



ESID Briefing No. 4

Why state capacity matters for the post-2015 development agenda and how we should measure it

KEY FINDINGS:

- State capacity is a key determinant of public service provision, the instrument through which development goals are attained
- Due to its close positive relationship with human development, state capacity should be part of the post-2015 development agenda, either as a goal in itself or as a component of other goals
- State capacity can be broken down into intuitive, measurable dimensions: administrative competence, territorial inclusion and proactivity in the state's relations with society
- Data for these dimensions are already being collected by international and national organisations, universities and think tanks, making state capacity indicators a cost-effective addition to the post-2015 agenda

Since the adoption of the Millennium Development Goals (MDGs) in 2000, there has been remarkable progress in the eradication of extreme poverty in the developing world. However, progress has been uneven across and within countries, in spite

of the strong political commitment of Southern governments and development partners to achieve the MDGs. This unevenness is linked closely to the quality of public provision, which varies greatly across countries.

WHY STATE CAPACITY MATTERS

What explains the differences in the quality of public service provision in developing countries? A key determinant is state capacity – the ability of state agencies to deliver services, and to implement policies and programmes. And state capacity differs greatly across countries – for example, in Ghana and Uganda civil servants are twice as likely to be appointed and evaluated according to professional criteria than in India and Venezuela. More generally, public administrations characterised by meritocratic recruitment and predictable long-term career paths for bureaucrats are more likely to deliver better public services that matter to the poor, such as education and health. But meritocratic recruitment and predictable career paths, while necessary conditions for a competent and efficient bureaucracy, are not sufficient in themselves – state agencies function better with highly motivated bureaucrats who can take decisions autonomously.

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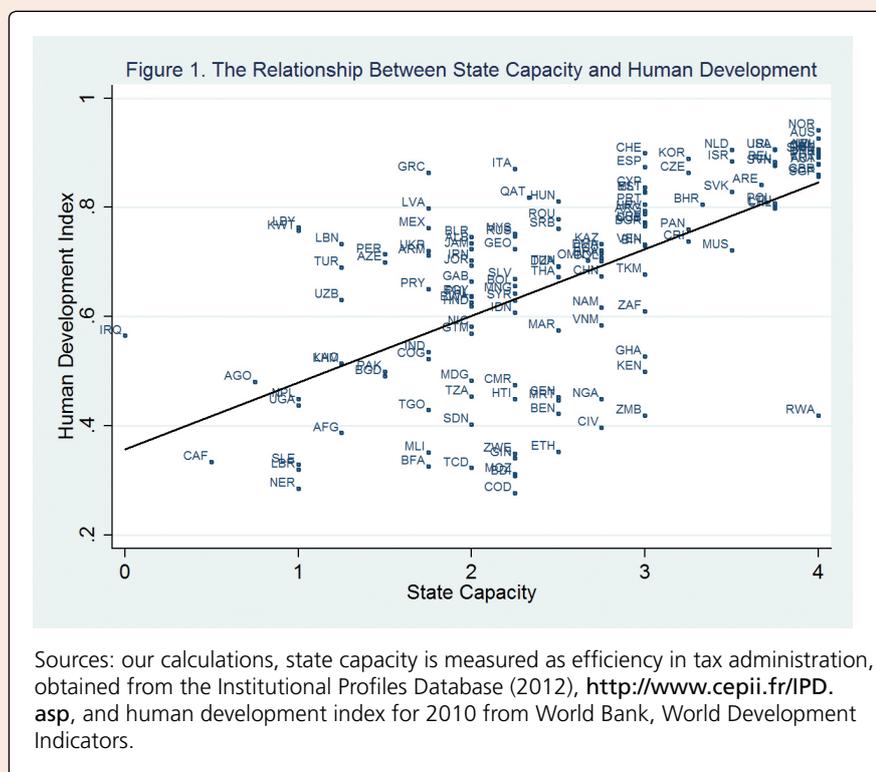
ADMINISTRATIVE COMPETENCE

