POLICY BRIEF

Promoting social cohesion and convergence

Does Europe lead the way in institutional quality?

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Introduction

Upward convergence in economic and social conditions is essential for the stability of the European Union. An EU in which economic growth does not spread through all its major regions is likely to be challenged politically. Among the many factors influencing the economic and social convergence of the Member States is the quality of their institutions.

The quality of institutions is a broad concept, capturing laws, individual rights, and government regulation and services. It includes the quality of the process by which governments are selected, monitored and replaced, as well as the capacity of governments to effectively formulate and implement sound policies. It is a crucial determinant of the socioeconomic impact of policies, as it affects the way in which policies are delivered.

The quality of institutions also has an important role in attracting foreign investment and in part explains the economic development of individual countries. Limited administrative capacity and poor quality of institutions may undermine economic growth, obstructing the functioning of welfare systems and weakening trust in institutions among citizens. Most importantly in an EU context, administrative capacity and the quality of institutions may drive the rate of absorption of EU funds among the Member States and the regions within them. This is relevant at present in relation to the funding provided by the NextGenerationEU programme and the accompanying Recovery and Resilience Facility (RRF).

For these reasons, examining the dynamics of upward convergence in the quality of institutions can help to provide a better understanding of the economic and social performance of the EU Member States. It may also flag up possible problems with the disbursement of EU funds that could obstruct the implementation of the NextGenerationEU programme.

Against this background, the aim of this policy brief is to investigate the trends in and dynamics of institutional quality in the EU Member States. Based on data from the six Worldwide Governance Indicators (WGIs) produced by the World Bank, the analysis provides evidence on the extent to which Member States are converging or diverging on key indicators of institutional quality.

Policy context

The COVID-19 pandemic that hit Europe in March 2020 ended seven years of consolidated economic and social recovery from the economic crisis of 2008–2012. The pandemic was a health emergency that led to the deaths of more than 1.2 million European citizens. It also resulted in a major economic and social shock to the Member States, with profound and far-reaching consequences.

While the pandemic battered the EU, it also spurred an unprecedented level of cooperation and joint decision-making, with the Member States rallying to fend off the health threat through the joint procurement of vaccines. They also acted quickly to minimise the pandemic's economic and social consequences, aiming to prevent a rise in disparities across countries that would lead to a surge in divergence (Carraro et al, 2022).

In 2020, the EU launched NextGenerationEU, a broad set of instruments designed to help repair the immediate economic and social damage caused by the COVID-19 pandemic and to make Europe more resilient to current and future challenges. The RRF is the centrepiece of the package, providing €723.8 billion in loans and grants to support reforms and investments undertaken by the Member States (European Commission, 2020).

NextGenerationEU, and the RRF, offers unprecedented opportunities for the Union and its Member States to make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. To benefit from the support of the facility, Member States submitted their national plans to the European Commission, each documenting the reforms and investments envisaged up to the end of 2026. As access to RRF funds is performance based, fulfilment of agreed milestones towards achieving the reforms and investments set out in the plans is a condition that must be met to unlock regular payments. Public institutions – including their quality and administrative capacity – are central to ensuring access to the financing facilities established by NextGenerationEU and to turning national plans into reality.

The quality of institutions and their administrative capacity, however, varies considerably across the Member States. These differences may potentially affect economic growth and social progress, possibly leading the Member States to diverge in performance. Experience shows that administrative capacity and institutional quality are drivers of the rate of absorption of EU funds in the Member States and their regions, and the absorption capacity is poor among those that are most in need of such funds. Furthermore, one country's poor performance, and not just in economic terms but also in the social domain, may affect the situation of others. This is especially true for countries that share a common currency because the risk of economic and social spillovers between countries is greater.

Institutional quality is highly relevant in the current context of the NextGenerationEU programme, where poorly run public institutions could undermine the effectiveness, efficiency and sustainability of this tool, meaning it might not meet initial expectations. In some countries, there is a risk that funding might not be fully used if administrations are unable to initiate adequate proposals because of capacity constraints; these countries would thereby fail to meet the targets of the national implementation plans.

One of the aims of NextGenerationEU is to improve institutional quality by reinforcing the administrative capacity and efficiency of Member States through the introduction of modern managerial practices and the simplification of administrations. Hence, achieving upward convergence in institutional quality should be seen both as an incentive for economic growth and a fundamental precondition for the effective management of NextGenerationEU funds if their impact is to be truly maximised, thus ensuring a more cohesive EU.

Key findings

- The EU is at the forefront of institutional quality globally, as measured by the six Worldwide Governance Indicators (WGIs) produced by the World Bank: Voice and accountability, Political stability, Government effectiveness, Regulatory quality, Rule of law and Control of corruption.
- Despite the EU being among the best performers at global level, and having sustained an upward trend overall in its WGI scores over 1996–2008, its performance has deteriorated as a whole in the years following the 2008 financial crisis.
- In the pre-crisis period of 1996–2008, the EU Member States converged upward in the Regulatory quality, Rule of law and Control of corruption indicators, meaning their performance on these indicators improved on average while the disparities between them narrowed. Downward convergence was evident in the areas of Voice and accountability, Political stability and Government effectiveness, indicating declines in performance combined with reduced disparities.
- Since the 2008 crash, there has been a downward trend in all WGIs, together with an increase in disparities among Member States in respect of the Voice and accountability and Regulatory quality indicators.
- Over 1996–2020, and regardless of whether performance on an indicator improved or declined, disparities in all the WGIs reduced, meaning that the Member States are now more similar in terms of institutional quality than they were in 1996.
- They differ in the quality of their institutions, nevertheless. The Nordic and western European Member States are the best performing, while Bulgaria and Romania particularly are struggling. The performance of the Baltic states over the period of analysis has been remarkable; their steady improvement in many of the indicators has led them to overtake the Mediterranean Member States, whose scores have declined.
- The drivers of convergence vary among the indicators, and this is revealing about trends in governance in the EU. For the Political stability indicator, convergence was driven mainly by a deterioration in the performance of the best-performing countries. For Regulatory quality and Control of corruption, convergence was driven by the poorest-performing countries catching up with the best performers.
- An investigation of the association between key socioeconomic indicators and the WGIs confirms a positive link between institutional quality and economic growth. In particular, gross domestic product (GDP) per capita and the employment rate are strongly positively associated with the WGIs. A negative association was found between the WGIs and risk of poverty and social exclusion. These findings imply that the higher the quality of institutions, the higher the employment rate and GDP per capita and the lower the risk of poverty and social exclusion.
- Trust in national government is strongly positively correlated with the WGIs, whereas the correlation between trust in the EU and the indicators is weak.

Exploring the evidence

The focus of this policy brief is the investigation of trends in standards of governance and upward convergence of the Member States in institutional quality.

