

17. State capacity

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The Washington Consensus had little to say regarding the internal functioning of the state beyond recognising the importance of securing property rights and general policies, such as ‘broadening the tax base’. The past decades have seen significant advances towards understanding the determinants of state capacity. In this chapter we do not attempt to provide universal prescriptions, but identify a few general principles that we believe apply in all countries, irrespective of wealth or level of development. Effective governance requires more than merely setting correct policies; it demands a state’s ability to implement, adapt, and learn over time. Drawing from historical and political economy perspectives, as well as contemporary managerial approaches, we examine the evolution and variation of state capacity, focusing on sectors like tax administration and health. State capacity is a process, not an event; hence medium-term commitment is critical, as is acting in the understanding of long-term constraints and environment. That process should begin with diagnostics of a particular place and goal, not universal prescriptions. Building state capacity involves a continuous process of, adaptation, and systemic learning; empowered agents, citizen-state trust, and iterative improvements are often key components of success. Ultimately, enhancing state capacity requires not only technical solutions but also alignment with political incentives and stakeholder motivations, recognising that a capable state is foundational to enabling citizens and markets to thrive.

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I. Introduction

The state matters for all policy outcomes of concern; however, the state's capacity to realise its objectives is frequently taken for granted. The Washington Consensus had little to say regarding the internal functioning of the state beyond recognising the importance of securing property rights and general policies, such as 'broadening the tax base'.¹ Getting the prices and policies right is indeed critical but their success depends on the ability of the state to implement and course-correct, to (re)organise and (re)adapt and innovate, and to alleviate constraints that hold back delivery by its own agents, the public servants, and by other actors, including citizens and private sector actors.

The ends that states have set themselves – and their capacity to achieve these – have co-evolved over time, responding to external and internal challenges (e.g., wars, pandemics, etc.) and changing preferences (e.g., delivering the range and quality of services comprising a modern, welfare state). Institutions, norms, and politics have influenced the decisions of states to invest in building capacities with longer-term payoffs, turning themselves into more cohesive entities that govern more effectively in all spheres: taxing, regulating, enforcing laws, organising and providing infrastructure, and delivering public goods and services.

Our analysis is informed by a literature that has made significant progress in the past decades towards understanding the determinants of state capacity. We note, in particular, work on the political economy of state building and development of state capacities.² This literature suggests that inclusive political institutions can help build an environment conducive to investing in state capacities. We are also aware of the literature on short-term managerial approaches and policy options that focus simply on results. We see much value in both these historical political economies and current managerial perspectives – and indeed, have variously contributed to these strands. We focus here on short-term policy prescriptions informed by long-term structural constraints (e.g., institutional features and incentive structures).

We begin this chapter by discussing the nature and variation of state capacity. We then turn to some stylised cases of state capacity strengthening, focusing variously on tax administration and the health sector. Drawing from these cases, we articulate a set of diagnostic principles and frameworks for understanding the nature of the state's abilities and how they might be strengthened in a particular place, for a particular end. We see this diagnosis as best conducted at the beginning, not the end, of the policymaking process.

While there are no universal prescriptions, we come up with a few general principles that we believe apply in all countries, irrespective of wealth or level of development. First, that state capacity is a process, not an event; hence medium-term commitment is critical, as is acting in the understanding of long-term constraints and environment. Second, cycles of learning, improvement, and iteration are also critical. The first attempt is unlikely to be perfect, and

so designing a process for learning what is working, and for continuous improvement over time that incorporates system-level interactions, is essential. Third, every attempt to build capacity should begin with a diagnosis of the issue, organisations, state agents, citizens, and broader context – and only thereafter prescribe means of improvement. Finally, key to improving state capacity is not just action, but also agency. Who should have power over what is a question that must be asked. And this applies not just to implementing plans, but to adjusting and formulating them. In the end, state capacity can be understood as the state's ability to deliver 'to' citizens – but also its ability to enable markets and work with citizens to realise and support citizens' ends.

II. 'Capacities', not capacity: the state's abilities vary widely within states

State capacity, broadly defined, is the ability of the state to achieve its ends, for example, providing public services, enforcing laws, and regulating economic activity. In our view, this capacity to implement is not simply something to turn to after choosing the technically appropriate policy – the choice of *what* to do should begin with an understanding of state capacities and constraints. This will indicate the policy choices that will achieve the most at present given these constraints, and also the actions that will relieve some of these constraints in future, to enable the undertaking of more ambitious tasks. Capacity includes 'hard' capacity, such as tangible skills, know-how, and technical inputs. But it also encompasses 'soft' capacity – that is, management systems, bureaucrats' motivation and orientation, the abilities of (and state relations with) private and/or nonprofit contractors, and the state's relations with its citizens.³ This includes citizens and state agents' trust of one another, and citizens' responsiveness or compliance with state requests.

Politics is inextricably bound up in what the state can, and in fact will, do. It is by no means always the case that political leaders *wish* for the state to develop capacity. The dysfunction in many states is by design – and not only in developing countries under kleptocratic regimes, such as in Mobutu's Zaire. 'American public bureaucracy is not designed to be effective', as Terry Moe put it; legislatures, executives, and other stakeholders may be unable to prevent a proposal they oppose from becoming policy, but still undermine its implementation.⁴ In India, China, the US, Russia, and well beyond, we have myriad examples suggesting that in some cases degree of state incapacity may be due to interest groups not wishing to see that capacity exist.⁵

Inasmuch as capacity is the ability to execute, and not necessarily the actual use of that ability, it is also perfectly possible for the state to have capacities that political actors choose not to exercise. However, it is also possible for politics to serve as an enabler of changes that strengthen capacity. For example, new political configurations, or relations between citizens and state agents that enhance trust in the state can also unlock capacities previously thought beyond the scope of the possible.⁶

State capacity is in part a function of historical legacies that may be beyond the ability of even the most senior leaders to shape in the short term. State capacity is accumulated, and in some cases undermined, over time, because investments in acquiring such capacities have a long-term payoff. For instance, the ability of modern states to tax a large fraction of national income and provide the range of services required in a welfare state has been gradually built over the 20th century, with structural changes in the economy, politics, and the development of information and third-party reporting systems. The enforcement capacity of the state has gone hand in hand with enhanced compliance by citizens.⁷

That said, certain ingredients of state capacity are tractable to shorter-term intervention by current leadership. This includes both 'managerial' improvements, technology adoption, addressing market failures that hinder the private sector, and establishing deeper changes in relations between the state and its citizens. The capacity of governments to deliver welfare-enhancing public goods and services depends on how it employs labour and capital in its production function – but it also depends on interactions among and between state agents, politicians, citizens, and private and non-profit entities implementing on the government's behalf. If we want to improve the welfare of citizens, we must take this complexity seriously.

A given government does not so much have 'capacity' as it has 'capacities': different abilities, resources, dispositions, and strategies in service of different ends.⁸ Improving state capacity requires engaging with specificity and thinking through particular challenges and contexts, including the tools available to the state to induce certain behaviours by bureaucrats, firms, and citizens.

These capacities vary not just across countries, but also within a given state, and even a given sector. This parallels variation in the constraints, the objectives, and in the people who act in the state's name – how they are managed, their orientation, their training, their oft-unobservable actions. Capacities vary to some extent all the way down to the smallest observable 'unit' of the state, the individual.⁹ The state's ability to deliver is therefore a product of multiple factors, including: contextual factors, which include the implementation environment, technology and structural constraints; organisational factors, which encompass managerial practices and authority structures; and task factors, by which we mean the nature of the tasks themselves – their complexity, transaction intensiveness, and monitorability.

The internal workings of the state and its bureaucrats have become salient topics of research in social sciences in recent decades. See, for instance, work on the personnel economics of the state.¹⁰ This growing body of work, often conducted in collaboration with governments through field experiments, has focused on incentive structures, selection, and monitoring. It has broadly validated the importance of incentives and selection in public sector settings, showing that public servants are responsive to incentives if they are well-designed, and that effective monitoring mechanisms can boost the ability of the state to deliver.

