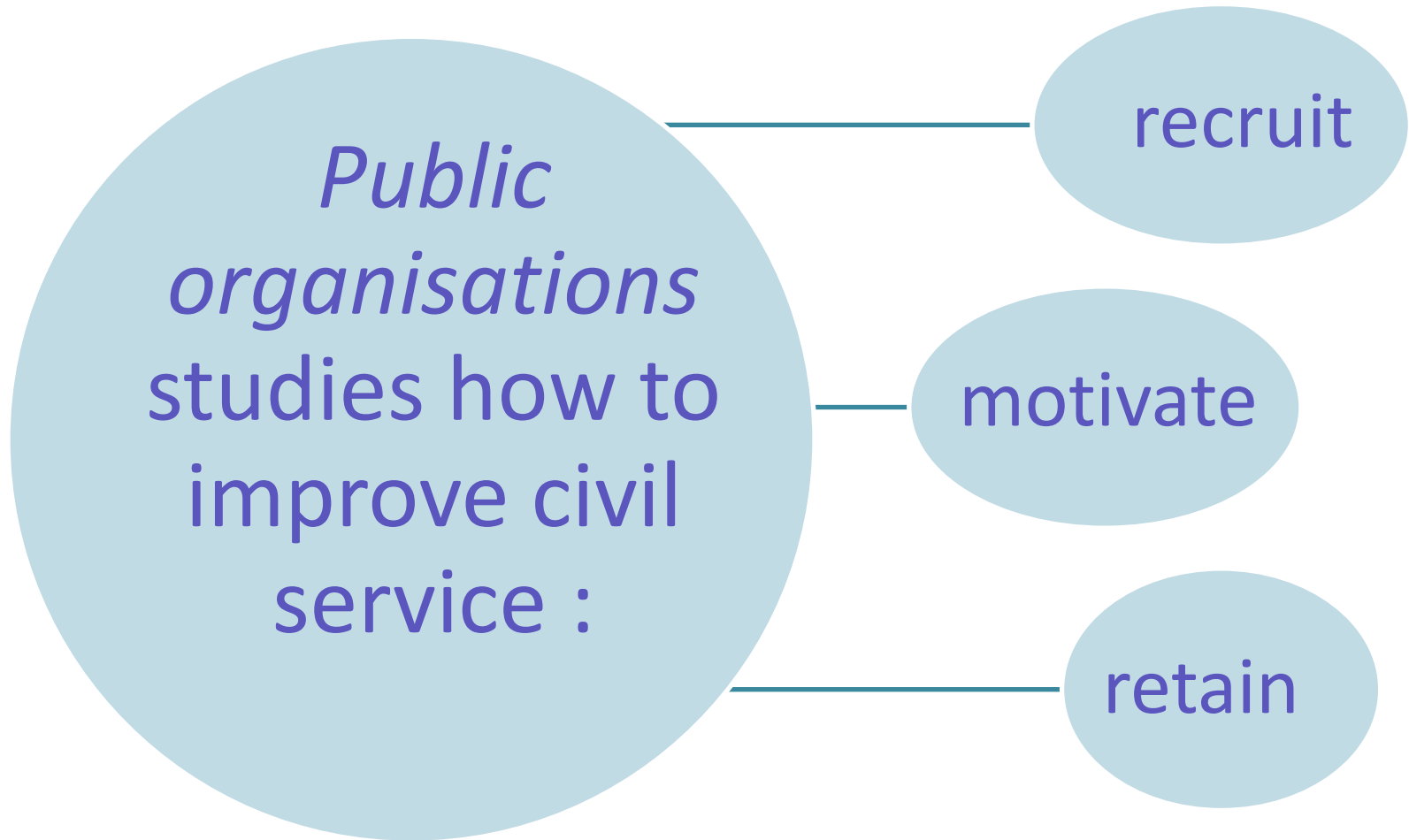


Capable, motivated civil servants

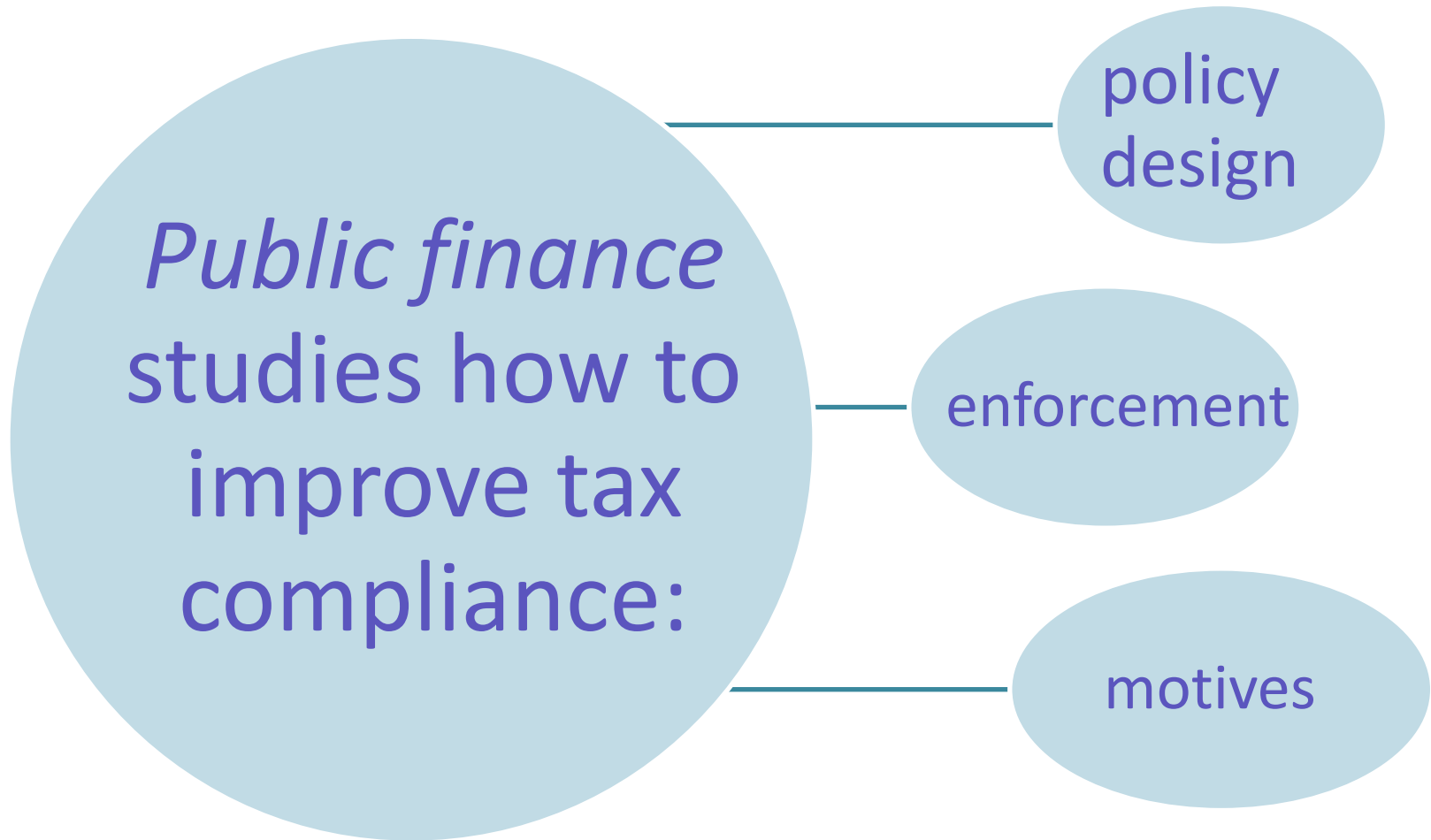


Resources

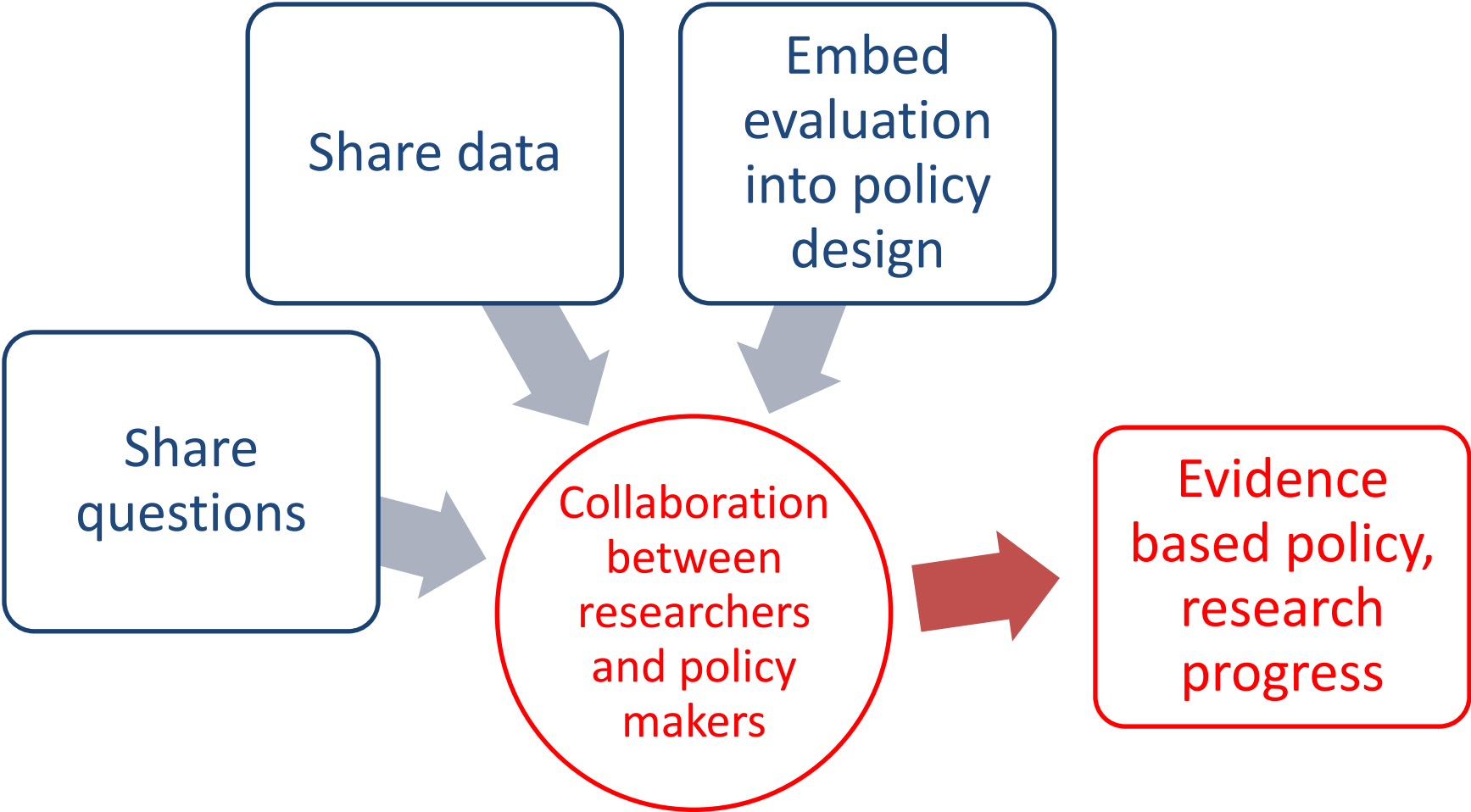
Research strand 1



Research strand 2



two strands, one methodology



Public Organisations: Recruitment