Having effective and high-quality institutions is paramount for the success not just of individual Member States but of the EU as a whole. Good institutions facilitate access to EU funds and enable progress in the socioeconomic indicators that are the targets of EU policy and of the European Pillar of Social Rights, such as the employment rate, the rate of people at risk of poverty and social exclusion (AROPE), and the NEET rate (the percentage of young people not in employment, education or training). The perception of institutional quality within a society is interwoven with social trust and the health of democracies. This has a tangible effect on people's lives – for example, countries with effective governments, strong rule of law and higher regulatory quality were better at adopting lockdown measures (Alfano and Ercolano, 2022).

While more data sources have become available in recent times, the analysis of the quality of institutions is not easy due to lack of data and problems in comparable definitions and data availability. The analysis in this policy brief uses the six WGIs developed by the World Bank (Kaufmann et al, 2010). These are composite indicators that aim to capture six dimensions of governance quality: Voice and accountability, Political stability and absence of violence or terrorism, Government effectiveness, Regulatory quality, Rule of law and Control of corruption. Box 1 provides a definition of each indicator.

The WGIs are based on the compilation of the perceptions of a very diverse group of respondents collected in a large number of surveys and other cross-country assessments of governance. Some of these instruments capture the views of companies, individuals and public officials in the countries being assessed as well as representatives of non-governmental organisations and others (Kaufmann et al, 2010). While often criticised

Box 1: What do the Worldwide Governance Indicators measure?

Voice and accountability: Captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as perceptions of freedom of expression, freedom of association and a free media.

Political stability and absence of violence or terrorism: Captures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.

Government effectiveness: Captures perceptions of the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies.

Regulatory quality: Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of law: Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.

Control of corruption: Captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the 'capture' of the state by elites and private interests.

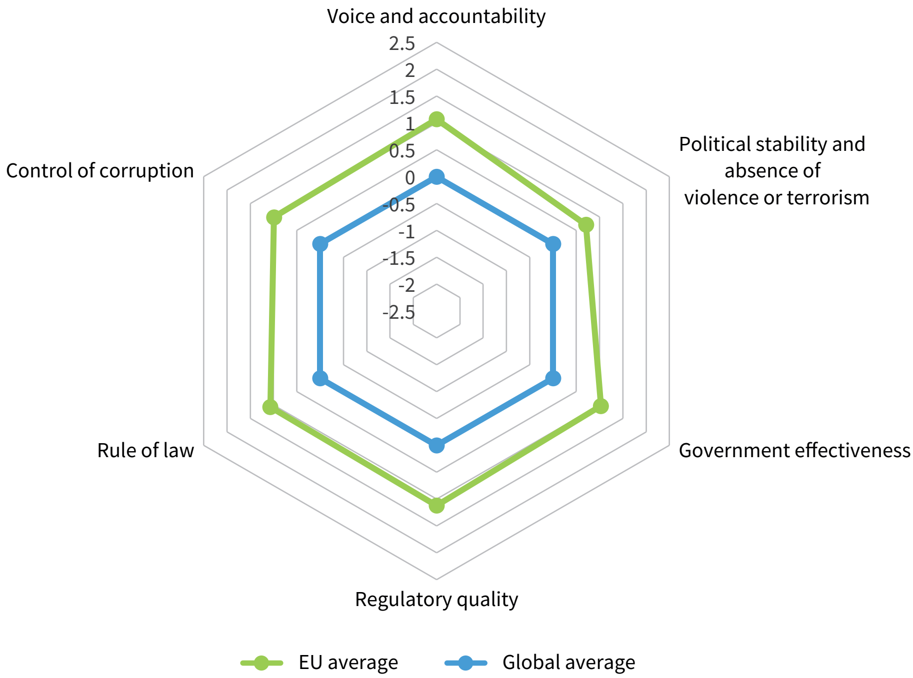
for the large number of data sources considered, which may undermine the comparability of the data, there is widespread agreement that, albeit imperfectly, the six indicators provide a good and reliable measure of the quality of governance around the globe (Kaufmann et al, 2007; Thomas, 2009; Langbein and Knack, 2010).

The analysis of this policy brief begins with an overview of institutional quality around the world and in the EU in particular. It then looks in detail at the performance of the EU Member States on each of the six indicators, investigating trends and upward convergence from 1996 to 2020, placing an additional focus on the differences before and after the 2008 financial crisis.

A global overview

Europe has been at the global forefront in terms of having well-developed institutional frameworks for many decades (Briegel and Bruinshoofd, 2022). While the double-dip recession between 2008 and 2013 may have weakened institutional quality, with the increase in economic and social disparities among Member States and the decrease of trust in national and European institutions, the latest data from the WGIs (2020) confirm the strength of European institutions compared with the global average (Figure 1). The quality of institutions in Europe outperforms the global average on all six indicators, albeit to a lesser extent for the Political stability and absence of violence or terrorism indicator.

Figure 1: EU performance on WGIs compared with global averages, 2020



Note: *WGI scores vary from +2.5 to -2.5.*
Source: *World Bank; Eurofound analysis*

Institutional quality nevertheless varies considerably across the continent and the globe. Analysis of the data highlights interesting similarities among the Member States and other areas of the world, showing a heterogeneous picture of the EU in terms of institutional quality. It also reveals that EU and eurozone membership do not automatically correspond to higher institutional quality in comparison with other areas of the world. When a grouping exercise was performed,[1] six country clusters were identified, and the 27 EU Member States were spread across three (Figure 2).

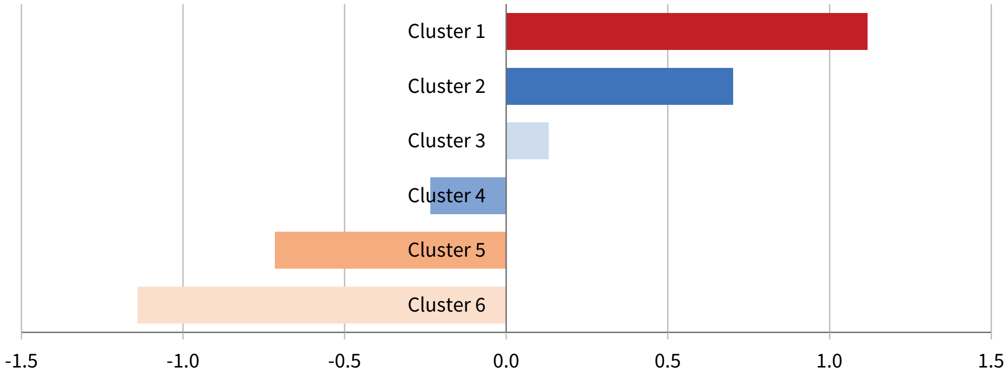
Cluster 1 groups the best-performing countries on the six WGIs. This cluster encompasses, among others, the United States, Canada, Australia and most western developed countries, including, in Europe, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands and Sweden.

Cluster 2 includes the second-best performers on the WGIs, with performance well above the global average. It is mainly composed of southern European Member States (Cyprus, Greece, Italy, Malta, Portugal and Spain) and most of the eastern European Member States (Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia). It contains a small number of non-EU countries.