Prior research has also highlighted the importance of motivated bureaucrats and of harnessing their prosocial motivations in order to build mission-driven organisations. Effective public organisations work best when employees are devoted to the cause: where employees have internalised the organisational mission.¹¹ Contexts where this internalisation has not worked often produce dysfunctional organisations, marked by entrenched cultures of malfeasance and inefficiency that prove hard to shift as the identity, narratives, and norms around the dysfunction are mutually supportive, generating a locally stable belief system that undermines public welfare.¹²

Bureaucracies are complex organisations that ultimately comprise individuals but also capture how individuals and the units/organisations they operate in interact with each other, thus bringing in systems-level issues of organisational mission, coordination, and aggregation.

But the ability of the state to achieve its ends does not necessarily mean delivering through a central bureaucracy. Decentralisation to empower local and state governments can often improve the quality of governance, develop citizen trust in government, and promote local innovation – but it can also backfire by opening the door to elite capture. Literature suggests that whereas functions like infrastructure planning, financial regulation, and governance controls are a better fit for the central government, the transfer of certain functions to local units with upward accountability can work better for areas like local service delivery and community policing.

Monitoring of bureaucrats, citizens, and contractors is a key tool used by the state for effective enforcement. Where clear summary outcomes are available for the task in question, measuring those targets and providing rewards or penalties can be an effective strategy for inducing desired behaviour by citizens or those implementing work. In fact, a great majority of efforts to strengthen state capacity rely on improving monitoring and oversight, often mediated by technology.¹³ However, this approach is limited when tasks are not fully monitorable by their nature, when monitoring systems are otherwise incomplete, or when sanctions are difficult or impossible to enforce *in situ*. In such cases, those seeking to bolster state capacity will often benefit from considering channels that do not rely exclusively on monitoring and enforcement.

At least in terms of the state's own personnel, it is clear that greater use of monitoring and incentives does not always achieve the best possible performance by bureaucrats. Importantly, there could be trade-offs between bureaucratic efficiency and curbing misuse of public funds that vary by contexts. In countries of varying income and corruption levels, and across a wide range of tasks, we have examples of improvements in state capacity stemming from management that seeks to grant autonomy and support, rather than monitor and control.¹⁴ Much, of course, depends on the nature of what precisely the state wishes to accomplish; tasks that are more uncertain and harder to monitor see greater returns to this managerial approach.¹⁵

For some tasks, in some contexts, a key feature of state capacity is developing the ability to deliver through markets. Private sector firms have in many countries increasingly taken on activities once reserved for the state, such as transportation, communication, and sanitation infrastructure. As and where states engage private actors in the delivery of services, states must develop capacities for effective market development, financing, and regulation. The rise of private schooling and healthcare has also become one of the most important developments in service delivery in many developing countries, often in response to failures in public provision. In many cases, governments can respond productively by taking a systems-perspective and investing in public provision, while also lifting the market constraints that hold back better-quality private provision.¹⁶

Overall, building state capacity is a matter of both ability and will. It is not just a technical challenge because the question of ability is deeply enmeshed with the underlying incentive structures of the system. Thus, progress can be made when technical solutions are aligned with the incentives and capabilities of the stakeholders. For example, one case study of air pollution in Gujarat, India, found that it took independent backchecks to prove that the existing system of environmental auditors was corrupt.¹⁷ This became the basis for a revised policy that addressed the underlying agency issues between the monitors and factory owners and was adopted at scale by the Pollution Control Board. In this case, capacity development was led by internal reform champions, and was supported by external pressure (judicial and civil society activism) and by collaboration with independent researchers.¹⁸

Sometimes the pathway for strengthening state capacity is clear: we know technologies exist that can reliably improve the functioning of the state in a given area, even if there are implementation challenges borne of, for example, information and monitoring problems, as well as political economy constraints. At other times, however, even the pathway via which improvement in state capacity might occur is unclear, or new problems emerge in implementing even known technologies. In such cases, attention should focus not on implementing a solution, but on building processes and environments in which constraints to better implementation can be identified and addressed.

III. How best to build state capacity – a complex and contingent question

In the past few decades, there have been significant advancements in our understanding of the micro and macro factors that play a critical role in shaping state capacity. In this section, we examine insights from recent research that apply to raising money, spending money, and delivering social services. These areas raise different challenges, and collectively highlight just some of the diverse range of tasks for which a state may seek to build capacity.

1. *Raising money*

Building fiscal capacity is at the heart of state capacity. Beyond raising revenue to fund policies, it can trigger a broader process of state building as it requires investments in bureaucracy and budgetary management and can lead to a governance dividend as citizens demand more from the government as a result.¹⁹

To establish a strong tax system, one must prioritise tax administration and make it a core component of policy discussions. A government's ability to generate revenue and the economic implications of the tax structure hinge heavily on tax compliance. Lower-income countries (LICs) tax a much smaller share of their gross domestic product (GDP) than higher-income countries, with the former taxing around 15% and the latter around 35%. This disparity may be attributed to weak state capacity, which affects enforcement levels, and the expectations of citizens towards the state. Countries that score high in government trust and tax morale typically tax a larger share of their GDP, reflecting a stronger social contract between the state and its citizens. Since this is seemingly absent or broken in many LICs, engaging with citizens on (re)building this social contract is complementary to building the enforcement capacity of the state.

The contrast between low- and high-income countries goes beyond differences in the levels of taxation over GDP: it also extends to the types of tax instruments that are used. Under weak enforcement, income taxes – the backbone of modern governments – can be difficult to implement. In the case of corporate income tax, the evidence suggests that costs are adjusted more easily than revenue.²⁰ Thus, a turnover tax could be preferable – especially for smaller firms – if there are concerns about cost adjustments eroding a tax on profits. For personal income, information trails from third-party reporting (e.g., from employers or the financial sector) have been shown to be crucial to prevent tax evasion across different contexts. Importantly, verifiable information on taxable transactions tends to increase with development.²¹ In the case of Denmark, the structure of the economy, where well above 90% of income is third-party reported, could explain why there is so little income tax evasion. Indeed, the small share of income that is solely self-reported has an evasion rate above 40%.²² Therefore, even the high-capacity Danish tax authority falls short from ensuring tax compliance in 'hard-to-tax' sectors that are a much larger share of the economy in lower-income countries. This highlights the commonality of the capacity challenges that countries face, which frequently differ in degree (or in this case, sectoral composition), not kind.

More broadly, the available evidence indicates that generating compliance depends on a crucial combination of traceable information on the tax base and a credible enforcement threat by the tax authority. The Value-Added Tax is possibly one of the best examples of how this combination can be powerful when it generates self-enforcing incentives along the supply chain.²³ It has

also been shown that improving the credibility of enforcement can generate more revenue than increasing tax rates.²⁴ In fact, the evidence also suggests that better enforcement can change the Laffer curve – the inverted U-shape relationship between tax rates and tax revenue – by reducing the non-compliance margin. This can increase the highest tax rate than can be applied before entering the ‘wrong side’ of the Laffer curve, where revenues drop with higher tax rates.²⁵

To enhance tax capacity, though, it is important to look beyond law enforcement efforts and consider the broader contextual constraints that can affect compliance rates. One of these constraints is the compliance cost incurred by taxpayers, particularly those who lack the necessary skills or resources needed to navigate complex tax legislation or adopt new technologies in tax filing or receipts issuance. Recent evidence has shown that in LICs, small taxpayers often leave money on the table by not fully utilising available deductions or exemptions. Instead, small taxpayers rely on compliance heuristics, where taxpayers with poor record-keeping declare taxable income that keeps them under the radar of the tax authority, even if it means paying more taxes than necessary.²⁶ Deductions or exemptions often exist due to efficiency or equity reasons, and educating taxpayers on how to take up benefits and reduce compliance costs is also a contribution to building tax capacity.

