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# COVID-19 and the Need for Dynamic State Capabilities: **An International Comparison**

*by Mariana Mazzucato, Rainer Kattel, Giulio Quaggiotto and Milica Begovic*



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# COVID-19 AND THE NEED FOR DYNAMIC STATE CAPABILITIES: AN INTERNATIONAL COMPARISON

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## Abstract

Early lessons from countries' responses to COVID-19 show the importance of investing in a combination of both long-term capacities and dynamic capabilities in the public sector, including the ability to meaningfully interact with other value creators in society such as the private sector and citizen innovators.

Drawing on examples from across emerging markets, the paper identifies a number of such capabilities, and argues that they will be critical for governments in the aftermath of the crisis and in rebuilding economies and societies.

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# Foreword by Mariana Mazzucato and Achim Steiner



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More than one year into the COVID-19 pandemic crisis, we are still far from grasping its long-term implications for the developing world, which are likely to be far-reaching and wipe out decades of progress on fighting poverty and gender inequality. As the global crisis continues, it triggers new issues such as vaccine inequity and escalating debt, presenting governments with an ever-growing list of interconnected challenges. It is still too early, therefore, to draw definitive lessons on the most effective responses to the pandemic.

But what we can already say is that some of the early black-and-white predictions about countries' abilities to manage the crisis did not hold true. For example, as this paper shows, many countries in the developing world have handled the sanitary and public-emergency response quite successfully, particularly if compared to more advanced economies. Meanwhile, in some developed countries, the hollowing-out of the public sector, whether due to outsourcing or privatization, have hindered the pandemic response.

This complex crisis has required that we revisit our mental models and resist easy dichotomies, such as between the state and the market. What matters is how different value creators come together, how they are governed, and what organizational capabilities they have.

Effective governance cannot be conjured up overnight but rather requires long-term investments: something for which UNDP and the UCL Institute for Innovation and Public Purpose (IIPP) have been strongly advocating. It is only a public sector that has developed a combination of long-term capacities and dynamic capabilities that is able to engage effectively with different sectors of society and the economy to carry out the comprehensive response needed to weather a pandemic.

This paper identifies some key capabilities as they emerged from governments' responses in the developing world. They include capabilities to: create dynamic safety nets for workers; design contracts that foster bottom-up experimentation so that public funds have a higher multiplier and crowding-in effect; yield a proactive relationship with data and digitalisation; and foster partnerships. The same combination will be crucial to build resilient and inclusive societies in the long term.

It is our hope that documenting these examples will encourage policymakers across the world to ask what can be done to take stock of the extraordinary efforts made by the public sector under condition of duress and turn them into a "new normal" where "agile stability" is invested in and placed at the center of government. Given many competing priorities and fiscal constraints, it will require forward-looking leadership to do so. Both our organisations stand ready to help.

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# Introduction: The role of the public sector in fostering resilience and a summary of key recommendations



*Government agencies and ministries came together, fully mission-driven; walls and turf boundaries were broken down. Everyone is thrown into the same mission, driven by the same purpose, and suddenly there are no silos.*

Leo Yip, Head of the Singapore Civil Service

The COVID-19 pandemic presents a massive challenge for societies, and specifically governments, worldwide. “COVID-19 is far more than a health or socio-economic crisis; it is also a governance crisis, testing not only the resilience of governance systems and public sector institutions to adapt, function, and innovate in their delivery of public services, but also exposing underlying vulnerabilities in the social contract.”<sup>2</sup> Governments in emerging markets are particularly tested, having to address dilemmas such as how to ensure compliance with social distancing in high-density areas like urban slums, how to provide social protection for returning migrant labourers, or how to tackle the compound effects of the pandemic and natural hazards (from locusts to typhoons).

The pandemic response also requires an unprecedented level of collaboration between public and private sectors domestically and internationally, from the race for a vaccine to rethinking global supply chains. One of the biggest lessons is that public-sector capabilities to manage a crisis of this proportion are dependent on the cumulative investments that a state has made in its capacities to govern and manage. These prior investments in the form of institutions, infrastructure, human resources and public-private partnerships provide the public sector with a greater set of options to choose from when facing emergency conditions such as a pandemic response. The pandemic has shown that capacities to provide ‘core government functions’ – such as the ability to raise adequate revenue, provide core executive coordination of key tasks, and establish public administrations to provide public services<sup>3</sup> – provide vital building blocks for agile crisis responses.

