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[...]

Accompanying the document

**Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions
on the 9th Cohesion Report**

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BETTER GOVERNANCE

The level of trust in national and local governments across the EU has increased over the past few years, including over the COVID-19 pandemic period, with local and regional governments trusted more than national ones.

At the same time, legal and democratic institutions that function well are necessary to ensure democratic stability and respect for fundamental rights in Europe and trust in public institutions. The 2024 edition of the European Quality of Government Index clearly shows that wide disparities still exist across EU regions, with less developed regions lagging behind and their performance worsening since 2021.

Public procurement procedures that involve only a single bidder or no calls for bids at all are potentially exposed to corruption and fraud. Public procurement contracts awarded to a single proposer appear to be more numerous in less developed regions in the EU than in others.

The digitalisation of public authorities across the EU has the potential to improve transparency, to encourage interaction between governments and people, and so to increase public trust. Online interaction, however, varies markedly between EU regions and according to the latest data is lowest in the less developed regions.

Policy reforms have made the EU more business-friendly over recent years. Regional competitiveness appears to be higher in regions with lower barriers to accessing finance, less burdensome administration of taxes, and lower perceived corruption.

In a context in which substantial disparities still persist across EU regions in several respects, tackling the structural obstacles to development entails targeted policy measures at the sub-national level. The European Semester process, which has identified these obstacles in many cases, can play an important role in reducing these disparities.

National reforms can be adapted to the specific features of individual regions, as for instance in areas such as healthcare and education, where regional and local authorities are at the forefront of provision.

The European Semester has highlighted in recent years the disparities still in place across regions, often identifying the structural factors preventing convergence. Addressing such factors, and considering the sub-national dimension in the European Semester, is instrumental in reducing such disparities.

Chapter 7

Better governance

1. Good institutions are crucial for economic development

Institutions, that are transparent, accountable, respect the rule of law, and have effective governance structures, have a positive effect on the functioning of governments¹ at all levels and, ultimately, on economic development and the impact of public investment, including that funded under Cohesion Policy².

Institutional trust is a multi-dimensional concept and provides a measure of how people perceive the quality of public institutions in democratic countries³. The level of trust in national, regional and local governments across the EU has increased over the past few years, including during the COVID-19 pandemic, with local governments trusted more than national ones. In 2023, regional and local authorities of the EU enjoyed the trust of 53 % of their residents, as against only 32 % who trusted national governments⁴.

High-quality institutions provide a stable and predictable environment for economic activities. They establish respect for the rule of law, protect property rights, and ensure contracts are enforced. When businesses and individuals have confidence in the legal framework and institutions, they are more likely to invest, innovate, and engage in productive activities.

Good institutions promote effective governance and accountability. Transparent and accountable institutions help combat fraud and corruption, nepotism and favouritism, all of which can hinder

economic development. Strong institutions establish checks and balances, promote fair competition, and ensure that resources are allocated efficiently, creating a more conducive business environment. Fraud and corruption – in particular – are a significant impediment to the efficient functioning of local governments. When they are minimised, resources tend to be allocated more fairly and effectively, ultimately benefiting the whole community. Lower fraud and corruption also lead to a more favourable environment for investment and economic development, leading to job creation and increased prosperity⁵.

The 2023 Eurobarometer survey on corruption shows that it remains a serious concern for people and businesses in the EU. It indicates that 70 % of people believe that corruption is widespread in their country and 45 % consider that the level of it had increased in the past three years. Some 60 % of people think that their government's efforts to combat corruption are not effective. In addition, 63 % of companies in the EU consider that corruption is widespread in their country and 50 % that corrupt individuals or businesses are unlikely to be caught, or reported to the police or prosecutors⁶. In May 2023, the Commission put forward a proposal to establish stronger rules to combat corruption in both the EU and worldwide⁷.

Good institutions provide a framework for effective public administration, including transparent budgeting, procurement procedures, and regulation. By reducing bureaucratic hurdles, along with fraud and corruption, they enable resources to be

¹ Acemoglu and Robinson (2010); Kettner and Rodríguez-Pose (2018).