Another important aspect of tax capacity is how the tax system is specialised across levels of government. Decentralising tax collection can help leverage local information on the tax base that subnational entities may possess, and it can also strengthen the social contract and improve efficiency through a tax-benefit link, i.e., a virtuous cycle of tax compliance and the demand for and delivery of public goods. However, local governments in developing countries vary a great deal in terms of their ability to administer tax collection, and there is typically less decentralisation on the revenue side than on the spending side.²⁷

Such contextual factors should be carefully considered for policy design. To some extent, this is exactly what many developing country governments already do: the limited use of modern tax tools, such as personal income taxation, could reflect the lack of information governments have about individual income. There is still room for policy advice and improvement, but understanding the local rationale for a ‘bad tax’ is an important first step to better optimise under constraints.

Similarly, contextual changes can affect the fiscal capacity of a government. Structural transformations in the economy – such as urbanisation, a change in employment across different income brackets, and advances in information technology – can lead to changes in the information environment and enforcement capacity of the government. Furthermore, these changes can alter the demand for government assistance, as modern economies tend to invest more resources in social protection programmes and rely less on informal or

community-based assistance schemes. Indeed, the increased presence of the state alone can change expectations and foster political participation.

It is also essential to note that improvement in tax capacity is not inevitable. Despite efforts to strengthen tax systems, several factors can hinder progress, such as political instability, corruption, weak institutional capacity, and lack of public trust in the government. Therefore, continuous and sustained efforts are necessary to build tax capacity and improve revenue collection.

A crucial part of this effort is to focus on the inner workings of the state. Effective taxation systems have gradually dealt with informality, capacity constraints, and low tax morale on the side of taxpayers, and have reformed tax administration over time by, among other things, monitoring and rewarding better performance, and in some cases by establishing specialised institutions like Large Taxpayer Units, which are dedicated to law enforcement for larger taxpayers, aiming to harness administrative efficiency.

2. Public spending

Once funds have been raised they must, of course, be spent to have any positive impact on citizens' welfare. Similarly to taxation, government spending capacity is also constrained by contextual factors. Low-income country governments operate in challenging environments, especially when it comes to implementing effective social transfer programmes. One of the main challenges is the scarcity of information on targeted beneficiaries, making it difficult to determine their income, employment status, and other indicators of need. Additionally, poor information systems and a lack of accountability can result in wasted resources. As a result, contextual constraints can restrict policy adoption and increase the likelihood of leakages in social transfer programmes.

These contextual factors, though, are dynamic and can change. Modern states not only raised their levels of spending but also its composition, provision, and quality. They also establish fiscal instruments to better assess public spending through fiscal rules and robust internal checks (e.g., Spending Reviews conducted by the United Kingdom Treasury), quasi-independent checks (e.g., the Office of Budget Review in the United Kingdom), and external checks (e.g., the Institute for Fiscal Studies in the United Kingdom, and other think-tanks).²⁸

In all countries, government spending gives rise to concerns regarding inefficient management of public funds and the risk of waste and fraud. There is often an assumption that efficient public spending requires external monitoring and top-down control to make things better. This will often be true: monitoring efforts (e.g., audits of politicians' spending decisions) can and often do reduce fraud, particularly where the key features of the task are tractable to monitoring.²⁹

One prominent recent example comes from the employment guarantee programme in India (NREGA), where reforms introducing electronic fund

flow, reducing administrative tiers, and replacing advance payments with 'just-in-time' payments generated a substantive reduction in leakages.³⁰ The introduction of biometrically authenticated payments infrastructure delivered a faster, more predictable, and less fraud-prone NREGA.³¹

However, monitoring and control do not always produce the best possible public outcomes, nor even necessarily maximise value for money in government spending. The NREGA example is one in which monitorable outputs were tractable to technology-enabled top-down monitoring, with substantial welfare benefits.³² But this is not always the case.

Indeed, more control is not always the best way to ensure better spending. In one study, providing procurement officers with greater authority and less monitoring in Punjab, Pakistan, was found to outperform attempts to tighten monitoring and reward those who met delivery targets with performance bonuses.³³ This is because many procurement officers are in fact more oriented towards achieving value for money for the state than their supervisors, who previously held greater authority.³⁴ Another study on public procurement of generic goods in Italy found that over 80% of all waste was passive – benefiting no one at all.³⁵ Moreover, a good deal of this passive waste was in fact the product of attempts to reduce active waste – side effects of a prescription to attack the disease of corruption with external controls and accounting-based monitoring.

That said, attempting to minimise active waste – corruption – while ensuring that the 'cure' is not causing more negative effects than the 'disease' is often a good starting point. The misuse of public funds for private ends undermines not just the state's ability to deliver, but also citizens' trust in the state and its agents.

3. Delivering critical services: building capacity in the health sector

There is a huge literature on health sector capacity, and we cannot do justice to it here. That said, one of the key things that emerges from examinations of health sector capacity building with broader applicability is the differential monitorability, and thus best routes to capacity strengthening, for different goals.

Vaccine delivery is one particularly easily observable and monitorable health task. Information and communications technology (ICT)-enabled tracking of vaccines and the health workers delivering them can assist in ensuring that vaccines are delivered. This is highly likely to lead to the public health outcome of individual and community immunity: the observable 'output' (i.e., a health worker delivering a jab in someone's arm) is very tightly coupled to the desired 'outcome' (someone is in fact vaccinated/resistant to the pathogen).

Other health tasks have almost none of these features. Take, for example, childhood wasting and stunting. A complex set of inputs – including nutrition, prenatal care for mothers, care during and immediately after childbirth, and antenatal care – plays an important part in a child's growth. Very few of these occur at only one point in time, which means they cannot be 'solved' in the

same way a vaccination can be ‘delivered’. The observable bits of what the state can do – for example, growth monitoring by doctors or community health workers – is only very weakly coupled with improved childhood thriving, as the desired result of those visits is often caregiver behaviour change over the days and weeks to come, which is far from guaranteed.

Both wasting and stunting and lack of access to vaccinations are the product of many contextual factors, some of which apply to both these health challenges. Two examples would be poverty and the long-term history of state development. Recent evidence shows the long shadow of colonial legacy in Central Africa; French health campaigns from that time still feed modern-day mistrust in health interventions, such as vaccination.³⁶ These contextual factors are difficult to change and should be considered carefully as part of the implementation process: the demand side for vaccines may not be there even if the state manages to deliver them. But when it comes to organisational factors that are amenable to short- or medium-term intervention – such as managerial changes and staff training – the differences in the nature of these two tasks suggest very different approaches.

Vaccine delivery capacity can be strengthened by ‘accounting-based accountability’: an accountability system focused on what can be observed and monitored.³⁷ Perhaps as a result, we have seen remarkable global progress in vaccine uptake and delivery, even in some of the world’s poorest countries.

We have seen much less global progress on wasting and stunting. This is, perhaps, because conventional approaches to improving state capacity through monitoring are less well-suited to these types of interventions. Monitoring healthcare workers’ attendance and rewarding them with financial incentives does not work in situations where it is hard to monitor healthcare workers’ actions well enough, as in Rajasthan, India.³⁸ Or, as in Karnataka, India, it can simply displace fraud and waste from the limited range of tasks that can be well-monitored to those which cannot, resulting in little net performance improvement.³⁹

Indeed, a study on community health workers in Khyber Pakhtunkhwa, Pakistan, showed that a pay-for-performance scheme was outperformed by an approach that focused on increasing the salience of their mission in ways plausibly linked to reducing stunting and wasting. The pay-for-performance scheme catalysed a greater number of home visits but achieved less in terms of child health outcomes – and did so at higher cost than the other approach, which focused on the people delivering the care and what drives them.⁴⁰

4. Different prescriptions for different policy domains and cases

Fiscal capacity is one domain where the route to performance improvement is relatively clear, albeit challenging. While ‘broadening the tax base’ may still be sound advice, how to do it will hinge on reliable information on taxable transactions – preferably covered by third-party reporting – and on the extent to which government enforcement is a credible threat.

Enforcement capacity depends on the organisational structure of the state, such as the number of tax auditors, the incentives they face, and the technology that is used for collection.