If state capacity is to be a development goal, how should we measure it? The simplest way is to measure the administrative competence of key agencies, which are responsible either directly or indirectly for the delivery of public services. At an absolute minimum, the effectiveness of the Ministry of Finance or the Central Bank of a given country should be evaluated. Both these agencies are the nodal points when it comes to fiscal and monetary policy. If the capacity of the Ministry of Finance is low, there will be problems in raising the tax revenue necessary for social spending and allocating resources to key Ministries, such as of Education and Health, ultimately constraining their ability to deliver on core services for the poor. Furthermore, implementing a stable monetary and exchange rate policy will be difficult, leading to a greater likelihood of macroeconomic crises and inflationary processes that hurt the poor. This said, the ability

of states to mobilise domestic resources and manage their finances well is not necessarily the same as their ability to deliver public services or to regulate effectively. A more demanding, yet probably more accurate measurement strategy, would therefore also focus on state agencies directly involved in service provision, such as the Ministries of Education, Environment and Health, which all play a crucial role in the attainment of the MDGs.

Fortunately, reliable data on administrative competence is increasingly available for many developing countries. Most prominently, the Public Expenditure and Financial Accountability (PEFA) program and the Institutional Profiles Database (IPD) contain measures on the effectiveness of the Ministry of Finance or the Central Bank. Importantly, these include indicators that capture actual revenue collection and the effectiveness of monitoring and auditing of public expenditures. More generally, the Global Integrity Indicators (GII) directly measure to what extent civil servants are appointed and evaluated according to professional criteria and also the degree to which the hiring, firing and promotion of bureaucrats are based on nepotism, cronyism or patronage. These data are not yet available for all developing countries, and the task now must be both to improve the quality and widen the coverage of the state capacity data, so that

it includes all countries in the United Nations system. Moreover, most of the available data sources currently privilege the comparison of administrative competence across countries, while there is a major gap in agency-specific measures suitable for the comparison of different state agencies (e.g., the Ministries of Health and Education), whether within a country or cross-nationally.



As the international community debates the goals and indicators of the post-2015 development goals, there is an increasing realisation that governance is a fundamental element of long-run development and a desirable development goal in itself. This is evident in the proposal from the United Nations High-Level Panel to include governance as a post-2015 development goal. However, the prevailing view in the international community is that the dimensions of *governance* that need to be captured in the post-2015 development framework are to do with the *accountability* of states, such as transparency, the rule of law and political participation. While these dimensions of governance are desirable goals and have intrinsic value, recent research shows that the dimension of governance that matters more for sustainable development is the capacity of the state to deliver on a wide range of development outcomes, such as improving quality in schooling and reducing child mortality. This suggests that state capacity should be a post-2015 development goal. Without the ability of state agencies to provide high quality public provision of services, several development goals that will be included in the post-2015 Development Agenda will not be achieved in many developing countries. As Figure 1 shows, there is a clear positive relationship between state capacity and human development.

TERRITORIAL INCLUSION

Public policy implementation capacity does not solely rest on administrative competence. It is also based on territorial inclusion. The ability of governments to attain the MDGs and improve human development is often uneven and varies across space and/or social categories such as class, gender or race. Most developing countries are characterised by substantial subnational differences in the access to public services, and sometimes even the mere presence of basic infrastructure such as roads, clinics or water. As Figure 2 shows, access to sanitation varies strongly across states in India. Another powerful example for this is Colombia, which combines ‘islands’ of bureaucratic excellence in a ‘sea’ of stateless territory. Specifically, in the country’s capital a competent public sector is able to achieve major improvements in human development, whereas in many other

parts of the country the absence of basic infrastructure has led to the persistence of poverty and high levels of child mortality. Yet even within major urban centres there might be striking variations in state capacity, as illustrated by the continued exclusion of Afro-Brazilians from many public services in Rio de Janeiro or São Paulo.