² Rodríguez-Pose and Garcilazo (2015).

³ OECD (2022); Brezzi et al. (2021).

⁴ Source: Standard Eurobarometer 99 (2023).

⁵ Charron et al. (2014); Gründler and Potrafke (2019).

⁶ Special Eurobarometer 534 on corruption (2023) and Flash Eurobarometer 524 on business attitudes towards corruption in the EU (2023).

⁷ European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2023).

allocated to their most productive uses, promoting economic efficiency and competitiveness.

The rule of law guarantees fundamental rights and respect for EU values, supports the full and correct application of EU legislation, and promotes an investment-friendly business environment. It is an integral part of the democratic identity of the EU and essential for its functioning.

While the EU is recognised as having high standards for the rule of law, upholding them requires constant monitoring. Since 2020, the Commission in its annual Rule of Law Report has provided an assessment of significant developments across Member States in respect of four key elements of the rule of law: the justice system, the anti-corruption framework, the pluralism and freedom of the media, and the checks and balances incorporated in institutions. While specific rule of law challenges exists in many EU Member States, the report has become a key driver for change and positive reforms. In fact, 65 % of the recommendations issued in 2022 have been, either fully or partially, addressed. At the same time, concerns about the legal system remain in some Member States⁸.

In parallel with the report, the EU justice scoreboard gives an annual overview of comparative data on the independence, quality and efficiency of national judicial systems in Member States. For example, a 2023 Eurobarometer survey⁹ showed that the general public's perception of judicial independence had improved since 2016 in 15 Member States. Compared with 2022, it had improved in 12 Member States but declined or

remained unchanged in another 12. Another Eurobarometer survey¹⁰ also carried out in 2023, shows that the proportion of companies considering the judiciary to be independent had increased in 12 Member States compared with 2016, though it had fallen in 13 compared with 2022.

Taking a broader perspective, both conceptually and geographically, the Rule of Law Index produced by the World Justice Project¹¹ provides an aggregate indicator aiming to quantify perceptions on the rule of law around the world, and over time¹². The 2023 edition covers 142 countries and jurisdictions, including all EU Member States, all of which, except Bulgaria and Hungary, score above 60 %¹³.

A significant part of Cohesion Policy funding over the years has gone to strengthening institutions within Member States, helping to finance investment in key areas such as public administration, judiciary, rule of law, and public procurement systems. Funding has been channelled into capacity-building, administrative modernisation, and training programmes to improve the functioning of institutions. For the current programming period, 2021–27, around EUR 13 billion has been allocated to supporting Member States via technical assistance¹⁴, including EUR 2.3 billion specifically for reinforcing the administrative capacity to implement Cohesion Policy programmes, for example through actions identified in strategic roadmaps^{15,16}. The Commission also provides technical assistance support to Member States for strengthening the administrative capacity of programme authorities. Technical support is provided

8 European Commission (2023a).

9 Flash Eurobarometer 519 on the perceived independence of national justice systems in the EU among the general public.

10 Flash Eurobarometer 520 on the perceived independence of national justice systems in the EU among companies.

11 <https://worldjusticeproject.org/rule-of-law-index/>.

12 The index is an aggregate measure of the extent to which countries adhere to the rule of law in practice. It incorporates nine basic concepts, or aspects: limited government powers; absence of corruption; order and security; fundamental rights; open government; effective regulatory enforcement; access to civil justice; effective criminal justice; and informal justice. See: Botero and Ponce (2011).

13 A recent statistical audit performed on the 2021 edition of the index confirms that the rule of law index is a reliable tool, and that the framework is statistically coherent and robust. See: Kovacic and Caperna (2022).

14 Technical assistance is available to help managing authorities (MAs) implement Commission-funded programmes and can be used to pay for: preparation; management; evaluation; monitoring; audit and control; administrative capacity-building of programme authorities, beneficiaries and partners; and information and communication.