Policy advice should, thus, consider that the tax structure of lower-income countries could reflect contextual constraints, such as labour market structure, informality, and the lack of financial intermediation, and that improvements in tax administration can often be more powerful than changes in the tax law. ICTs are rapidly changing the availability of information on the tax base and enforcement tools. For instance, evidence suggests that e-filing taxes can reduce evasion and extortion opportunities by tax collectors.⁴¹

There are clear pathways e.g., for improving tax enforcement, based on known technologies. In the health and education sectors, by contrast, a lack of state capacity may be a result in part of the fact that there are many possible pathways to address a given problem. We could begin with the observation that, in a given country, children in rural schools are learning very little, facilities are inadequate, and teachers are rarely in the classroom. It is far from obvious what the best way to address this challenge is; we believe a diagnostic step is necessary before proceeding to policy prescriptions.

Perhaps teachers are broadly unmotivated and will perform better if they are more tightly monitored and incentivised to show up in the classroom.⁴² But perhaps the precise opposite is true, with teachers' non-attendance largely a consequence of inadequate facilities and an inability to do their job; they may not be unmotivated, but rather *de*-motivated. In the latter case providing teachers with greater autonomy, resources, and support may prove more effective in building state capacity and improving educational performance. This approach also has the advantage of not simply focusing on what can be easily monitored (e.g., attendance), perhaps at the expense of what cannot be so easily monitored (e.g., teaching quality conditional on attendance). It is also possible that state capacity can be more effectively built in other ways, for example, by empowering citizen oversight, or by building more trusting relationships between school officials and citizens. Over time, personnel management policies can differentially recruit, cultivate, and retain those public servants most oriented towards students' learning and holistic development.⁴³ The best way forward depends on the specifics of the case.

Relatively speaking, fiscal capacity building by its nature can be more easily addressed with a policy and decision structure that leaves control in the hands of senior leaders to diagnose difficulties and prescribe solutions. By contrast in other cases, as we have seen, improving performance may require more authority in the hands of those closest to the action, not simply to execute on policy but even to diagnose what is likely to work in a particular case. Sometimes capacity will be built best not from the top down, but rather from the bottom up. Sometimes capacity will be built not by increasing the state's ability to deliver, but rather the state's ability to empower citizens to make welfare-enhancing choices. Our view is that states are more capable where

they facilitate citizens living lives those citizens prefer, which may include citizens choosing non-state provision of some services.⁴⁴

While individual performance matters for service delivery, and we have made some progress towards understanding how to influence it, the bureaucracy and the public sector are a system and not just a collection of individuals. Thus, a systems perspective that captures system-level relationships between different tasks, units, and organisations provides a more solid underpinning to consider state capacity. Such a perspective deals with issues of complementarities across different inputs, coordination across agents, units and organisations, and aggregation of individual performance into organisational capability. A systemic perspective sometimes leads to counter-intuitive lessons. For example, enhancing individual capacities, say, through training, may undermine policy when organisational capability is weak. On the other hand, creating more rules to check the performance of front-line staff may backfire when the supervisors it empowers face greater agency issues.⁴⁵

5. The role of external actors

State capacity is essentially an internal undertaking, though there is a legitimate role in supporting capacity strengthening by governments for external actors like foundations, bilateral development funding, and multilateral development organisations. But while there is a role for international expertise, it must be exercised with caution. It has now become obvious in theory, though not yet fully in practice, that state capacity cannot be built by copying 'best practices' from outside. There is much evidence that externally influenced institutional reforms frequently have limited effects due to poor fit with local context, perverse incentives, unrealistic timelines, and an excessive reliance on a narrow set of high-level champions.⁴⁶

The political economy of external actors' provision of services is part of the problem, with purveyors of 'products' to improve state capacity, from IT systems to frameworks, looking to sell their services with the promise of quick, easy, general solutions to capacity strengthening challenges. In some circumstances donors and non-governmental organisations (NGOs) seeking to deliver services build parallel systems, in so doing undermine the very state they claim to be supporting. These parallel systems often have detrimental effects on state capacity by hiring away the most talented public servants.⁴⁷ And if roads, schools, and health clinics are provided by well-intentioned parallel systems, this may also undermine the social contract between citizens and the state.

The need for external actors is most clear in fragile states where state capacity breaks down and there is a need to build domestic security and governance with international support. Aid can help when it strengthens a legitimate, domestic government and when it is used to support private investment for job creation. What is critical is acknowledging existing constraints and avoiding

long lists of unachievable targets based on over-ambitious expectations about current capacity. A step-by-step process is more likely to stabilise and catalyse capacity development in fragile states that have limited capacity and legitimacy to begin with, and where yielding quick, visible wins on popular initiatives can gain the legitimacy for undertaking more ambitious reforms. In such environments, focusing on processes is as important as on outcomes. However, such environments also present opportunities for capitalising on pivotal moments, such as a change of leadership or a major event, when transformative change is possible by resetting citizen expectations, building trust, and taking difficult decisions.⁴⁸

Experts and researchers are another type of external actor that can have mixed effects on state capacity. These actors can add value when they study simple interventions that are tractable to clear empirical analysis, but also when they engage in longer-term engagements with policy actors that involve the diagnosis of problems, and that help build local academic and policy capacity. However, experts and consultants also run the risk of providing no useful insight on state functioning, while consuming what is in many countries arguably the scarcest of resources: the energy and attention of reform-minded policymakers and mission-driven bureaucrats.

NGOs, donors, and external experts can absolutely play useful roles. These actors do not *always* focus narrowly or on short-term results rather than the broader interests of the state; and even where these actors do focus on the short-term, the visible, and the empirically tractable, that *can* sometimes be aligned with what the state needs, and a useful part of a domestically led effort to strengthen capacity.

In particular, approaches that can align external actors in the position of supporting the diagnosis and problem solving of others show promise in building capacity. The UK National Endowment for Science, Technology, and the Arts' (Nesta's) 'People Powered Results' and the Harvard Building State Capability programme's 'Problem Driven Iterative Adaptation' are two prominent examples of such approaches.⁴⁹ That the Nesta offering targets domestic (UK) actors and the Harvard effort developing countries also highlights the broad potential applicability of approaches that centre the agency and knowledge of those already embedded in the system. Such efforts can potentially also put external actors in the position of supporting the agency of others, rather than – as is too often the case – providing particular prescriptions without a full understanding of context and constraints. The road of the past few decades is strewn with the remnants of Potemkin villages: capacity development programmes that ultimately accomplished little because they attempted to replicate structures, not address organisational and operational challenges *in situ*.⁵⁰ More can be done by domestic and international policymakers to build relevant capacities if they start with a careful diagnosis of contextual constraints and the state's current capacity. Thereafter, policy pilots and impact evaluations can be powerful aids to improve capacity.

External actors looking to help states deliver public goods might do well to begin not simply from an understanding of the gap between current and desired outcomes, but also an understanding of the current and potential future capacity of states and markets. This requires particular attention to the organisational structures, incentives, motivations, and relationships within state agencies, and between those agencies and the citizens they serve. The lack of such diagnostics is, in our view, one of the greatest shortcomings in building state capacity.

IV. Towards a state that serves its citizens better

The preceding sections underscore how the particular manner in which capacity can best be strengthened, which is contingent and contextual, depending on particular features of the context, task, and environment. This does not mean there are no general principles to be drawn, however. Here we articulate four such principles that emerge from the previous discussion and lie at the heart of how best to approach capacity development.

