IGC International Growth Centre

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Building State Capabilities: Latest Research and Policy

Dr Lant Pritchett & Dr Nada Eissa, December 2012

Introduction

The International Growth Centre (IGC) sponsored its first "Growth Forum" in South Sudan on 10th December 2012. The event was co-sponsored by the Centre for Strategic Analyses and Research (C-SAR). The forum was focused on "Building State Capabilities" and brought two leading economists from the United States to present policy relevant research to an audience that included senior policy-makers, interested citizens and key members of the international donor community in South Sudan. The Honourable Priscilla Nyangang Kuch, Deputy Minister of Gender, Children and Social Welfare, welcomed everyone to the public event. In her opening remarks, the Honourable Deputy Minister touched on many of the challenges South Sudan is currently facing, including, importantly, the need to build institutions and human capital. Lant Pritchett, Professor of the Practice of International Development at Harvard's Kennedy School of Government, argued that the ideas widely shared and propagated by the international community about how to build state capabilities in developing countries are, in fact, wrong in pushing for the transplantation of best practice, and do not adequately reflect the causal ways that state capabilities will arise. Nada Eissa, Professor at Georgetown University Public Policy Institute, concentrated her talk on labour markets. Drawing from recent research, Eissa highlighted the policy implications of the unique characteristics of labour in South Sudan.

Disruptive Innovation in State Building

Professor Lant Pritchett began his presentation by arguing that the international community takes a flawed approach to building state capabilities. He supports this claim by pointing to the lack of success direct transplantation of best practices has achieved in producing effective state capabilities; in the history of development only eight countries have reached the OECD level of quality of government, as measured by rule of law, bureaucratic quality and corruption. Pritchett pointed to the failures of many states to provide such basic services as mail delivery, or appropriate diagnoses in public health clinics. He argued unless South Sudan wishes to make only as much progress as Kenya has made in the past 50 years, that it should pursue a different strategy, and be a "Disruptive Innovator" in state building.

Pritchett identifies the current and broadly accepted approach to building state capability as the transplantation of best practice. He warns that there are three critical downfalls to this approach: (i) it encourages over-ambition in goals relative to actual capacity, which results in a massive implementation gap between the law and reality; (ii) it can lead to transplantation of structure without substance, which may buy legitimacy for the state and thereby reduce the need for it to become truly capable; and (iii) "you can't juggle without the struggle," or, in other words, you can't borrow skills, you can't borrow motivation, and unless an organization goes through the struggle of developing practices that improve performance on its own, it will not acquire necessary capabilities.

South Sudan is in a unique position as a new nation; it is at the very beginning of the state building process. Pritchett urged South Sudan not to look to the West for "best practice" institutions, but to carefully consider its own resources and current needs. He outlined four principles of building accountability, founded on the idea that success builds successful institutions (and not the other way around). These are: to tackle a feasible problem important to South Sudan, to authorize selected internal agents with the freedom to innovate, to emphasize monitoring, experiential learning and evaluation, and finally to scale-up through diffusion through networks, rather than top down. In this model state capability is built by people who care about performance, and become leaders through their behaviour in day to day practice. In solving problems, successful practices will become codified into rules, and lay the foundation for an effective and capable institution.

When pushed in discussion about whether or not South Sudan has to "reinvent the wheel," Pritchett argued that South Sudan should move towards its own trajectory on a structured trial and error basis with a tight feedback loop that promotes learning from failure and building on successes. While he does not suggest ignoring lessons from other countries, he emphasized the need to look carefully at what has worked and what hasn't, consider the resources and context in South Sudan, and above all not to do too much too fast. Pritchett again underlined the unique position of South Sudan, which does not currently have the dramatic implementation gaps that many of its neighbours has, nor the entrenched interests embedded in institutions which may be "best practice" in form, but lack true capability. South Sudan will get good institutions in an incremental, structured experimental way, which would be a "best fit" rather than "best practice" approach.

Labor Markets

Professor Nada Eissa shifted the focus in her presentation to labour markets in South Sudan, a topic of pressing importance to the Government of South Sudan as it seeks to create jobs, and considers labour regulation.

Eissa drew from recent research conducted this year in South Sudan to characterize current conditions in the labour market. A notable feature of work in South Sudan is that while most people are economically active, few receive any form of monetary compensation for their work. Data availability is a serious obstacle in this area, and because information is limited we do not have a full picture of the economic activities that are relevant in South Sudan. The evidence on employment and pay derived from Juba and other state capitals can be highly misleading in painting a broader picture of jobs and pay, as 80 per cent of the population lives in rural areas, and works almost exclusively on farms.