15 Roadmaps for administrative capacity building have been developed in 15 Member States. **Chapter 7: Better**

16 Source: Cohesion Open Data Platform, available at: <https://cohesiondata.ec.europa.eu>.

to Member States, through the Technical Support Instrument (TSI), to improve the efficiency and quality of public administration and justice and to tackle, among other things, fraud and corruption. The long-term vision for rural areas¹⁷ underlines the importance of access to high-quality public services in rural areas.

In addition, for the 2021–2027 period ‘enabling conditions’ have been introduced into the legislative framework, notably in respect of the Charter of Fundamental Rights (which includes judicial independence), and on public procurement in relation to the implementation of EU funding. These imply that the Commission may only reimburse Member States for expenditure¹⁸ under the Cohesion Policy funds once these conditions have been fulfilled.

The European Semester process has been instrumental in encouraging Member States to prioritise institutional reforms and to address shortcomings in public administration, anti-corruption measures, and the effectiveness of judicial systems. Over the years, the process has identified many of the

structural factors hindering sustainable economic development in the EU, pointing to the need for high-quality institutions, efficient public administration, and a healthy business environment through the establishment of an effective legal framework, and Member States have been invited to tackle these factors through Country Specific Recommendations.

2. Monitoring and benchmarking the quality of institutions

2.1 The European Quality of Government Index (EQI)

The quality of regional government can significantly affect the overall economic performance and stability of regions. A regional government that functions well can create a favourable business environment, attract investment, and promote economic development through policies that support entrepreneurship, innovation, and competitiveness. High-quality institutions can also help to ensure that resources are allocated efficiently,

Box 7.1 The European Quality of Government Index at the sub-national level

The European Quality of Government Index (EQI)¹ is the first measure to enable governance in regions within and across EU Member States to be measured and compared.