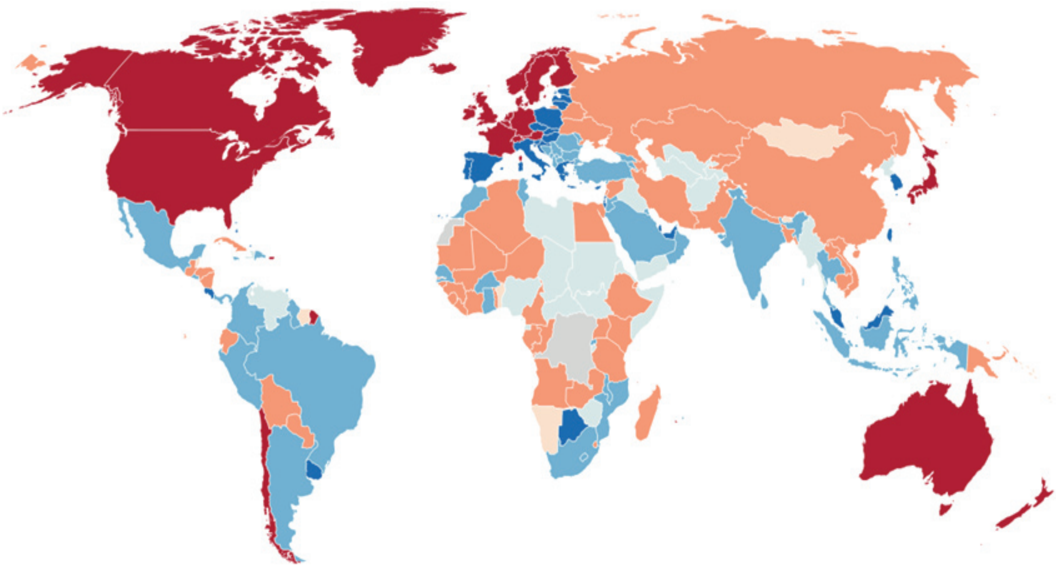
1 The analysis used *k*-means clustering on all countries over the period 1996–2020.

Figure 2: Clustering of countries according to the WGIs

a. Average WGI values by country cluster



b. Correspondence of countries to clusters



Note: k-*mean clustering*
Source: *World Bank; Eurofound analysis*

Clusters 3 and 4 group those countries that have a WGI performance slightly above or below the overall average. They include India, Turkey, several Central and South American countries, southern African countries, and some Far Eastern countries. Two European Member States, Bulgaria and Romania, are also in these clusters.

Finally, Clusters 5 and 6 group the countries with the lowest performance on institutional quality, far below the global average. These clusters mainly include sub-Saharan and North African countries as well as most Asian countries, including Russia and China.

Institutional quality in Europe

The analysis described in the previous section identified three levels of institutional quality across the EU Member States. To better understand the dynamics of institutional quality in Europe, as measured by the WGIs, the three clusters into which the Member States fell were further refined, dividing them into six subgroups according to their performance on institutional quality, their geographical location and broad similarities in their welfare systems.

- **Nordic**: Denmark, Finland and Sweden
- **Western**: Austria, Belgium, France, Germany, Ireland, Luxembourg and the Netherlands
- **Mediterranean**: Cyprus, Greece, Italy, Malta, Portugal and Spain
- **Central and Eastern**: Croatia, Czechia, Hungary, Poland, Slovakia and Slovenia
- **Baltic**: Estonia, Latvia and Lithuania
- **Other Eastern**: Bulgaria and Romania

For each indicator, the averages of the six groups over 1996–2020 were examined and their statistical internal consistency validated. The results confirm a tiered Europe, with a clear difference in performance among the six groups over time. While this holds for all indicators, there are notable differences in the trends in the six groups on the Political stability indicator.

The charts in Figure 3 plot the trends of the six groups and the EU on each WGI.

An outperforming Nordic group

On average, the Nordic countries have the highest level of institutional quality in Europe, registering the highest performance on all the indicators. While there was some deterioration in their scores on the Government effectiveness and the Political stability indicators between 1996 and 2020, they maintained their leading position in Europe throughout the period. The countries in this group show similar and consistent performance since 1996, with Finland improving most, especially on the Government effectiveness, Regulatory quality and Rule of law indicators.

A consistent Western group

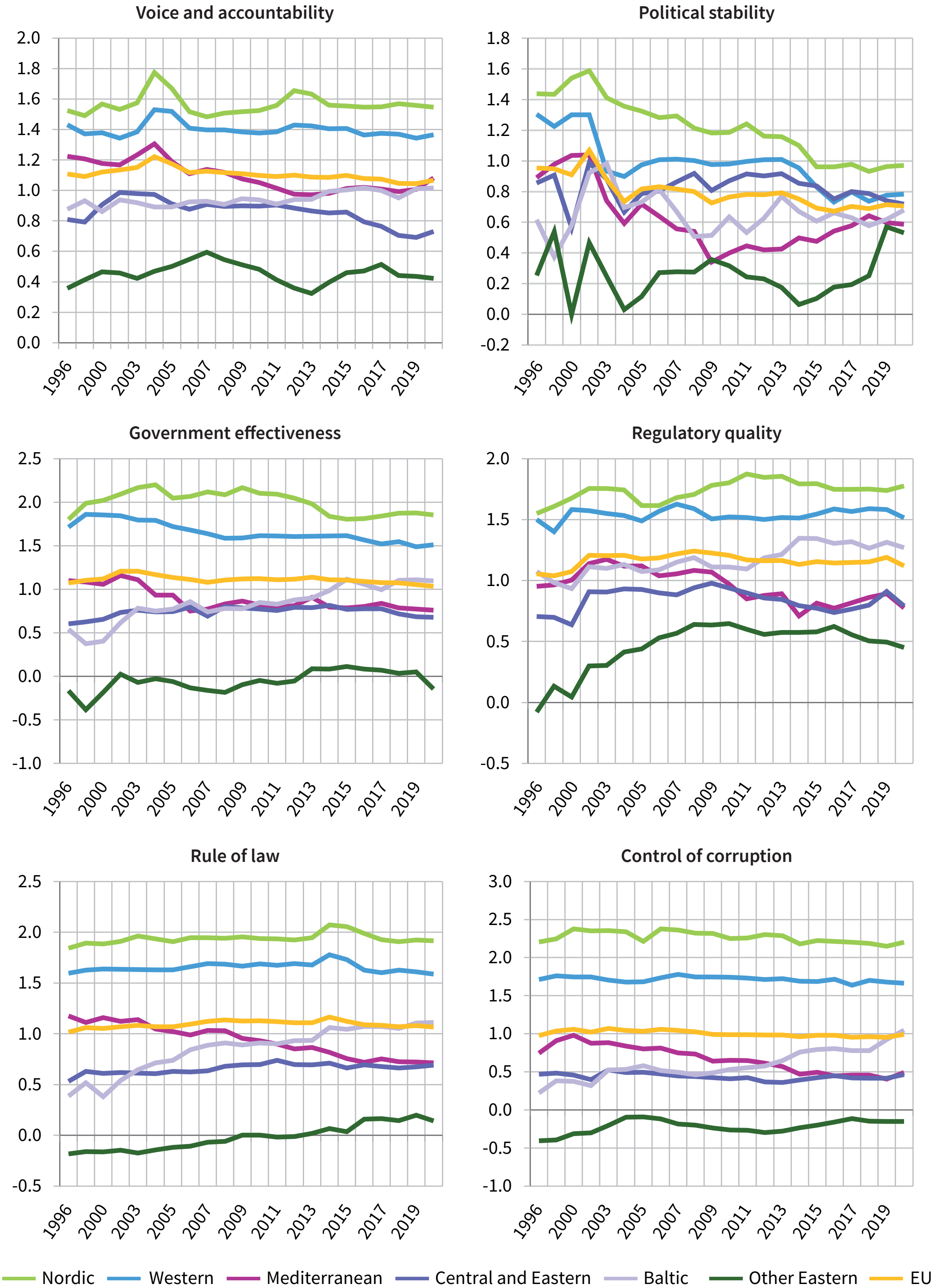
The Western group has the second-highest level of institutional quality, which, on average, is below only the Nordic levels on all the indicators over 1996–2020. As in the Nordic cluster, there was some deterioration in performance on the Government effectiveness and Political stability indicators. At country level, Luxembourg and the Netherlands performed better than the other countries in the group on most of the indicators, while Belgium and France often performed below average.