1. Begin with diagnosis

The changes that are likely to improve capacity are, as we have seen earlier, deeply contingent on context, task, and situation. Sometimes raising salaries or otherwise altering recruitment to attract more talented personnel is an excellent way to improve performance;⁵¹ sometimes it is not. Sometimes monitoring clear summary targets and rewarding staff for meeting them will improve the performance of an agency; sometimes it is substantially inferior to simply giving frontline personnel more decision-making power, and even reducing monitoring.⁵²

That there are no universal prescriptions underlines the importance of diagnosis that is specific to the place, task, function, and organisation/team whose performance one seeks to improve. Depending on what the reform seeks to achieve, there are a number of key elements that need to be understood in crafting specific reform efforts:

Human resources

- *Selection*: How are public agents currently being selected? What do the actors in the system *want*, and what might other actors recruited into the system want? How can the prosocial motivation of public agents be harnessed or encouraged to build mission-oriented organisations?
- *Incentives*: What are workers currently being rewarded for, and how well aligned is that with the full range of actions and behaviours they are meant to engage in?

- *Monitorability*: Is the information needed for effective monitoring easily accessed? Can the task be summarised in measures you can monitor effectively? Is monitoring likely to lead to distortions of effort? Are there other ways of monitoring or redistributing the tasks to separate out the monitorable and unmonitorable goals we may wish to accomplish?⁵³

Interactions of actors, markets, constraints

- *Power and autonomy*: Who holds power over whom and what, and in what ways does that need to change? Who is driving improvement and reform processes? Who ought to hold control over what? On what timescale do results need to be achieved? What are the time horizons of current reform leaders?
- *Accountability*: What is the current accountability regime – who is accountable, to what authorities, and in what manner? Can the direction of accountability be productively shifted towards other actors, such as peers or citizens? Can different accountability tools, such as technology-enabled monitoring or managerial/reporting approaches that allow the exercise of greater judgement and agency, increase capacity and improve performance?
- *State-citizen relations*: What kinds of interactions with citizens exist, or could exist, which are likely to improve performance?⁵⁴
- *Political constraints, enablers, and context*: What are the bounds of the politically possible? If they do not incorporate actions that seem necessary for capacity strengthening, can they be shifted?

These are only a subset, of course, of the relevant dimensions we may wish to think through before moving forward.

Sometimes those seeking to craft reforms will face trade-offs. For example, a pay-for-performance scheme may yield harder working agricultural extension personnel, but at the cost of intrinsic motivation, camaraderie, and some distortions of effort towards the monitorable. At other times there will be no such trade-offs; it may be that agricultural extension's best available performance flows from a managerial approach that focuses on attracting and retaining mission-motivated personnel, with fewer target-induced distortions.

Optimal reform flows from context-specific considerations and assessments. There are no general answers, only general questions – which may apply in London, UK, just as they do in Lilongwe, Malawi.

2. Capacity building is a process nested in long-term constraints

Whatever reform a diagnosis suggests, it is rare that it will succeed in precisely the way anticipated or will not lead to new challenges. This requires continuous investments and medium-term commitment to improvement. This is true even for those changes that can be implemented and have effects relatively quickly. It is all the more true for the many possible paths to state capacity improvement that will only see results in the medium term. It is thus important to be realistic about the time horizon.

Such paths might involve changing structural, institutional or political constraints, but also may include improving skills training or altering citizens' expectations and understanding of their roles vis-à-vis the state, for example, regarding tax compliance, or whether police can be trusted with sensitive information. Measures to build information systems that enable better enforcement and greater efficiency and equity, and measures to enable markets for public provision to function, for example, in education and health, are also a part of the process.

Importantly, capacity building is neither an inevitable nor a linear process. It has been shown, for instance, that changes of political leadership in the electoral cycle generate bureaucratic turnover leading to substantive disruptions in public service delivery.⁵⁵ Thus, politics can help or hinder investments in state capacity, as discussed in Chapter 16 of this volume.

3. Engage in continuous learning and adaptation, and leverage systemic interactions

Following the first two principles on the importance of diagnostics and process, this principle highlights the need to do all of the above on a continuous basis, with the lessons incorporated through adaptations to organisational practices and structure. We must learn as we go. Sometimes this will mean the use of pilots and formal studies, including, where possible, randomised controlled trials. At others, it will be much more informal and rapid, closer to 'agile' management principles of rapidly cycling through different possible solutions and improving them, usually with a central team of frontline employees and, where possible, citizens operating with support from higher-level political authorities. The key is to learn and improve. Undertaking systematic impact evaluations can wield significant power in enhancing capacity.

This learning needs to go beyond fixing determinants of individual performance. A systemic perspective captures issues of complementarities, coordination, aggregation, and unintended consequences. As an attempt at improvement takes hold, the diagnosis upon which it was initially designed will also shift. Citizens, politicians, bureaucrats, and others will change their behaviour, and as such thinking of how to create virtuous cycles of improvement is worth consideration. Whatever is attempted, a learning and adjustment process ought to accompany it. This requires building institutional memory of policies and evaluations, gathering data, and investing in a bureaucracy with analytical skills.

4. Empower actors and build trust

Attempts to build capacity often begin and end with what behaviours need to be altered by whom. But if capacity building is cumulative, then careful consideration is needed regarding who it is that drives change. This goes beyond simply who should have the right to make decisions on delivery, for example, granting more or less autonomy to frontline actors, and cuts to the issue of who ought to hold power over the reform *process*.

While external actors have a role, building state capacity must be led by internal actors. It is *only* the leaders and citizens of a country that can legitimately lead this process. Genuine ownership by national leaders is critical because transformational change depends on the actions they choose, and their ability to ensure citizen compliance. But it is equally critical not to over-emphasise the role of top-down leadership. Indeed, the best possible configuration for driving reform is not for it to flow down from a donor or executive office at the top of government, but rather for it to incorporate all those who have a role to play in improving the desired function. This will almost always include frontline bureaucrats and the citizens with whom they interact. While it helps to gather information from these groups, frequently the best possible configuration will involve shifting power and agency to them, so that they themselves can drive and own the reform.⁵⁶

V. Conclusion

The COVID-19 pandemic pointed up the importance of rethinking our approach to capacity – and indeed highlighted a fundamental and global misunderstanding of what capacity actually is. The response and performance of different countries in the event did not in many cases match the various measures and indicators of their preparedness for a pandemic.⁵⁷

We cannot simply wish away the current constraints to reforms. These have persisted for a reason. But optimising what is feasible and setting up an organic, adaptive approach helps gradually relax those constraints so that more ambitious policies become possible. Timing matters, because unrealistic expectations about the pace of progress can make the process all the more fragile.

Implementation is not a residual item to be handled as an afterthought – a gap to be traversed only after choosing the proper policy – but rather as an integral part of the policy process. An understanding of the state's current and possible future capacities is in our view the place from which policymaking should begin; the soil in which the seeds of a better tomorrow might be planted.

There are no universal answers on how to proceed in building capacity, but this does not mean there is nothing to be learned. In this chapter, we have described what we believe represents a consensus of principles and approaches, not one of discrete policy prescriptions.

Capacity is ultimately held by individuals and the systems that organise them. These humans and their agency and motivations have often been treated as a ‘bug’, not a ‘feature’ of attempts to strengthen state capacity. If there is one clear takeaway from the past decades of attempts and failures to strengthen state capacity, it is that we should start with an understanding of the individuals who make up the state. Consider empowerment, not just monitoring, of those individuals when you seek to strengthen the state. Personnel are policy – they are also capacity. Ultimately, the state will only be as strong as the actions they take.

Building state capacity *is* possible. Sometimes desired reforms will be beyond the boundary of the politically possible; but often, in our collective experience and reading of the literature, they are not. Much can be done to improve the state’s abilities to deliver to its citizens, with reality often far short of the frontier of what it is politically and technically possible to achieve. But improvement requires a careful and critical understanding of the particulars of the terrain. For any actor seeking to galvanise reform, the road ahead is a long one; but it is one worth traversing, one which has a fair chance of improving the functioning of the state. A better world is possible – and it begins in no small part with improving the state’s capacities, in working with and for citizens to call that better world into existence.

