The Governance Report 2014

Executive Summary

How can states address current and future energy needs, keep apace of developments in communications, ensure societal welfare, or promote social integration? How can public services adjust to the challenges of changing demographics, climate change, or more immediately, fiscal austerity? What kind of administrative capacities are required of the state to meaningfully contribute to tackling these problems?

These questions are at the heart of debates about the contemporary state and are the focus of *The Governance Report 2014.* Though they are not novel, they assume new urgency in a context in which the size and role of the state are under scrutiny, and responsibilities and tasks are increasingly dispersed among many actors and levels. This questioning of the authority and capability of the state places the spotlight firmly on *governance*, i.e. the interdependent co-production of policies among state and non-state actors across different levels, and on *governance readiness,* i.e. the creation of conditions in which these actors can achieve active problem-solving.

The Governance Report 2014 highlights the contribution of bureaucracies or public administration to governance readiness. Such administrative systems matter as they are central to the design and provision of goods and services that 'real people' consume; they are the backbone of any governance regime. Thus, any discussion about governance readiness must ask what kind of administrative capacities might be required in different settings to address today's challenges.

The Governance Report 2014, prepared by a team of experts associated with the Hertie School of Governance, is the second in a series of annual reports, each highlighting particular governance challenges. Future editions will both present new analyses and track the development of the policy fields, innovations, and data presented here.

Administrative Capacities

As Martin Lodge and Kai Wegrich explain, administrative capacity is the set of skills and competencies expected of public bureaucracies so that they can contribute to problem-solving. Such capacity encompasses both the structural and procedural provisions that enable bureaucracies to perform particular functions and the individuals within these bureaucracies that are capable of meeting the expectations of their political masters and the wider public.

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The Report highlights four capacities:

- **Delivery capacity** deals with the frontline of policy, i.e. the resources required to make sure that the rubbish gets collected, the water supplied, or the post delivered. The new context characterised by governance among dispersed, heterogeneous actors at various levels and by performance-related targets challenges previous understandings of delivery capacity.
- **Regulatory capacity** refers to the way the powers of the state are used to constrain economic and social activities, and entails the presence of regimes that combine standard-setting with an apparatus that detects and enforces compliance.
- **Coordination capacity** is required to bring dispersed constituencies together. As states have dispersed power among many actors and levels, coordination capacity relies increasingly on boundary-spanners skilled in moderating highly contested negotiation processes.
- **Analytical capacity** involves forecasting and intelligence that inform policy-making on how systems are performing and what kinds of future demands and challenges are likely to emerge. To make sense of the massive quantity of information, analytical capacity requires decision-making about both 'who' to ask and 'what' to know.

While these four capacities feature in any system of governance, how they are organised and deployed will differ considerably depending on the context and the challenge to be met.

Meeting Today's Governance Challenges

To illustrate the importance of administrative capacities, Lodge and Wegrich consider four governance challenges, all of which represent a problem for which demand outstrips the capacity to supply services at the appropriate level of quality. For example:

- **Broadband infrastructure:** The problem of demand for broadband services outstripping supply involves defining standards for capacity and speed that can advance social and economic well-being and equal access; ensuring that these standards are met through investment and oversight; and determining the mix of financing arrangements and the extent to which cross-subsidising rural services should be encouraged.
- **Energy:** How can competing demands for investment, CO_2 emission reduction, and low prices for consumers (and industry) be accommodated? The inherent monopoly elements of the energy transmission network, and the considerable externalities associated with energy, reinforce the need for the state to remain central to energy governance and consider future demands, address technological uncertainty, steer investment through taxes and subsidies, and deal with regulatory issues about pricing.
- **Care for the elderly:** The governance challenge of elder care centres on three issues: how a financially sustainable basis for the provision of care for elderly people should be maintained; how the actual provision of care should be organised, be it through the state, charitable organisations, or private providers; and at what level (local, regional, or national) care should be financed, provided, or controlled.
- **Immigration:** Immigration represents a cross-domain governance issue involving employment, education, housing, health, and public participation and is hence shaped by a variety of actors that follow different rationales and agendas. Aligning such diversity is a matter of coordination. Moreover, street-level implementation is shaped by a bureaucratic landscape that is not necessarily ready to deal with diverse populations.

Each of these diagnoses hints at the kinds of administrative capacities that might be required to develop answers to the problem of matching supply and demand. However, this requires both an acceptance of the contested nature of the governance challenge itself, and a differentiated understanding of administrative capacities that points to inherent trade-offs, limitations, and resource constraints.