- Aim: attract capable and motivated individuals
- What makes jobs attractive vis-à-vis alternatives?
 - Pay
 - Career prospects
 - Status
 - Social impact
- How do these factors interact?
- For instance, do higher wages attract more able workers? Do they crowd-out pro-social spirit?

IGC research project: CHWs in Zambia

- New cadre within MOH workforce
- Train 5,000 new Community Health Assistants by 2017
- Formalisation of existing positions



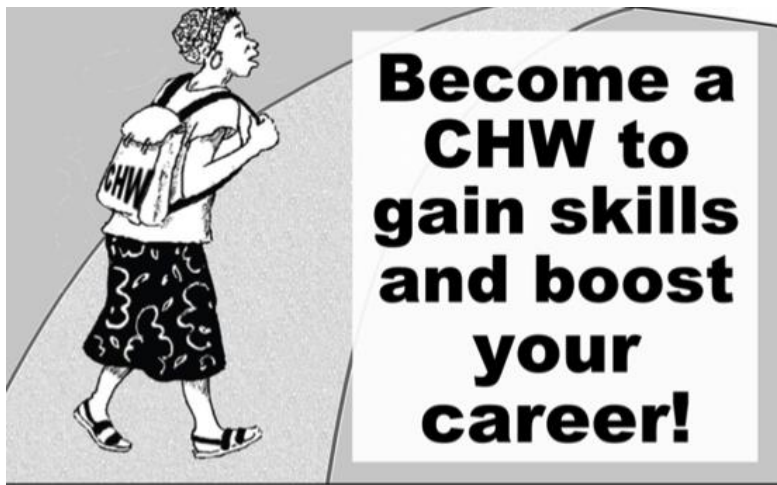
a shared
question

“What will happen if they now see themselves as civil servants? Will they retain their connection to the community?”