The surging Baltic group

The group composed of Estonia, Latvia and Lithuania recorded the strongest improvement on all six WGIs between 1996 and 2020. This is particularly true for the Rule of law, Control of corruption, Government effectiveness and Regulatory quality indicators. For all these indicators, the countries in the Baltic group had much lower levels of performance in 1996 than those of the Mediterranean group. Over the period studied, however, the performance of Baltic states steadily improved and, since the 2008–2012 crisis, this group has outperformed the Mediterranean group, becoming the third-best performing group in 2020.

At Member State level, Estonia consistently outperforms Latvia and Lithuania, achieving the highest scores for all indicators. The performance of the countries in the areas of Control of corruption, Rule of law and Regulatory quality are particularly notable: on these indicators, their performance doubled, or even tripled or more, during 1996–2020.

Figure 3: Trends in the WGIs across six European country groups



Source: *World Bank; Eurofound analysis*

A deteriorating Mediterranean group

In contrast to the Baltic group, the Mediterranean group recorded deteriorating performance on most of the indicators over 1996–2020. While it started in third place among the six groups at the outset, the ratings of this group decreased, in particular on the Rule of law, Control of corruption, Government effectiveness and Regulatory quality indicators. Although its initial scores were higher than those of the Baltic and the Central and Eastern groups, the Mediterranean group was outperformed by the Baltic group over time. Its performance now aligns with that of the Central and Eastern group. This is in line with Eurofound findings that after the financial crisis of 2008, the Member States of southern Europe were overtaken by some of the eastern European Member States in various socioeconomic and institutional measures (Eurofound, 2021).

At country level, Malta and Portugal are the best-performing countries in the group, while the lowest values were recorded for Greece and Italy. These latter two countries deteriorated most strongly, halving their performance in most of the WGIs between 1996 and 2020.

A stable Central and Eastern group

The Central and Eastern group is characterised by stability of performance on most of the indicators, with no remarkable improvement or deterioration recorded across 1996–2020. There was little fluctuation in the Government effectiveness, Rule of law and Control of corruption indicators. While a small improvement was recorded in Regulatory quality, a slight deterioration was recorded for Voice and accountability. Overall, this group remains in fifth place in terms of performance, alongside the Mediterranean group. Very similar values in both groups were recorded for the Regulatory quality, Rule of law, Control of corruption and Government effectiveness indicators. At country level, Czechia and Slovenia performed best, while Croatia and Hungary had the lowest values for most of the indicators.

The outliers of the Other Eastern group

As the global analysis reveals, Bulgaria and Romania have a different dynamic with regard to institutional quality from the rest of the EU. While it has the poorest performance, there is also a considerable gap between this group and the other groups in relation to the Government effectiveness, Rule of law and Control of corruption indicators. However, some improvement was recorded in Voice and accountability and Regulatory quality. Although the performance of the two countries is similar, Romania usually performs slightly better than Bulgaria on all the indicators.

Convergence in institutional quality

There is broad consensus in the literature that significant divergence in cross-country institutional quality may, in the short term, undermine the smooth functioning of the EU, in general, and of the European Monetary Union, in particular (Pérez-Moreno et al, 2020). Countries with lower-quality institutions may become more vulnerable to adverse shocks, making the EU more susceptible to crisis. Moreover, in the long term, institutional differences lead to divergence in economic growth and per-capita income across Member States, consolidating and enlarging the existing differences in living standards between the core and periphery of the EU (Kollias and Messis, 2021).

Large differences in quality of governance may also undermine access to EU funding schemes and to the NextGenerationEU funds. Therefore, upward economic and social convergence can only be achieved in a sustainable way if disparities in institutional quality are reduced and upward convergence in quality of governance is achieved. For these reasons, while the analysis of WGIs shows a tiered Europe in terms of institutional quality, it is important to understand whether the Union has improved in terms of institutional quality and whether disparities among Member States have decreased over time.

Measuring convergence

As part of its work programme, Eurofound has done substantial work on the economic and social convergence of EU Member States, developing a methodology and a monitoring tool to measure convergence. Eurofound (2018) defined upward convergence for a given indicator as an improvement in the EU average level, moving towards a policy target or societal consensus, combined with a reduction in disparities among Member States. While upward convergence is the most desirable outcome, other patterns are possible:

- upward divergence (an improvement in performance and an increase in disparities)
- downward convergence (a decrease in performance and a reduction in disparities)
- downward divergence (a decrease in performance and an increase in disparities)

This policy brief presents the results of an analysis of convergence of the Member States in their performance on the WGIs, carried out using the methodological toolbox developed by Eurofound.[2] Three measures of convergence were investigated:[3]

- an overall catching up of poorer-performing Member States with those in the lead (beta-convergence)
- an overall decrease in disparities across Member States (sigma-convergence)
- an overall decrease in the distance of Member States from the best performer (delta-convergence)

Only the results of the analysis of the overall decrease in disparities across Member States, sigma-convergence, are presented. The results of the analysis using the other measures (delta- and beta-convergence) are in line with the sigma-convergence results and are available on request. The analysis is presented for all six indicators and is performed for the period 1996–2020. A special focus is placed on comparing the trends and dynamics recorded before and after the 2008 crisis.