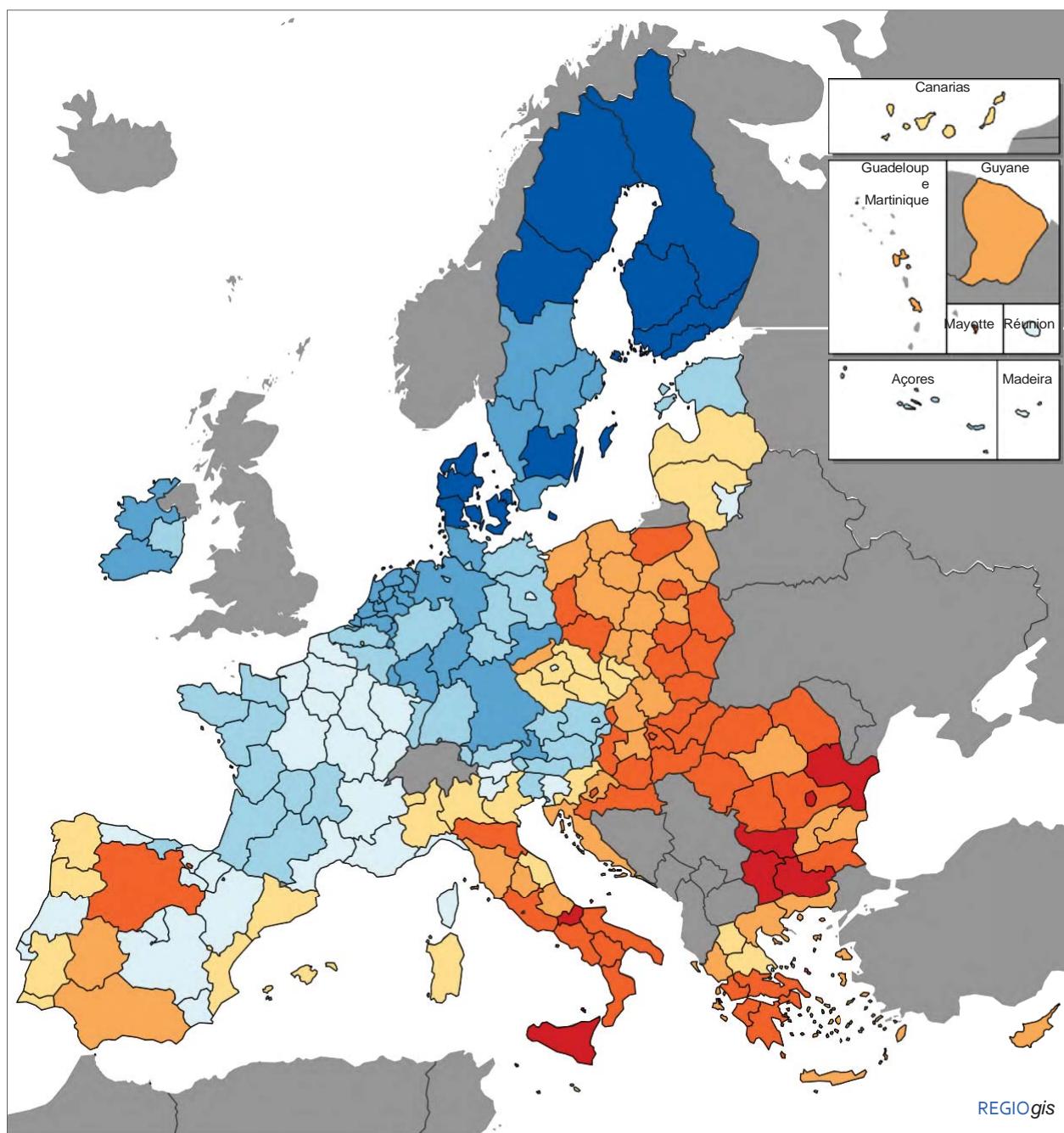
The index has been produced by the Quality of Government Institute at Gothenburg University for the European Commission since 2010. It enables the quality of government to be measured at sub-national level, and its impartiality, efficiency, and freedom from corruption to be assessed and compared across regions (Map 7.2). The index is based on a large survey of individuals who are asked

various public services (education, healthcare, and law enforcement) are impartially allocated and of good quality. The aim is to provide researchers and policymakers with a means to better understand how the quality of governance varies within countries and over time. A high-quality government is, therefore, defined as one that combines high impartiality, good public service delivery, and low corruption. The 2024 EQI provides data for 218 NUTS 2 (NUTS 1 for Germany and Belgium) regions in the EU, as well as a time series of regional data for a common sample of regions over the four waves of the survey. The data are standardised with a

1 For more details on its methodology, see: European Quality of Government Index, University of Gothenburg. <https://www.gu.se/en/quality-government/qog-data/data-downloads/european-quality-of-government>

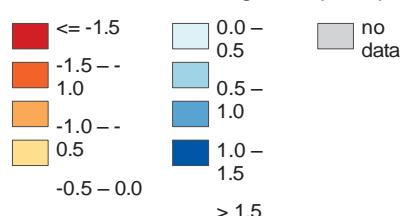
17 Rural vision – European Union (europa.eu) https://rural-vision.europa.eu/index_en.

18 When enabling conditions are not fulfilled at the time of submission of a payment application to the Commission for the specific objective concerned, the related expenditure will not be reimbursed from the Union budget until the Commission assesses those enabling conditions as fulfilled.



Map 7.1 European Quality of Government Index, 2024

Standard deviation, range from poor quality (negative) to high quality (positive)



EU = 0

Note: Scores are expressed in z-scores, and the EU average is therefore equal to 0. Positive (negative) values reflect a quality of government that is higher (lower) than the EU average.