Governance Innovations and Administrative Capacity

Ramsey Wise, Kai Wegrich, and Martin Lodge introduce ten governance innovations, linking them to administrative capacities, i.e. how innovations can address capacity limits, what kind of administrative capacities are required for making governance innovations work, and what the impact of governance innovations on administrative capacities is. For example:

- **German broadband crowdfunding** initiatives respond to the state's inability to provide services to underserved areas (delivery capacity) or to regulate private providers who could do so (regulatory capacity). Such community-led efforts still require the state's regulatory and coordination capacities.
- The **Toronto Region Immigrant Employment Council** (Canada) seeks to overcome the state's inability to appropriately assess the diversifying needs of the population (analytical capacity) by improving recruiting mechanisms and building professional networks. A combination of analytical, coordination, and delivery capacities is needed to match immigrant skills to employment opportunities.
- **Climate Investment Programmes** (Sweden) coordinate dispersed local sustainability projects to achieve significant impact in reducing reliance on fossil fuels. While financial resources are important, analytical capacity within public administration is necessary to assess the (potential) impact of individual initiatives in the bigger picture.

The strong reliance of all these innovations on the state's administrative capacities suggests that public sector reform policies should take into account the critical role of public administration in making governance innovation work. Considering bureaucracy and politics as barriers to innovation is as unhelpful as it is misleading. Instead, policies that enhance administrative capacity to steer, facilitate, and coordinate governance innovations are required.

Governance Indicators: The Administrative Capacity Dashboard

To measure key aspects of administrative capacity as conceptualised in this Report, Piero Stanig presents the Administrative Capacity Dashboard, which captures the existence of formal institutional provisions typically associated with each of the four capacities, as well as the quality and outcomes of the administrative process. Preliminary analysis of the dashboard shows:

- **A positive correlation among capacities** after adjusting for level of development, implying that the four capacities are directly linked. Here, two phenomena might be operating. On the one hand, capacities might feed into each other, so that, for instance, increased analytical capacity improves delivery capacity; the capacity to coordinate improves regulatory capacity; and so on. On the other hand, one single, not directly observable, factor might determine the ability of states to build capacity. This latent factor explains patterns in all four administrative capacities.
- **Strong administrative capacity is not unique to advanced economies.** While OECD countries and Asian city-states tend to perform highly on most indicators, several emerging economies and developing countries also display high capacity, at least in some fields. One could conjecture that emerging economies owe their 'emerging' status to their capacity, especially in delivery and regulation.
- **The existence of formal institutional provisions does not necessarily result in good governance outcomes.** Indeed, the indicators point to the potential existence of functional substitutes for a Weberian bureaucracy. Some countries, e.g. China, Vietnam, and Indonesia, are able to achieve outcomes in specific policy areas that are better than one would expect based on the formal institutional framework. Further, a formally Weberian state apparatus is not a guarantee of good governance: some countries, e.g. India, have close approximations to what are traditionally considered 'good' institutions, but their outcomes are disappointing.

These and other findings are examined in greater detail in the Report. The full Dashboard, dataset, and methodological notes can be downloaded from the Report's website.

Recommendations

The Report puts the spotlight on public administration as the backbone of governance readiness. Lodge and Wegrich conclude with seven recommendations that emphasise the importance of asking questions so that a fruitful debate about administrative capacity requirements and, hence, public sector reform can be held.

1. Ask the central question: What capacities do bureaucracies need to ensure governance readiness?
2. Acknowledge the challenges of dispersion and the limits of bureaucracy.
3. To address major governance challenges, focus on demand and supply mismatches and capacity bottlenecks.
4. Move beyond checklist and scoreboard exercises towards adaptive learning.
5. Make debates on innovation problem-focused and consider administrative capacity implications.
6. Consider administrative capacities when balancing the tension between reform paradigms (and their supporters) and specialists in policy domains.
7. Combine the use of indicators with peer reviews.

In an age in which the capacity of states to deal with today's problems has, once again, become a central concern in the study and practice of politics and public administration, the issue of administrative capacity must play a central role.

The Governance Report 2014
is available from Oxford University Press
[http://ukcatalogue.oup.com/product/
9780198706618.do] and local bookstores.

A companion edited volume, *The Problem-Solving Capacity of the Modern State: Governance Challenges and Administrative Capacities,* edited by Martin Lodge and Kai Wegrich, is also available from OUP.

More information on governance, this Report, and other data and resources can be found at
www.governancereport.org

Also in the Governance Report series:
The Governance Report 2013
(Hertie School of Governance, Ed.; OUP)
Governance Challenges and Innovations:
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Core Contributors:
Martin Lodge, London School of Economics and Political Science (LSE)
Piero Stanig, Hertie School of Governance
Kai Wegrich, Hertie School of Governance
Ramsey Wise, Hertie School of Governance & Bremen International Graduate School of Social Sciences
Managing Editor:
Regina A. List, Hertie School of Governance

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Press and Contact:
Regine Kreitz
Head of Communications
Hertie School of Governance
Friedrichstr. 180
10117 Berlin
Germany
Phone +49 (0)30 25 92 19-113
Fax +49 (0)30 25 92 19-444
kreitz@hertie-school.org