In the charts illustrating the trends, the average indicates the score on the indicator for the EU as a whole, with a rising average indicating improved performance, an upward trend. Convergence is measured by the standard deviation: a decrease in the standard deviation indicates convergence while an increase indicates divergence.

Summary of findings

While changes in the WGIs were generally moderate over time, upward convergence was found for the Regulatory quality, Rule of law and Control of corruption indicators. For these indicators, average values grew while disparities decreased over 1996–2020. Conversely, for Voice and accountability, Political stability and Government effectiveness, downward convergence – a decrease in average values accompanied by a decrease in disparities across the Member States – was recorded. (Table 1 summarises the findings of the convergence analysis.)

In addition to these general patterns, further insight was provided by analysing what happened to institutional quality in the subperiods before and after the 2008 financial crisis. There are concerns that the crisis may have weakened the process of convergence in quality of governance among EU countries.

The results seem to confirm the validity of these concerns. While downward convergence was recorded in both periods for Political stability, the other five indicators show very different dynamics before and after the 2008 crash.

2 Available on the Eurofound website in R and Stata at https://www.eurofound.europa.eu/data/convergence-hub/convergence-methodology

3 An in-depth methodological discussion on the measurement of convergence is available in the report *Upward convergence in the EU: Concepts, measurements and indicators* (Eurofound, 2018).

Table 1: Summary of convergence analysis of WGIs over 1996–2020, 1996–2008 and 2008–2020

	1996–2020	1996–2008	2008–2020
Voice and accountability	Downward convergence	Upward convergence	Downward divergence
Political stability	Downward convergence	Downward convergence	Downward convergence
Government effectiveness	Downward convergence	Upward divergence	Downward convergence
Regulatory quality	Upward convergence	Upward convergence	Downward divergence
Rule of law	Upward convergence	Upward convergence	Downward convergence
Control of corruption	Upward convergence	Upward convergence	Downward convergence

Source: *Eurofound*

During the pre-crisis period, 1996–2008, upward convergence was recorded for Voice and accountability, Regulatory quality, Rule of law and Control of corruption. Upward divergence – an increase in performance accompanied by an increase in disparities among Member States – in Government effectiveness was found. Post crisis, no signs of upward convergence were detected for any indicators. During this period, all the WGIs show a downward trend, indicating a decrease in performance. More specifically, downward convergence was recorded for four indicators (Political stability, Government effectiveness, Rule of law and Control of corruption) and downward divergence – a decrease in performance accompanied by an increase in disparities – was recorded for Voice and accountability and Regulatory quality.

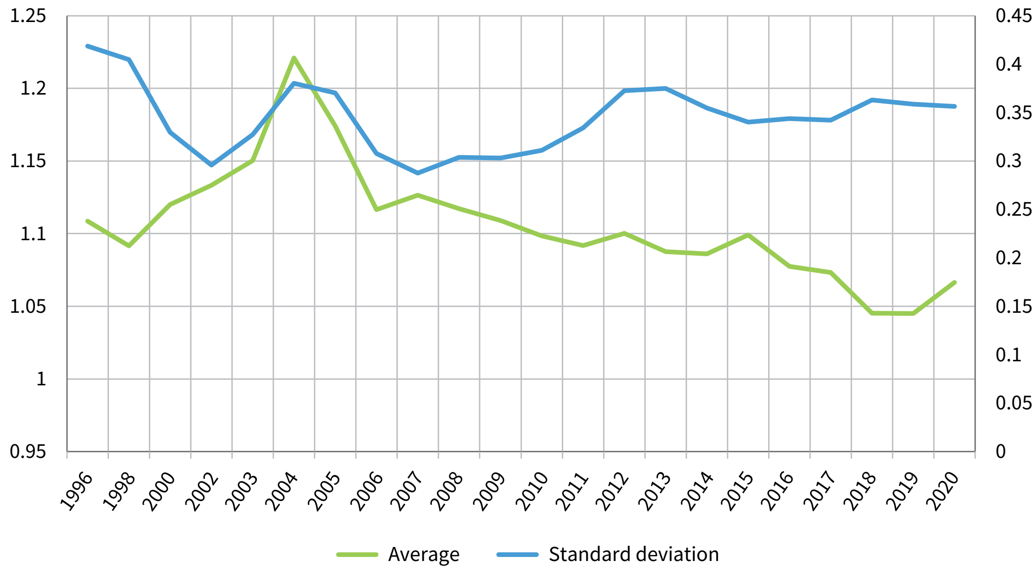
Given the importance of ensuring that well-functioning institutions of comparable quality exist across the EU and its Member States, the decreasing performance on all six indicators over 2008–2020 is concerning because of its possible implications for economic and social convergence in the long term. This should trigger Member States into acting to improve the quality of their institutions and how they are perceived. In fact, high-quality governance across Member States could lead to balanced and strong economic growth, while fostering trust in institutions among European citizens, helping to address their growing disenchantment and discontent.

Voice and accountability

Downward convergence of the Member States was found for the Voice and accountability indicator when scores from 1996 to 2020 were compared. In 2020, the best performances on this indicator were recorded in Denmark, Finland, the Netherlands and Sweden, with the lowest values in Bulgaria, Croatia, Hungary and Romania. For this indicator, the convergent trend was an outcome of the combined effect of declining performance by the best-performing countries and improving performance among the poorest-performing countries.

The analysis of the pre- and post-2008 periods reveals that the trend was one of upward convergence in 1996–2008 and downward divergence in 2008–2020. The decrease in average performance after 2008 was much higher than the moderate increase before 2008. While most of the countries that improved in the pre-crisis period saw a decline after the 2008 crisis, Croatia, Estonia, Germany, Latvia and Romania increased their scores throughout the two periods. Scores for Austria, Finland, Greece, Italy, Lithuania and the Netherlands increased after the 2008 crisis, having decreased in the pre-crisis period. For the remaining countries, performance decreased across the two periods.

Figure 4: Downward convergence in the Voice and accountability indicator, 1996–2020