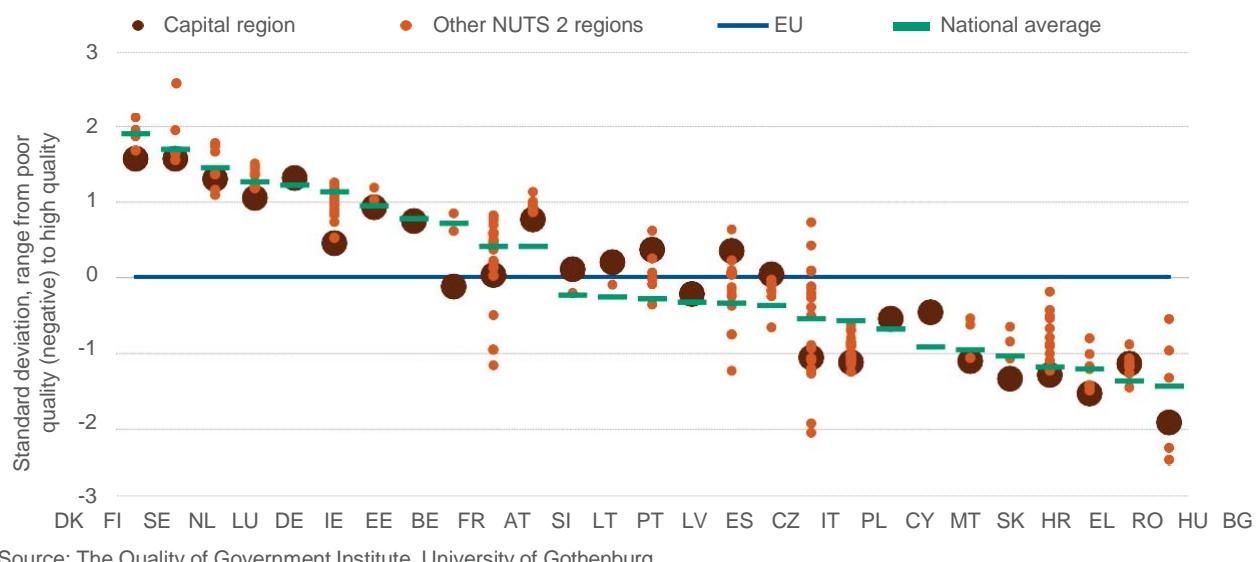
All countries at the NUTS 2 level except Belgium and Germany, which are at the NUTS 1 level.

Source: The Quality of Government Institute, University of Gothenburg.

0 500 km

© EuroGeographics Association for the administrative boundaries

Figure 7.1 European Quality of Government Index, 2024: regional variation by Member State



Source: The Quality of Government Institute, University of Gothenburg.

including for investment in infrastructure, which is crucial for economic development. Regional governments can assist economic integration and co-operation by facilitating trade, investment, and infrastructure links between regions, contributing to their development and integration into global markets¹⁹ (Box 7.2).