Director of Human Resources, Ministry of Health
July 2010

Research embedded in recruitment of first cohort of CHWs in 2010

- LSE-Harvard researchers collaborate with GOZ
- Randomise recruitment message across 48 districts stressing **career** or **social** benefits



find that:

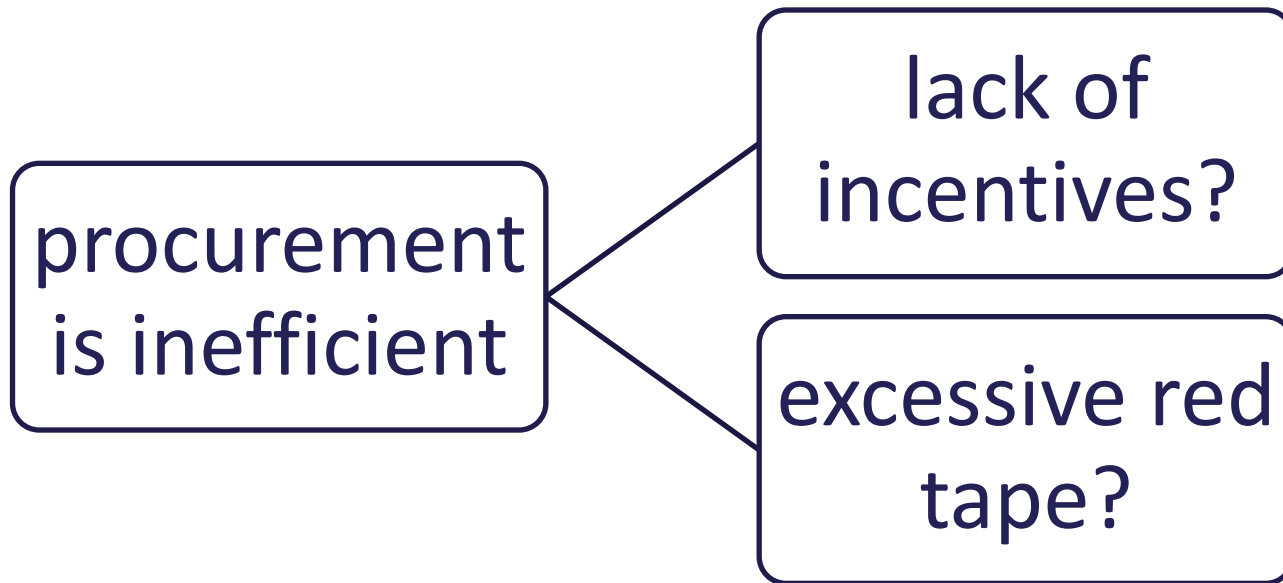


inform future policy design and further research

Public Organisations: Motivation & Retention

- What makes agents perform well and stay?
 - Pay, career prospects, status, social impact
 - Job design, e.g. discretion vs. rules
 - Complementary inputs, e.g. medicines at HP
- How do these factors interact?
- For instance, does discretion improve efficiency or lead to corruption? Does the answer depend on the level of pay?

IGC research project: procurement in Punjab



- LSE-IGC researchers collaborate with GoP to randomly vary **autonomy** and **incentives** for procurement officers in 500+ cost centres

Public Finance: Tax policy and compliance

- Puzzle: tax structure and rates are very similar across high and low-income countries yet revenue/GDP is much lower in the latter



Compliance is lower

informality

low enforcement

lack of third party reporting

Public Finance: Tax policy and compliance

- Tax policy design must take into account effect on compliance → a good tax policy must be easy to enforce and administer
 - VAT not easy to enforce with high informality
 - trade taxes less efficient but easier to enforce

IGC research project: tax rates and compliance in Pakistan

- LSE researchers collaborate with FBR Pakistan to share and analyse administrative data
- Show that changes in tax rates cause large drop in reported income by self-employed, but not as much by wage earners
- → importance of third party reporting
- → potential for evasion in informal sectors

Going forward