Source: *World Bank; Eurofound analysis*

Political stability and absence of violence or terrorism

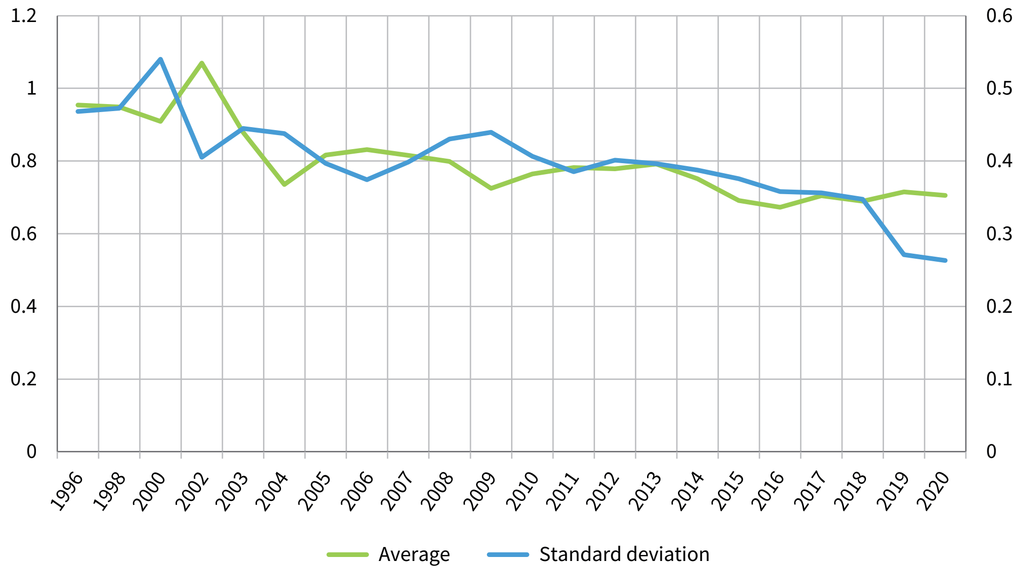
The WGIs are highly correlated; the three that are most closely correlated are Rule of law, Control of corruption and Government effectiveness, with very similar trends in the averages across countries. The Political stability indicator, however, is the least correlated with the others and shows somewhat different dynamics.

For this indicator, the pattern was one of downward convergence over 1996–2020. In 2020, the countries with the highest levels of political stability were Ireland, Luxembourg, Portugal and Sweden, and the lowest values were recorded for Cyprus, France, Greece and Spain. During the entire period, the scores of the great majority of countries decreased, with the exceptions of Bulgaria, Croatia, Lithuania and Spain, the scores of which increased. The largest decreases were recorded for Belgium, Italy, Germany, the Netherlands and Slovenia.

The convergent trend was driven by the decrease in the performance of those countries that had higher scores in 1996. Their decreases across time were relatively stronger than the decreases of the poorest-performing countries.

Unlike the other indicators, the dynamic of the Political stability was one of downward convergence in both subperiods 1996–2008 and 2008–2020. The decrease in the average was larger in 1996–2008, while disparities among Member States decreased more in 2008–2020. It is notable that Spain's score increased from 1996 to 2008, compensating for the substantial decline in 2008–2020. Furthermore, after the 2008 crisis, a remarkable improvement in the indicator was recorded for the Baltic states, Bulgaria and Romania, while during the same period, the Nordic and western countries showed a steady decline.

Figure 5: Downward convergence in the Political stability indicator, 1996–2020



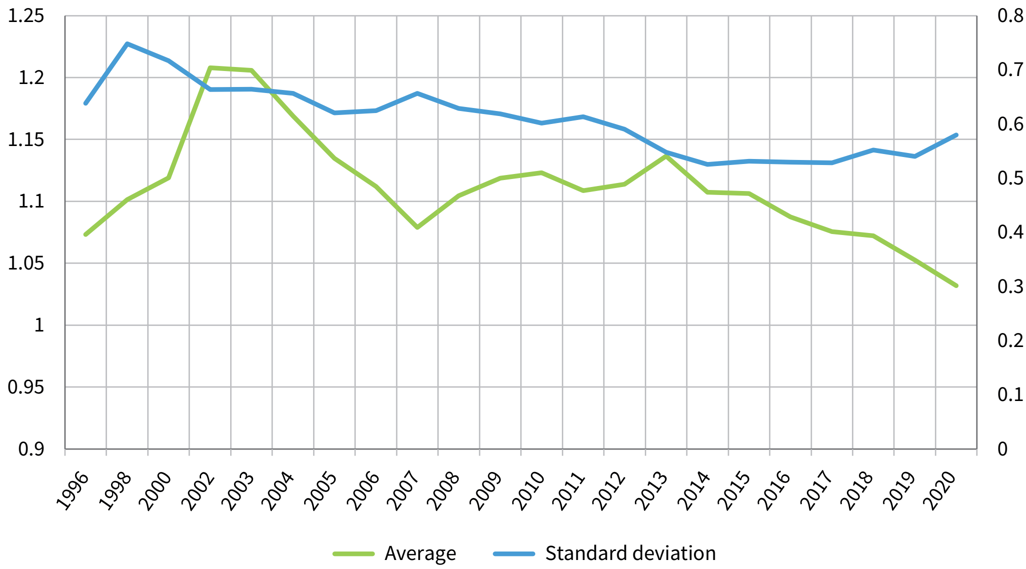
Source: *World Bank; Eurofound analysis*

Government effectiveness

Member States converged downward on Government effectiveness from 1996 to 2020. In 2020, Denmark, Finland, Luxembourg and the Netherlands performed best on this indicator, while Bulgaria and Romania performed worst, showing a significant gap between them and the other EU Member States. Over the full period, most of the eastern European countries increased their performance, with the notable exceptions of Bulgaria, Hungary and Poland. Except for Denmark, Malta and Sweden, the performance of all the countries in the Nordic, Western and Mediterranean groups deteriorated. The convergent trend in the indicator was a result of the combined effect of declining performance in the best-performing countries and improving performance in the poorest-performing countries over the entire period.

Looking at the periods before and after the 2008 crash, the analysis reveals that upward convergence took place in 1996–2008, followed by downward convergence in 2008–2020. The decrease in average performance after 2008 was much higher than the moderate increase in 1996–2008. Most countries improved during 1996–2008, but their performance decreased after 2008 crisis. The Baltic group is a notable exception to this trend, as the scores of the countries in this group increased steadily across the two periods. Conversely, the ratings of Belgium, Germany, Greece, Hungary, Ireland, Poland, Portugal and Spain deteriorated substantially across the two periods.

Figure 6: Downward convergence in the Government effectiveness indicator, 1996–2020