The measurement of proactivity is notoriously complicated. Existing research on this aspect of state capacity tends to be qualitative work focused on the micro-dynamics of state-society linkages, usually for a particular state agency in a specific country. Available cross-national measures on the nature of the relationship between the

state and societal groups, such as the business sector – most prominently certain indicators provided by the IPD and others used in the work of the Improving Institutions for Pro-Poor Growth (IPPG) research centre – usually focus on how far state agencies are autonomous from political interference and special interests. While this is a very promising start, there is a need to develop a measure of proactivity that captures the extent to which state organisations are both autonomous from, yet engaged with, different societal forces.

Taken together, administrative competence, territorial inclusion, and proactivity all shed light on different dimensions of state capacity. Seen in this light, state capacity is about the exercise of power, and should therefore not be equated with democratic governance, or how access to power is organised. Many democracies, most prominently India, have been characterised by notoriously low levels of state capacity, whereas many autocracies have been fairly strong in this regard. State capacity is also distinct from the particular goals it is used for. States (or particular state agencies) might marshal the necessary implementation capacities to act developmentally but choose not to do so, as the example of Chile during the Pinochet dictatorship illustrates. The distinction between

the *goals* of state authorities and their capacity to implement those commitments enables the exploration of the interactions between developmental commitments and the capabilities of states (or state agencies).

A COST-EFFECTIVE WAY TO UNDERSTAND MDG ATTAINMENT

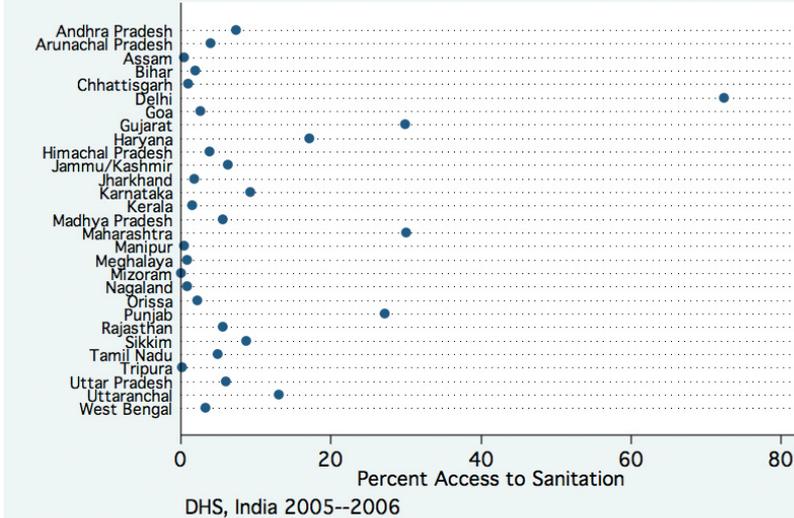
State capacity constitutes the essential instrument through which shared collective goals such as the MDGs are achieved. While there is certainly no 'silver bullet' for measuring such a multidimensional concept, this brief has identified a menu of plausible indicators for state capacity. Starting from a minimalist core that captures the extent of meritocratic recruitment and career security in the Ministry of Finance or the Central Bank, each of the indicators highlighted here captures a crucial dimension of the concept, including administrative competence, territorial inclusion and state proactivity.

It is worth emphasising that data for most of these indicators is already available or requires simply expanding existing measures and filling gaps, not the systematic design and collection of new data. Introducing quality of public service provision as a post-2015 development goal

or as a component of other goals would thus be cost-effective and build on pre-existing efforts by international organisations, national agencies and research institutions worldwide.

The stark variation in MDG attainment calls for a better understanding of which forms of state capacity are needed by governments. Not only countries, but also regions within countries and even specific public sector agencies often vary dramatically in their ability to achieve the MDGs. We therefore need to know more about how and when states do deliver desired goods such as universal literacy or child mortality reduction. And improved knowledge starts with better measures of state capacity.

Figure 2. Access to Sanitation Varies Widely in Indian States



Source: Elaine Enriquez and Martin Sybblis, "Embedded capacity: Variations and inclusion in sub-national analysis of developing countries." Mimeo.