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Notes

- ¹ Our contribution to the London Consensus seeks to explore insights that we believe may be relevant for developing and developed countries alike. We neither believe in the necessity of a new ‘consensus’ to replace the Washington Consensus where the Global North ‘solves’ problems for the Global South, nor do we consider ourselves to be articulating one.
- ² For example, Acemoglu and Robinson (2012), Besley and Persson (2011) and in this volume.
- ³ In other work, one of the authors (Honig) explored the nature and impacts of ‘Relational State Capacity’, the nature of a state’s interactions and broader relations with its citizens; see Honig et al. (2024).
- ⁴ Moe (1989).
- ⁵ See Suryanarayan (2024) for an overview of this literature.
- ⁶ See for example the work of Ostrom (2000), or Tendler (1997).

- ⁷ Levi (1988) terms this as ‘quasi-voluntary compliance’.
- ⁸ As Williams (2021) puts it, ‘capacity is a convenient shorthand term [which] achieves this convenience by abstracting away from the mechanisms that determine bureaucratic performance and policy implementation’.
- ⁹ e.g., Best et al. (2023) uncover massive variation in prices paid and spending quality in Russian procurement by individual and organisation. The Global Survey of Public Servants (GSPS); Fukuyama et al. (2022) finds substantial variation by country and agency in orientation and workplace experience of public servants; Honig (2021) finds systematic features of these relationships, with e.g., bureaucrats’ motivation seemingly a function of managerial environment.
- ¹⁰ Finan et al. (2017); Besley et al. (2022).
- ¹¹ e.g., Honig et al. (2025). In the economics literature, this has echoes of ‘mission match’ in the sense of Besley and Ghatak (2005).
- ¹² Collier (2016); Khan and Roy (2022).
- ¹³ Honig et al. (2025); McDonnell (2020).
- ¹⁴ Bandiera et al. (2021); Grindle (1997); Khan (2023); McDonnell (2020); Tendler (1997). Some of these document high state capacity in equilibrium, rather than improvements in capacity. See Honig et al. (2025) for a fuller discussion.
- ¹⁵ Honig (2018); Rasul and Rogger (2018).
- ¹⁶ Andrabi et al. (2022).
- ¹⁷ Duflo et al. (2013).
- ¹⁸ Pande and Datla (2016).
- ¹⁹ See Besley and Persson (2009); Weigel (2020); Gadenne (2017); Martinez (2023).
- ²⁰ See Best et al. (2015); Bachas and Soto (2021); Carrillo et al. (2017).
- ²¹ Jensen (2022).
- ²² Kleven et al. (2011).
- ²³ Pomeranz (2015); Naritomi (2019).
- ²⁴ Basri et al. (2021).
- ²⁵ Bergeron et al. (2024).
- ²⁶ Tourek (2022); Almunia et al. (2022).
- ²⁷ Gadenne and Singhal (2014).

- ²⁸ See e.g., Berwick and Christia (2018) for a review of the literature on this as it relates to state capacity.
- ²⁹ Ferraz and Finan (2011).
- ³⁰ Banerjee et al. (2020).
- ³¹ Muralidharan et al. (2016).
- ³² Even in this case, there is some dispute; Honig et al. (2025) has an illustrative case of an NREGA auditor who discusses how process compliance undermines the social purpose of the work, as distinct from the process of delivering payments.
- ³³ Bandiera et al. (2021).
- ³⁴ On ‘honest principals’ higher up the hierarchy, see e.g., Rothstein (2021); on agents’ orientation towards the public good see e.g., Besley and Ghatak (2005); Honig et al. (2025); Perry (2021).
- ³⁵ The paper in question is Bandiera et al. (2009).
- ³⁶ Lowes and Montero (2021).
- ³⁷ Honig and Pritchett (2019).
- ³⁸ Banerjee et al. (2008).
- ³⁹ Dhaliwal and Hanna (2017).
- ⁴⁰ Khan (2023).
- ⁴¹ Okunogbe and Pouliquen (2022).
- ⁴² Duflo et al. (2012).
- ⁴³ See Aiyar et al. (2021) for an example in this spirit; Duflo et al. (2012) and Aiyar et al. (2021)’s implicitly contrasting policy prescriptions are set in Indian schools.
- ⁴⁴ This view is informed by work on schooling in Pakistan, e.g., Carneiro et al. (2024); Andrabi et al. (2020; 2022).
- ⁴⁵ Pritchett et al. (2012); Bandiera et al. (2021).
- ⁴⁶ Pritchett et al. (2012).
- ⁴⁷ Deserranno et al. (2024).
- ⁴⁸ LSE-Oxford Commission on State Fragility, Growth and Development (2018).
- ⁴⁹ ‘People Powered Results’ is an initiative of Nesta, a UK foundation. ‘Problem Driven Iterative Adaptation’ is a toolkit developed by the Harvard Kennedy School.

- ⁵⁰ Andrews (2013); Andrews et al. (2017).
- ⁵¹ Ashraf et al. (2020); Dal Bó et al. (2013).
- ⁵² Bandiera et al. (2021).
- ⁵³ e.g., task clustering as a response to multitask problems; Dewatripont et al. (1999) in light of Holmstrom and Milgrom (1991).
- ⁵⁴ e.g., by providing implementation-relevant information; feedback on performance; co-creation and implementation of policy; via interaction with front-line workers sources of motivation and/or accountability for public servants.
- ⁵⁵ Akhtari et al. (2022) show that political party transitions generate higher rates of personnel turnover in schools in Brazil hurting academic performance as reflected in lower test scores.
- ⁵⁶ This follows from Aghion–Tirole’s Real vs. Formal Authority (Aghion and Tirole, 1997) and has plenty of empirical support in capacity improvement contexts; see e.g., Andrews et al. (2017); Honig (2018); Tendler (1997).
- ⁵⁷ e.g., the Global Health Security Index (2019) did not do a great job at performance during the pandemic perhaps because it focused on quantifiable and visible indicators and not on measures of citizen compliance. Besley and Dray (2021) explore the role of government and private action during the COVID-19 pandemic. Also see Golden et al. (2023) for results of a prediction competition with the best performing model combining both physical measures and citizen-state relationships.

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Response to Dan Honig, Adnan Khan and Joana Naritomi by Matthew Andrews

I. Optimism, and my comments

Dan Honig, Adnan Khan, and Joana Naritomi (hereafter HKN) provide the most important chapter in this venerable volume. It reminds us that states are central to everything that other authors in the book propose, and that the consensuses these other authors identify as key to addressing the world's problems depend on having states with the capacity needed to get things done. HKN are also optimistic about building such states, exclaiming that, 'Building state capacity *is* possible', and that, 'A better world is possible – and it begins substantially in improving the state's capacities, in working with and for citizens to call that better world into existence'.

This conclusion comes from a discussion of themes HKN identify about state capacity in the political economy and public management literatures, mostly after the Washington Consensus was proposed, in the early 1990s. They argue that this consensus did not suggest a specific approach to state capacity, and that work since then also offers no hard prescriptions about what state capacity is or how it can or should be developed. They do suggest, however, that emergent thinking has yielded 'a few general principles' that apply 'in all countries.' According to these principles:

1. States require multiple capacities.
2. These capacities are contingent on many factors, such as the type of challenges that states face, and the political and administrative space they must inhabit.
3. They need to be built through iterative and contextual discovery processes.
4. And they must emphasise local agency, with local people – including politicians, technocrats, street-level bureaucrats, and citizens – driving the discovery process, benefiting from all discoveries, and owning and building on the capacities that emerge.

This perspective – and the optimism evident throughout HKN – inspired me. It also got me thinking about how much the ideas they propose really influence state building activities across the world. This commentary captures

such thoughts. It is not intended as a research piece and does not therefore provide traditional citations or methodological references. It also does not try to synthesise or otherwise refer to existing literature, and should not be seen as a contribution to the literature. It does, however, reflect my thoughts on the state of state capacity building work after three decades of practice, research, and observation.

II. An emergent 'Contingent Capacities Consensus'

When combined, I see the principles HKN identify informing a particular logic or way of thinking about state capacity. In the spirit of this volume, I will label this logic the 'Contingent Capacities Consensus'. I suspect that this is a much more formal moniker than HKN would probably accept; but I am personally excited to recommend it. I subscribe to the way this consensus suggests we should think about state capacity. And I do see it gaining traction.