The crisis has also brought to light fundamental vulnerabilities in many societies, which are particularly evident in the gendered impacts of the pandemic: “Virtually every society and community depend on women for safety and resilience during the crisis, from essential care, childcare, domestic work, to maintaining other essential sectors such as retail and food supply. Women health care and community workers comprise more than 70 percent of the frontline pandemic workforce.”<sup>4</sup> The pandemic threatens to undermine key developmental gains of the last decades. Thus, governments’ responses should aim to build long-term resilience as capacities and capabilities to, “Protect people and planet; preserve gains across all the Sustainable Development Goals (SDGs); ensure equality; promote transparency,

<sup>2</sup> UNDP. (2020). Integrating Transparency, Accountability and Anti-Corruption in Socio-Economic Impact Analyse. Available at: <https://www.undp.org/content/undp/en/home/librarypage/democratic-governance/anti-corruption/integrating-transparency-accountability-and-anti-corruption-in-.html>

<sup>3</sup> UNDP. (2019). Do Fragile and Conflict-Affected Countries Prioritise Core Government Functions? Available at: <https://www.undp.org/content/undp/en/home/librarypage/democratic-governance/conflict-prevention/do-fragile-and-conflict-affected-countries-prioritise-core-gover.html>

<sup>4</sup> UNDP. (2020). Women Peace and Human Security: A Guidance Note on Parliamentary Engagement During and Post-Covid-19. Available at: <https://www.undp.org/content/undp/en/home/librarypage/womens-empowerment/Women-Peace-and-Human-Security-Covid-a-Guidance-Note-on-Parliamentary-Engagement-During-and-Post-Covid-19.html>



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accountability, participation, and collaboration; increase solidarity; and place the voice, rights and agency of people at the center.”<sup>5</sup>

Effective governance cannot be conjured up overnight and, while the crisis is serious for all, it is especially a challenge for countries that have ignored investments in both long-term capacities<sup>6</sup> and in what we can call the ‘dynamic capabilities of the public sector.’<sup>7</sup> One of the key aims of the current paper is to show why this combination – the need for both long-term capacities and dynamic capabilities – is highly relevant for building resilient and inclusive societies and economies, both in the developed and developing world.

Public-sector capacity is typically defined as the set of skills, capabilities and resources necessary to perform policy functions, from the provision of public services to policy design and implementation.<sup>8</sup> The public sector bears responsibility for the long-term resilience and stability of societies through developing and nurturing long-term capacities, and for agilely responding and adapting to changing environments through the dynamic capabilities nested in said capacities.<sup>9</sup> The pandemic has shown, first, that such ‘agile stability’<sup>10</sup> matters greatly in the public sector and, second, that there are areas in which

<sup>5</sup> UNDP. (2020). Checklist for a Human Rights-Based Approach to Socio-Economic Country Responses to COVID-19. Available at: [https://www.undp.org/content/undp/en/home/librarypage/democratic-governance/human\\_rights/checklist-for-a-human-rights-based-approach-to-socio-economic-co.html](https://www.undp.org/content/undp/en/home/librarypage/democratic-governance/human_rights/checklist-for-a-human-rights-based-approach-to-socio-economic-co.html) (Accessed 13 December 2020).

<sup>6</sup> Francis Fukuyama. (2020). The Pandemic and Political Order. It Takes a State. *Foreign Affairs*. Available at: <https://www.foreignaffairs.com/articles/world/2020-06-09/pandemic-and-political-order>.

<sup>7</sup> Mariana Mazzucato and Rainer Kattel. (2020). COVID-19 and Public Sector Capacity. *Oxford Review of Economic Policy*, 2020.

<sup>8</sup> Xun Wu, Michael Howlett and M. Ramesh, eds. (2018). *Policy Capacity and Governance: Assessing Governmental Competences and Capabilities in Theory and Practice*. London: Palgrave Macmillan.