Eissa suggests that the informal sector is likely large, and that the bulk of these people – 63 per cent – are thought to be working in agriculture, primarily subsistence. Most of the poor, as measured by assets and access to services, work in agriculture. There is a heavy reliance in South Sudan on the public sector for paid employment. The private sector, which is heavily skewed towards small, one to two person firms, and is a mere footnote in the overall employment picture.

Professor Eissa used her presentation to highlight the unique challenges South Sudan has, and emphasize that policy must be discussed in terms of the current conditions in the country. Skills are extremely limited in the population because of the impact of the protracted war on the state's ability to deliver education. In Juba, in particular, foreign labour has filled in this skilled labour gap. The population of South Sudan is also extremely young, and in the near future many young people who have grown up without basic services will be entering the labour market. Improving their skills is an urgent priority, particularly as joblessness breeds insecurity. Insecurity is already perceived as being very high in South Sudan, a fact which limits the potential for growth in jobs and investment. Ex-combatants need to be reintegrated quickly but this process is hampered by previous policy choices, which have distorted the relative returns to employment in the public versus the private sector. The weak institutional framework is another important factor when considering labour policy.

Professor Eissa suggested that market friendly and less restrictive labour market regulations are likely to be more successful in creating jobs and economic growth. On the topic of restricting foreign labour Eissa noted that this would raise costs for employers and that there is not conclusive evidence that foreign labour has a large impact on either the employment or the wage of local labour. She also emphasized that foreign labour can have positive impact on local labour through skills and technology spillovers. On the issue of minimum wages Eissa noted that this has the potentially positive effect of raising living standards, but could also push labour into the informal sector. Finally, she pointed to empirical evidence that the costs of mandated benefits, such as health insurance or pensions, are often passed on from employers to workers, whose wages then fall.

The key challenge is to reach the bulk of workers who are unpaid, and to improve their skills. To achieve this one needs access to data in order to inform policy choices. Eissa suggested focusing policy efforts on job training, integrating ex-combatants, and targeting agriculture which will allow the Government to reach the neediest populations in South Sudan.

In discussion following her presentation, Professor Eissa responded to questions about minimum wages. She elaborated that raising wages artificially is distortionary and that if the Government of South Sudan is concerned about raising livelihoods, they might consider policy options other than changing wages, such as transfers.

About the Experts

Dr Lant Pritchett

Lant Pritchett is currently Professor of the Practice of International Development and Faculty Chair of the Masters in Public Policy in International Development (MPA/ID) program at Harvard's Kennedy School of Government. Prior to returning the Kennedy School in 2007, he was lead Socio-Economist in the Social Development group of the South Asia region of the World Bank, resident in Delhi, 2004-2007. He holds a PhD in Economics from MIT. After leaving MIT he joined the World Bank, where he has held a number of positions in Research, including as an adviser to Lawrence Summers when he was Vice President, and in the World Bank's Operations in Indonesia and in India.

He has been a co-author and team member in producing books by the World Bank, including two World Development Reports, Assessing Aid: What Works, What Doesn't and Why in 1998, Better Health Systems for India's Poor: Findings, Analysis, and Options in 2003, and most recently Economic Growth in the 1990s: Learning from a Decade of Reforms in 2005.

Dr Nada Eissa

Nada Eissa is Associate Professor of Public Policy and Economics, and Research Associate at the National Bureau of Economic Research (NBER). From 2005-2007, she served as Deputy Assistant Secretary of the U.S. Treasury for Economic Policy. Previously, she was on the economics faculty at the University of California at Berkeley, a National Fellow of the NBER, a visiting economist at the IMF and a visiting scholar at the American Enterprise Institute (AEI).

Professor Eissa's research examines how tax and transfer policy affects work and family formation decisions, and in turn what these behavioural responses imply for how programs should be designed. In her current research Nada Eissa is running several research projects on labour markets in Africa, including an evaluation of the impact of vocational training and apprenticeship programs on the labour market success of disadvantaged young people in Nigeria; and labour market regulations in South Sudan, for which she has just been appointed Lead Academic by the International Growth Centre (IGC). She is also continuing her work on domestic U.S. policy, evaluating the impact of taxation on high-income earners, using matched executive compensation and tax return data.

About the IGC

The IGC offers independent advice on economic growth to governments of developing countries. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by the UK Department for International Development (DFID).

The IGC has active country programmes in Bangladesh, Ethiopia, Ghana, India, Mozambique, Pakistan, Rwanda, Sierra Leone, South Sudan, Tanzania and Zambia and supports over seventy individual research projects on issues of governance, human capital, agriculture, infrastructure, trade, firm capability, state capacity, macroeconomics and political economy.

The country team for South Sudan includes Utz Pape, Economist; Peter Ajak, Deputy Country Director; Nada Eissa, Lead Academic; and Richard Newfarmer, Country Director.

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