I observe first that it offers a strong explanation of prominent state capacity building initiatives that appear to have led to sustained performance improvements, such as Singapore's economic miracle of the 1970s, and Rwanda's more recent success in developing its primary healthcare system. These stories involve the kinds of discovery processes HKN allude to, where local agents worked with the grain of local politics (no matter how messy) and with and through local administrative mechanisms (no matter how weak) to create new and more effective ways of getting things done.

Like HKN, I have also observed that local people are central to building state capability. Leadership stories are at the heart of all the cases I study about states that built their capacities to do great things. This leadership is seldom about just one leader, but instead involves many agents taking risks to effect change, often – or even always – against the odds. Such leadership typically spans time, space, and interests – crossing generations, sectors, professions, political affiliations, and the many other differences that can thwart change. As HKN imply, mobilising agency of this kind is hard but possible and seems vital to the process of building state capacity.

And I believe that HKN are right to note that state capacity comes – of necessity – in many forms; and that these forms are contingent on many things. My research regularly shows, for instance, that states considered to have higher capacity often look quite different from one another, exhibiting various ways of doing similar things because of their unique historical, political, and administrative realities. These varying realities make different forms of working, deciding, and delivering not just possible but necessary.

My research also shows that states need the capacity to tightly manage certain tasks or activities they face, such as technical and procedural aspects of monetary policy and service delivery work, but must also be able to foster more flexible creativity in others – particularly those that involve novelty, such as attracting investors to new sectors of economic engagement. Indeed, I often observe that states get into trouble when they either tightly or flexibly manage

everything they do – exhibiting a one-best-way approach to building capacity – or when they match the wrong management style to the wrong task.

Finally, I agree with HKN that this kind of ‘Contingent Capacities Consensus’ is a source of optimism. Such thinking is not only useful in explaining past success stories. It is also helping structure current and future-focused strategies to build state capacities. I have been developing such a strategy with colleagues like Lant Pritchett, Michael Woolcock, and Salimah Samji for over a decade. It is based on an approach to capacity or capability building called Problem Driven Iterative Adaptation and has proved effective in helping many actors build capacities needed to better address their challenges. A host of related approaches have been deployed to help do similar things in other contexts, including adaptive management practices, such as Rapid Results, Human Design Thinking, and Agile. These approaches show that the emergent ‘Contingent Capacities Consensus’ is not just a way of thinking or talking about building state capacity – it is also a way of doing the capacity building itself!

III. A competing ‘Copy-Ready Capacity Consensus’

I find that many people working in states (and on state building) around the world are very receptive to versions of the Contingent Capacities Consensus. However, I also find that the most influential entities in this space do not adhere to or promote such thinking in their work – or support the discovery approaches it implies as central to building state capacities. Instead, their understanding about state capacity and state building derives from a competing logic or consensus of thought. I call this the ‘Copy-Ready Capacity Consensus’. This holds that a state’s capacity depends on the formal rules, mechanisms and procedures it follows – and that there are generally applicable good or best practices that all states can and should copy. According to such thinking, we can evaluate a state’s capacity by assessing its uptake of internationally accepted best practices. And we can improve a state’s capacity by increasing its uptake of these practices.

As I see it, this way of thinking about state capacity emerged at about the same time as the Washington Consensus. It was influenced by the New Institutional Economics emphasis on formal institutions, the New Public Management focus on adopting private sector management practices in the public sector, and a growing best practice movement in the world economy, seen clearly in management schools, development organisations, and consultancies.

I observe this consensus in the many indicators now commonly used to measure government effectiveness and capacity. These indicators are applied both at the level of states as a whole and also for parts of states, for example, in the tax, budgeting, and health examples discussed by HKN. The indicators usually ask if and to what extent governments have adopted generally accepted good or best formal practices (like whether a tax bureau is independent or if a budget covers multiple years). The evidence of adoption (or lack thereof) is

then used to reflect the government's capacity, quality or effectiveness. This reinforces the view that capacity can be defined by the degree to which a state's formal structures comply with 'copy-ready' 'best' practices.

Connected to the focus on indicators, I also observe this consensus in the common nature of best practice reforms and processes in governments across the world. In keeping with the sectors that HKN review, my research has shown that many governments have taken steps to adopt generic best practice solutions like independent revenue agencies, large taxpayer bureaus, electronic revenue systems, programmatic policymaking processes, multi-year budgets, health management information systems, and more. These governments seem to believe the narrative that state capacity is about the mechanisms they adopt, and that the best practice mechanisms on offer from development organisations, and public sector consultancies will give them the capacity they need. Accordingly, the governments continue adopting these practices even when evidence shows that the practices often do not work.

IV. A battle of state capacity consensuses

I see the dominance of the Copy-Ready Capacity Consensus in the high rates of best practice adoption in governments across the world. For example, a few years ago I investigated the extent to which a sample of 60 national governments used formal programmatic policy tools in allocating finances to policy alternatives in budgeting and implementation. Drawing on surveys of a highly varied set of countries, I found the legal uptake was between 70% and 90%, meaning that the great majority of countries had laws requiring that the same tools be used. I followed up by surveying 240 officials working in different parts of the same governments, asking if they used the required tools when doing their policy work. Over 70% of the responses affirmed this was the case, and all responses showed an awareness of the language associated with such tools.

This evidence suggests that the same best practice policy and budgeting process is formally required across a wide set of highly different countries – and that the Copy-Ready Capacity Consensus has significant influence over the way governments think about doing policy work, which is itself a key state capacity. It is not what one would expect if a version of the Contingent Capacities Consensus were to influence how governments build their policy capacities. Rather, such thinking would have led me to expect different ways of doing this work across different governments and even within governments, given the contingent nature of effective capacity.

My survey of the 240 officials also asked if the best practice programmatic policy tools they were required to use were actually useful – and whether the officials departed from using these tools in any routine manner. Answers to these questions were illuminating, with over two-thirds answering that the formal procedures were of moderate to no use and describing significant and routine departures from their use. Over 60% of the officials noted that they

departed from using the tools because of political pressures. Over 40% said that they did not have the necessary competence, information, or time to use the tools properly. Over 30% said that the tools required a level of certainty in planning and budgeting that was not possible for the kind of work they were doing.

Such evidence suggests – at least to me – that the budgeting and policy capacities needed to do actual policy work differ by place and activity. People need to navigate their way through contextually peculiar challenges to do this work, discovering the necessary capacities as they progress. This seems to support the thinking implied in the Contingent Capacities Consensus. By contrast, it seems at odds with the Copy-Ready Capacity Consensus that state capacity can be built by formally adopting a one-size-fits-all set of best practices.

This example points to what I believe is a battle between competing ways of thinking about state capacity, and how it can and should be built. HKN identify an emergent way of thinking in the Contingent Capacities Consensus that I believe aptly describes how states really work in practice, and how capacities are really built. But the more dominant Copy-Ready Capacity Consensus continues to influence how most governments and development organisations actually try to build capacity. To really have a positive impact, the Contingent Capacities Consensus will have to overcome the Copy-Ready Capacity Consensus. Until that happens, I fear the world will still struggle with states that look like they should have more capacity than they do.

Response to Dan Honig, Adnan Khan and Joana Naritomi by Ernesto Dal Bó

The policy recommendations of the Washington Consensus were not contingent on national circumstances, such as state capacity. This was a serious drawback, because low state capacity limits the ability to design and implement policy.

The search for a new consensus must grapple with two issues. One is to characterise more precisely how state capacity constrains policy. The other is how to increase state capacity. Dan Honig, Adnan Khan, and Joana Naritomi (henceforth, HKN) offer a valuable perspective on the second problem, based on a wealth of personal experience and research.

I will briefly summarise their main messages, and then argue that those messages put political economy considerations centre stage. To make my argument, I will identify three trade-offs studied in political economy in connection to policymaking broadly understood. Once we take HKN's messages seriously, those trade-offs will be seen to apply to the process of building state capabilities.¹

I. HKN's main messages

The authors emphasise four aspects of how state capabilities are developed.