<sup>9</sup> Rainer Kattel and Mariana Mazzucato. (2018). Mission-Oriented Innovation Policy and Dynamic Capabilities in the Public Sector. *Industrial and Corporate Change* 27, no. 5 (1 October 2018): 787–801. DOI: <https://doi.org/10.1093/icc/dty032>.

<sup>10</sup> Rainer Kattel, Wolfgang Drechsler and Erkki Karo. (2019). Innovation Bureaucracies: How Agile Stability Creates the Entrepreneurial State. UCL Institute for Innovation and Public Purpose. Available at: <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2019/dec/innovation-bureaucracies-how-agile-stability-creates-entrepreneurial-state>.

capacities and capabilities are critical for governments in the aftermath of the crisis and in rebuilding economies and societies, namely:

- Adapting and learning in the face of incomplete, at times conflicting, information and radical uncertainty;
- Aligning public services and citizen needs;
- Governing resilient production systems and capabilities to foster symbiotic public-private collaborations and tapping into citizen innovation;
- Capacity to govern data and digital, including handling the ‘infodemic’ while balancing human rights protection; and
- Inter- and intra-governmental learning and coordination (including at different levels of government, e.g., federal and local, inter-ministerial and international).

These capacities and capabilities not only allowed for a more effective response, but created the conditions for an unprecedented level of innovation in and by public organisations – from public procurement to repurposing of infrastructure – to tackle the emergency. Some developing countries have shown impressive capabilities in responding to the pandemic, leading to better outcomes than many developed countries.<sup>11</sup>

Conversely, the pandemic has also revealed that governments which neglected these core capacities and dynamic capabilities have limited options to deal with emergencies, as they are more prone to fall prey to (technological) solutionism (e.g., tracing apps advertised as a panacea), have limited negotiating

<sup>11</sup> Ngaire Woods. (2020). The brutal governance lessons of 2020. Project Syndicate. Available at: <https://www.project-syndicate.org/commentary/governance-lessons-from-covid19-explaining-us-uk-failure-by-ngaire-woods-2020-12>.



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power vis-à-vis corporates and struggle to galvanise all parts of society towards a coherent response. Indeed, the trend of outsourcing capabilities to the private sector, including consulting companies, presents a dangerous trend if it means such capabilities become weaker in the public sector. In the same way that we need public-private partnerships, we need to understand the capabilities in both the public and private sectors.

The question ahead is, therefore, what can governments do to create the conditions that foster both long-term capacities for stability and resilience, and dynamic capabilities for response and change, and reap what has been called the COVID-19 ‘innovation dividend’?<sup>12</sup> This working paper provides a set of concrete recommendations.

#### **In terms of long-term capacities, governments should:**

- Aim to build strong core government functions and necessary capacities such as competent public service, (digital) infrastructure for public-service delivery and transparent institutional frameworks for new social contracts. The social contracts should aim to deliver transformational changes nested in the SDGs as the yardstick for long-term resilience.
- Clearly articulate – in the form of a political consensus – how they aim to achieve long-term resilience and what is the public value they aim to provide. This helps to renegotiate the ‘deal’ between public and private actors, build capabilities to ‘design’ better public-private partnerships and enables ambitious agenda-setting and lays the foundations for new partnerships based on the ideas of public value and long-term resilience.
- Build institutions that enable the implementation of resilience-driven developmental plans. Governments can use the array of existing instruments (public procurement, policy missions, challenges, etc.) plus the new models emerging from the crisis to set clear directions for private-sector investment towards innovation systems that are based on sustainability, equality, protection of human rights and privacy and political impartiality.

#### **In terms of dynamic capabilities, governments should:**

- Build in-house capabilities and skills focused on adaptability and learning. These capabilities should be built both on an institutional level (i.e., through simulations, protocols for ongoing sensemaking and exploration of alternative futures, or deploying policy assessment frameworks built on knowledge diversity) and on an individual level through skills development and training.
- Governments should strive to democratise innovation: create new interfaces (e.g through public procurement) and diffusion mechanisms for citizen innovators to engage continuously with wider

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