Source: *World Bank; Eurofound analysis*

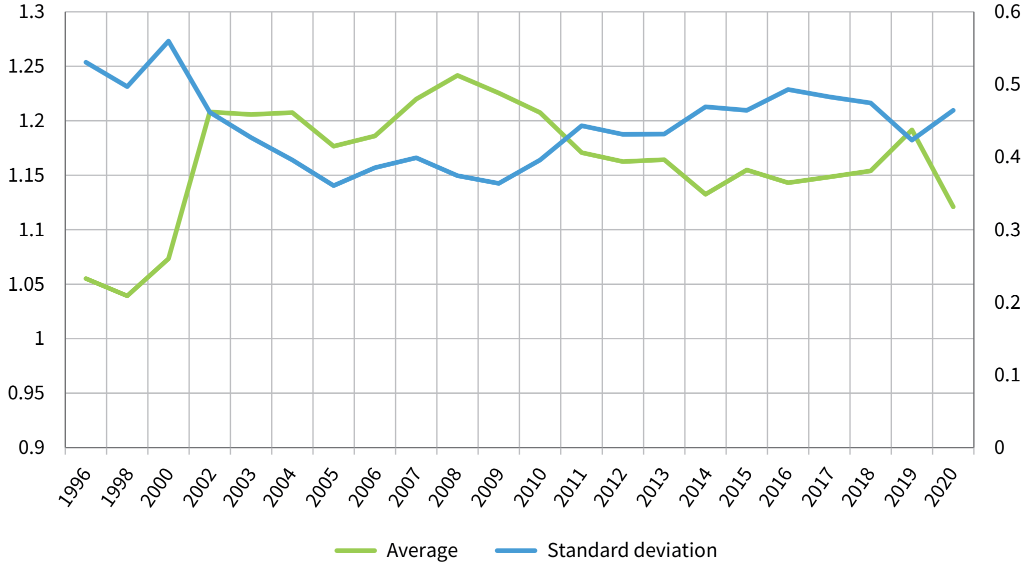
Regulatory quality

During 1996–2020, Member States converged upward on the Regulatory quality indicator. In 2020, the best performers were Denmark, Finland, Luxembourg and the Netherlands, while the poorest performers were Croatia, Hungary, Italy and Romania. Most countries improved on this indicator over the full period. The highest increases were recorded for Bulgaria, Croatia, Estonia, Lithuania and Romania and the largest decreases for Cyprus, Hungary, Italy and Spain.

The convergent trend was driven by those countries with the lowest scores in 1996 improving their performance over time relatively more than the best-performing countries.

The analysis of the two subperiods shows upward convergence of Member States in 1996–2008 and downward divergence in 2008–2020. Overall, the improved performance in the pre-crisis period is larger than the deterioration following 2008. While the scores of the great majority of the Member States increased during 1996–2008, this was not the case for Austria, Luxembourg, the Netherlands, Portugal and Slovenia. After the financial crisis, the scores of most countries fell except for Czechia, Estonia, Finland, Germany, Latvia, Luxembourg, Malta, Poland, Slovenia and Sweden. Interestingly, regulatory quality fell in Austria, the Netherlands and Portugal in both periods.

Figure 7: Upward convergence in the Regulatory quality indicator, 1996–2020



Source: *World Bank; Eurofound analysis*

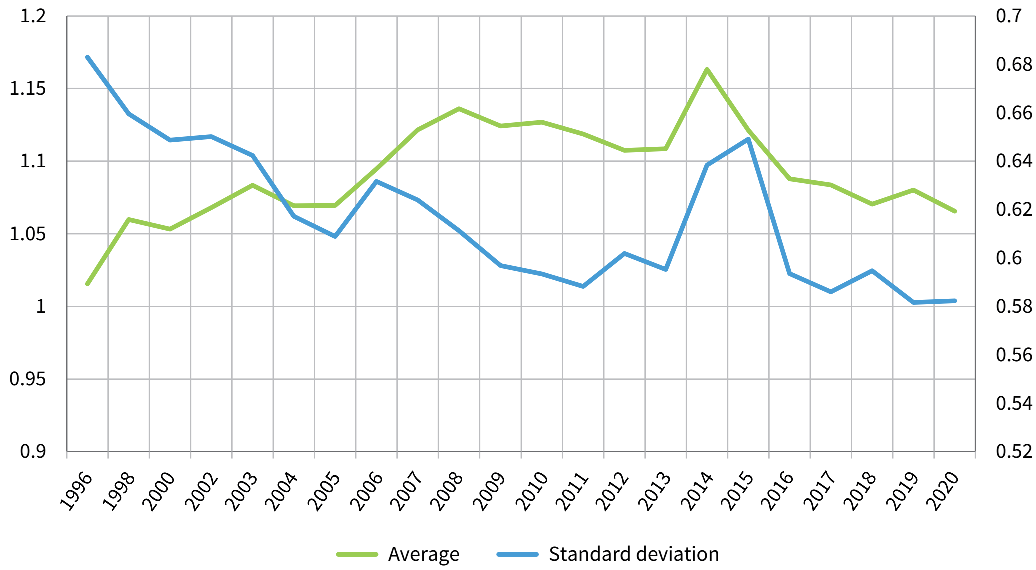
Rule of law

Upward convergence of the Member States in Rule of law was recorded for 1996–2020. In 2020, the three Nordic countries and Luxembourg performed best on this indicator, while Bulgaria, Croatia, Greece and Italy performed worst. Over 1996–2020, the performance of all the Mediterranean countries decreased considerably, as did the performance of France, Germany, Hungary and Poland. The ratings of the countries in the Nordic and Baltic groups as well as Bulgaria and Romania increased.

The convergent trend is driven by the poorest-performing countries improving more than the best-performing countries, which saw a more limited increase, or even a decrease, in their scores.

Upward convergence was recorded for 1996–2008 followed by downward convergence for 2008–2020. Overall, the increase recorded in the pre-crisis period was larger than the decrease after the crash. While the great majority of the Member States improved their performance during 1996–2008, this was not the case for the Mediterranean countries, except for Cyprus and Malta, nor for Belgium, Poland and Slovenia. After the 2008 crash, scores fell in all the Mediterranean countries, except for Portugal, as well as those in the Western group, except for Belgium. Conversely, scores increased in all the Central and Eastern group countries, except for Hungary and Poland, as well as in the Baltic group and Bulgaria and Romania.

Figure 8: Upward convergence in the Rule of law indicator, 1996–2020



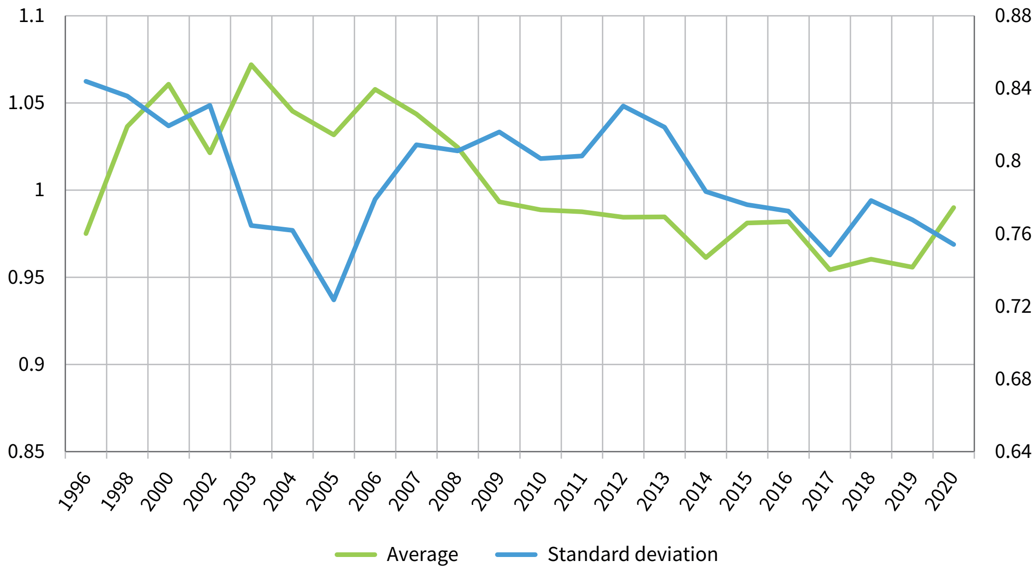
Source: *World Bank; Eurofound analysis*

Control of corruption

For the Control of corruption indicator, comparison of scores from 1996 to 2020 indicates upward convergence. In 2020, Denmark, Finland, Luxembourg and the Netherlands performed best on this indicator, while the poorest performers were Bulgaria, Greece, Hungary, and Romania. Over the entire period, the scores of most Member States decreased. However, the Baltic states as well as Bulgaria, Croatia, Romania and Slovakia showed impressive improvement in their performance, driving up the EU average and driving convergence in this domain during 1996–2020.