First, state capabilities are not developed through a single foundational event, but through a process of steady improvement of everyday practices.

Second, the capability-building process is iterative, so it not only takes time, but is 'alive' in that it involves learning and adaptation. This message may seem to simply restate the idea that learning-by-doing is important. But I will argue that in policymaking (and capability building more specifically) learning and doing are often in conflict.

Third, in developing state capabilities we must pay attention to agency and power. State agents and citizens have their own goals and the ability to affect outcomes. This message matches the tradition in political economy of paying attention to the incentives and profiles of public servants. I will argue this focus highlights two additional trade-offs as particularly relevant for the process of capacity building.

Fourth, the authors recommend starting with a diagnosis. But how to diagnose? I trust that the trade-offs I highlight provide a useful checklist of what to watch out for.

II. Three trade-offs

1. *Learning vs doing*

If learning matters for state capacity, policymaking should produce actionable evidence about what works, and adjust policy accordingly. Two problems will stand in the way. First, policymakers may not want to adjust policy based on evidence because doing so is politically costly. Costs may arise from constituencies that were created or empowered by the policy. Or they may arise if adjustment suggests the officials in charge were wrong the first time around. The career concerns of bureaucrats and politicians have motivated a robust literature suggesting that officials acting strategically may alter their effort or policy choice.²

The second problem arises from intertemporal considerations. Most initiatives to strengthen capabilities come with different mixes of immediate effects and future learning returns. The temporal mismatch separates what is optimal from what officials consider attractive. Officials will prefer projects that promise quick wins before the next election or round of promotions – especially if these wins are easily attributable to the policymaker even if the learning returns are low. Conversely, projects that yield valuable learning may be passed over when their lessons would mainly benefit the policymaker's successor.

The political economy literature has long studied how policymaking distortions arise from intertemporal strategic motives, and how they can affect investments in state capacity.³ Such motives appear to be empirically relevant. A large literature has documented the existence of political budget cycles and the fact that term limits affect policy choices and corruption.⁴ Research I contributed to has shown that, as effort resembles an investment with delayed yields, longer legislative terms *raise* legislative effort.⁵

HKN do well to emphasise the value of learning, but the trade-off between learning and doing highlights the need to pay attention to the delayed arrival of evidence and the costs of acting on it. One promising aspect of integrating learning and attention to evidence into capacity building is that positive evidence may insulate good programmes politically – and this is something non-clientelistic programmes often need.

2. *Accountability vs insulation (or autonomy) – and why it is important to select the right people*

HKN's third message underscores the importance of incentives and authority among agents in the public sector. One solution to incentive problems is intense scrutiny. Classic models of electoral accountability show that politicians can be disciplined through frequent elections, and empirical evidence supports the usefulness of elections coupled with monitoring.⁶ The bureaucracy, in turn, can be placed under tight legislative control, and thus be held indirectly accountable to voters.

These forms of accountability come with costs. As mentioned above with regard to politicians, longer term lengths imply looser accountability but actually raise legislative effort. When it comes to the bureaucracy, limiting the scope for political control can also be beneficial. For example, civil service protections reduce the scope for congress to discipline bureaucrats, but also insulate state personnel against political interference.⁷ When such protections are absent, political cycles can harm service delivery.⁸ At a more qualitative level, a recent review of case studies on developing state capabilities in Latin America suggested that successful experiences went hand in hand with insulation from politics.⁹ Such insulation likely helped in at least two ways. One, by allowing better control over resources and lengthening effective time horizons. And two, by producing a less politicised working environment that helped attract better personnel.

When it is difficult to evaluate performance, one way to curb incentive problems is to track inputs and procedures. But this can lead bureaucrats to become unduly concerned with compliance, as they avoid being caught in unjustifiable positions. A self-regarding bureaucrat will seek to maximise justifiability, not policy impact.

For that reason, it may not be surprising that a study of management practices in the public sector in Nigeria found that more autonomy is associated with higher project completion rates, while the opposite is true under stronger incentives and monitoring.¹⁰ Work in progress by Fernandez et al. shows that tighter procedural controls harm public sector performance in Brazil.¹¹ These tensions are relevant in the developed world as well. Observers of state functioning in the United States argue that internal compliance requirements hinder effectiveness.¹²

Incentive problems create a strong tension between accountability and insulation. This tension can be alleviated by selecting better people. A literature in political economy studies the determinants and implications of selection in politics and the bureaucracy.¹³ Selecting high-ability personnel improves state capacity directly by improving the quality of labour. Selecting personnel with integrity and concern for organisational mission improves state capacity indirectly by relaxing the accountability versus insulation trade-off.

3. Top-down vs bottom-up – from state capacity to citizen capacity

HKN's emphasis on process, learning, and agency may suggest de-emphasising top-down approaches to developing capabilities. But developing capabilities demands coordination, which is more easily done from the top, and taking advantage of human capital, which may also be more available at the top.

The top-down approach promises accountability by placing policy implementation (e.g., by agencies) under the supervision of a political authority that is accountable to voters (e.g., congress). A bottom-up approach is more direct: it enlists lower-tier managers, end-users, and other private actors in implementation and evaluation. There is evidence that lower-level

public sector managers hold valuable information about how to deploy resources, although they may have less than perfect information and possibly biased preferences.¹⁴ That said, decentralisation will present challenges when the gradient of human capital along the state hierarchy is steep, especially if a mismatch with that of private actors facilitates abuse or state capture.

The scope of citizen engagement may also have to be carefully delimited. A theoretical literature on pandering showed that whenever voters hold the wrong priors about policy, the choices of officials will be distorted.¹⁵ And research in political economy suggests that voters can hold the wrong priorities when they learn with mis-specified models, have trouble engaging in hypothetical thinking, or under-appreciate equilibrium effects.¹⁶

Bottom-up approaches create more direct channels of accountability and increase decentralisation. There are gains to reap—but bottom-up approaches also raise coordination challenges and make state capabilities more dependent on the capabilities of lower-tier agents and citizens.

III. Conclusion

HKN highlight aspects of state capabilities that present challenges shared with other policy domains. Future reflection should engage in the complementary exercise of identifying aspects that are distinct to building state capabilities. An advantage of the approach taken by HKN is that we can use established knowledge in political economy to identify critical tensions in the process of strengthening state capabilities. This should help build the diagnostic tools that the authors call for.

Notes

¹ I will use the terms ‘capacity’ and ‘capabilities’ interchangeably. The meanings are distinct, but they do not matter for the purposes of this note.

² See, for example, Dewatripont et al. (1999); Alesina and Tabellini (2007); Canes-Wrone et al. (2001); Maskin and Tirole (2004); Prat (2005); Besley and Smart (2007); Smart and Sturm (2013).

³ See, for example, Persson and Svensson (1989); Alesina and Tabellini (1990); Besley and Coate (1998); and Besley and Persson (2011).

⁴ See Alesina et al. (1992) for an early contribution regarding political budget cycles. The effect of term limits on policy choices and corruption has been highlighted by Besley and Case (1995) and Ferraz and Finan (2011), respectively.

⁵ Dal Bó and Rossi (2011).

⁶ See Barro (1973); Ferejohn (1986); and Avis et al. (2018).

- ⁷ Foy (2024).
- ⁸ Akhtari et al. (2022).
- ⁹ Cornick et al. (2018).
- ¹⁰ Rasul and Rogger (2018).
- ¹¹ Fernandez et al. (2022).
- ¹² Pahlka (2023).
- ¹³ See Besley (2005); Dal Bó and Finan (2018); Finan et al. (2017); and Besley et al. (2022) for reviews.
- ¹⁴ Duflo et al. (2018); Dal Bó et al. (2021).
- ¹⁵ See Canes-Wrone et al. (2001); Maskin and Tirole (2004); and Prat (2005).
- ¹⁶ See Esponda and Pouzo (2016); Esponda and Vespa (2014); and Dal Bó et al. (2018).

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