Capturing the territorial dimension of state capacity requires additional measures to be included in the menu of indicators. A promising starting point to measure the spatial and social reach of the state would be access to national identity cards, largely because in most countries possession of an identity card is a prerequisite to accessing basic public services. A more demanding strategy would be to include indicators that directly capture the territorial inclusiveness of specific public services, for instance by focusing on access to high quality government schools and state health clinics, even in the remotest regions, and across all income groups and social categories.

PROACTIVITY OF STATE ORGANISATIONS

A third dimension of state capacity is the proactivity of state organisations. Ministries and other public bodies need to maintain autonomy from undue influence, but they also need to engage with relevant actors in society and mobilise and energise them into supporting particular development goals. In other words, even state agencies that are meritocratic and embody clear career progression criteria might not be able to engender growth or reduce child mortality if they are too inward-focused on the protection of their turf and ignore the needs, demands and input of different societal groups. As powerfully illustrated by late 20th century South Korea and Taiwan, the ability of governments to spur development critically depends on involvement with society. Thriving relations with major business representatives enabled Korean and Taiwanese public officials to acquire the knowledge and build the trust to implement transformative industrial policies, the central ingredient for sustained economic growth in these countries. More generally, broad connections to civil society help state agencies to effectively coordinate development efforts.

"the ability of governments to spur development depends on involvement with society"

FURTHER READING

ESID Working Paper 2 (2012): State capacity and inclusive development: New challenges and directions, by Matthias vom Hau

ESID Working Paper 10 (2012): Measurement and evolution of state capacity: Exploring a lesser known aspect of governance, by Antonio Savoia and Kunal Sen (forthcoming in *Journal of Economic Surveys*)

ESID Working Paper 32 (2014): Governance as a global development goal? Setting, measuring and monitoring the post-2015 Development Agenda, by David Hulme, Antonio Savoia and Kunal Sen

Evans, P. and Rauch, J. (1999). "Analysis of 'Weberian' state structures and economic growth", *American Sociological Review* 64(5):748-65.

Fukuyama, F. (2013). "What is governance?" *Governance* 26(3):347-368.

Portes, A. and Smith, L. D. (2010). "Institutions and national development in Latin America: A comparative study", *Socio-Economic Review* 8(4):585-621.

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ABOUT THIS BRIEFING

This briefing was authored by Matthias vom Hau, Kunal Sen and Pablo Yanguas, and is an outcome of a workshop on Measuring State Capacity organised by the Effective States and Inclusive Development Research Centre (ESID) and the School of Advanced International Studies at Johns Hopkins University in November 2013. The workshop participants included Deborah Bräutigam, Cinnamon Dornsife, Elaine Enriquez, Peter Evans, Frank Fukuyama, Jonathan Hanson, Sam Hickey, Jordan Holt, David Hulme, Phil Keefer, Brian Levy, Phil Sinnett, Hillel Soifer, Vivek Srivastava, Martin Sybblis and Matt Taylor. This policy brief would not have been possible without their outstanding input. We thank Jonathan Hanson, Jordan Holt, Phil Keefer, Vivek Srivastava and Matt Taylor for their comments on an earlier draft of the brief. We also thank Elaine Enriquez and Martin Sybblis for allowing us to draw on their (as yet unpublished) work and include Figure 2 in this brief.

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ESID researchers are based in Bangladesh, Cambodia, Ghana, India, Malawi, Peru, Rwanda, South Africa, Uganda, UK, USA, Zambia and elsewhere.

ESID is led by David Hulme, Chief Executive Officer; Samuel Hickey and Kunal Sen are Research Directors; Julia Brunt is the Programme Manager; and Pablo Yanguas is Research Associate.

DFID funds four Research Programme Consortia (RPCs) on governance and development, of which ESID is one. The others are the International Centre for Tax and Development (ICTD) at IDS, the Justice and Security Research Programme (JSRP) at LSE and the Secure Livelihoods Research Consortium (SLRC) at ODI.

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