Analysis of the pre- and post-crisis periods reveals that upward convergence took place in 1996–2008, followed by downward convergence in 2008–2020. The decrease in average performance after 2008 was much higher than the moderate increase in 1996–2008. While many countries improved their performance over 1996–2008, the decrease recorded in 2008–2020 period was driven especially by France, Ireland, the Netherlands, the Nordic countries and the Mediterranean countries, with the exception of Italy. Conversely, the Baltic states and most of the eastern European countries, except for Bulgaria, Hungary and Slovenia increased their scores in 2008–2020.

Figure 9: Upward convergence in the Control of corruption indicator, 1996–2020



Source: *World Bank; Eurofound analysis*

Association of WGIs with socioeconomic indicators

This section examines the associations between the six WGIs and a selected set of socioeconomic indicators (bearing in mind that correlations cannot be used to infer any causal relationships). A correlation analysis was performed between the six indicators and GDP per capita, the employment rate, the AROPE rate, trust in national government and trust in the EU.

Table 2 shows the statistically significant correlations of these socioeconomic indicators with the WGIs. Due to data availability, the period of observation was restricted to 2008–2020.

Table 2: Correlation of the WGIs and selected socioeconomic indicators

	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
GDP per capita	0.77	0.48	0.72	0.70	0.74	0.78
Employment rate	0.54	0.50	0.64	0.66	0.62	0.60
AROPE	-0.53	-0.58	-0.58	-0.48	-0.54	-0.51
Trust in national government	0.65	0.55	0.63	0.70	0.65	0.66
Trust in the EU	-	0.21	-	0.21	-	0.11

Note: *Blank cells were not significant at* p < *0.05.*

The strongest positive relationship was found between GDP per capita and the WGIs. The largest correlation coefficients in the table are between GDP per capita and Control of corruption and GDP per capita and Voice and accountability. Similarly, the employment rate is positively associated with all WGIs, most strongly with Regulatory quality and least with Political stability. The AROPE rate is inversely correlated with all the WGIs and has the strongest association with Political stability and Government effectiveness. These findings imply that the higher the quality of institution, the higher the employment rate and GDP per capita and the lower the AROPE rate.

A positive correlation of comparable magnitude was found for trust in national government and the six WGIs. This correlation is strongest for Regulatory quality and weakest for Polical stability. By contrast, trust in the EU has the weakest correlation with the WGIs.
A positive, statistically significant correlation was found only with Political stability, Regulatory quality and Control of corruption.

Interestingly, Political stability again behaves differently from the other WGIs in that it is less strongly correlated with all the socioeconomic indicators except for the AROPE rate. This relationship seems to imply that when more people are at risk of poverty or social exclusion, political stability is perceived to be lower.

Policy pointers

- Sustainable upward economic and social convergence is increasingly seen as fundamental for the stability of the EU and for fostering further integration and cohesion among the Member States and regions. Upward convergence in the EU is a long-term process that can be affected by several factors. Among them, the quality of institutions plays a crucial role.
- The analysis shows the EU to be a global leader in institutional quality, scoring high on the six WGIs. Notwithstanding this significant achievement, performance on all the indicators has not risen consistently. For the period 1996–2008, upward trends were found only for the Regulatory quality, Rule of law and Control of corruption indicators, while trends were downward in the areas of Voice and accountability, Political stability and Government effectiveness. While disparities in the performance of Member States reduced overall, the 2008 financial crisis and subsequent recession drove a deterioration in scores on the WGIs. This finding should sound an alarm bell about the resilience of institutions in the Member States.
- Institutional quality is a key driver of economic performance at all levels, from local to national, due to its role in ensuring correct and timely implementation of macroeconomic reforms, in driving productivity growth and in attracting foreign investment.
- The quality of institutions is also key in determining access to and the effectiveness of EU transfers and funds. Countries and regions with higher institutional quality and stronger administrative capacity may access EU funds and maximise the growth-enhancing effects of EU funds more successfully. For this reason, improving institutional quality should be seen as not only an incentive for economic activity to flourish but also a fundamental precondition for the effective management of and access to the NextGenerationEU funds.
- The analysis in this policy brief highlights that the reliability and quality of public institutions vary widely among the countries of the EU, with notable implications for diverging economic and social growth rates. Six groups of countries

were identified, each of them with their own levels and dynamics of institutional quality. Considerable gaps in institutional quality between the best and the poorest performers in the EU were found.

- While discussions on making Europe more resilient are often focused on setting up emergency mechanisms and funds, more attention should be dedicated to ensuring long-term upward convergence in institutional quality in the EU. This would constitute an additional instrument to achieve similarly resilient economic and social structures in the EU. In this regard, the inclusion of the improvement of institutional quality as an aim of the NextGenerationEU programme, by means of reinforcing Member States' administrative capacity and efficiency, is very important. This would enhance the quality of governance in all Member States and would equip them to better address present and future adverse economic and social shocks.
- Notwithstanding its importance, measuring institutional quality is not easy, given the scarcity of good-quality data and the lack of a proper conceptual framework behind their collection. While the six WGIs provide a good and reliable dataset, they mainly reflect perceptions of the quality of governance and not how institutions are really working. For these reasons, investing in the production of new data to measure the quality of institutions should be a priority to better understand the dynamics, drivers and implications of institutional quality.

Resources

All Eurofound publications are available online at www.eurofound.europa.eu

Eurofound topic ‘Promoting social cohesion and convergence’:
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The quality of institutions is a key factor in achieving upward economic and social convergence in the EU, playing a fundamental role in growing the economy, attracting foreign investment, ensuring the implementation of policies and reforms, and successfully accessing EU funds. The fitness for purpose of public institutions is particularly relevant at present with the implementation of the NextGenerationEU programme, as poor institutional quality could prevent access to funds and undermine the effectiveness of the programme itself.

This policy brief presents the results of an investigation into upward convergence in the EU in respect of the six Worldwide Governance Indicators developed by the World Bank. While the results show that Europe remains at the forefront of global institutional quality, there has been a deterioration since the 2008 financial crisis. Action is needed in the area of public governance to reverse this trend.

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