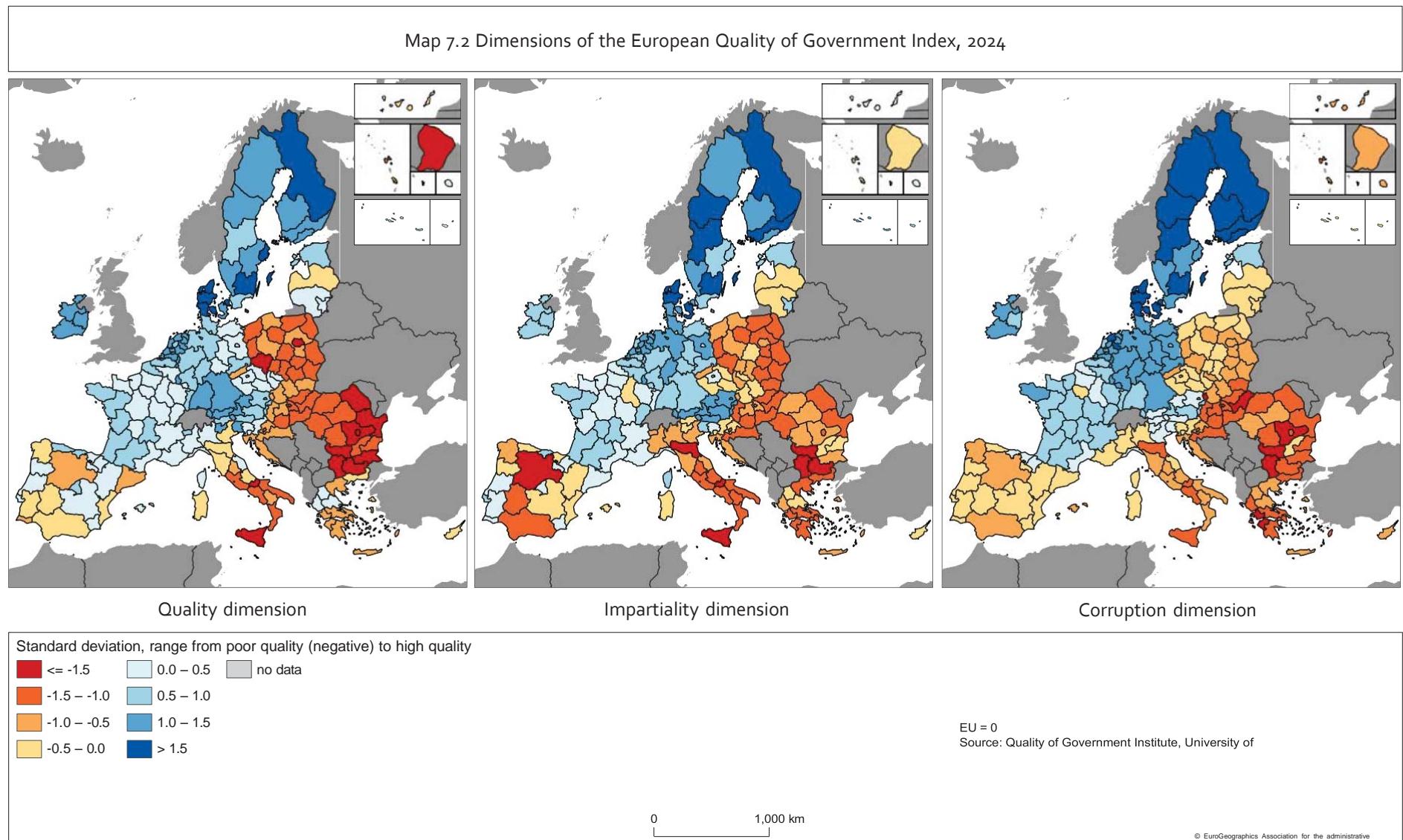
Over the past two decades, there has been a surge in research activity to assess the quality of institutions across countries, and more recently within them, focusing on corruption, the impartial application of the rule of law, and the effectiveness of public administration. The EQI at regional level has been published five times since 2010 and has had a wide impact on research on economic geography, and on entrepreneurship and innovation in EU regions (Box 7.1).

The picture shown by the 2024 index is consistent with previous editions, with the north-western area of the EU performing better than the southern and eastern parts (Map 7.1 and Map 7.2). There are marked differences between regions in Bulgaria, Greece, Italy and Spain (Figure 7.1). In France, the large within-country difference is mainly due to the low scores in the NUTS2 outermost regions.

Over the period 2010–2017, there were significant improvements in the quality of government in the Baltic countries, most of Poland, Germany, the Netherlands, Croatia, and some regions in Romania and Bulgaria (Map 7.3). By contrast, there was a deterioration in some regions in Austria, in Cyprus, in regions in southern Greece, Hungary, some regions in Italy, Spain and Portugal. In the years between 2017 and 2024 (Map 7.4) the quality of government worsened in all Polish regions, as it did in many regions in Hungary. On the other hand, there was an improvement in the index over this period in many regions in Italy, as well as in regions in Bulgaria, Greece and Romania.

On average, less developed regions score significantly below the EU average in all years, and while they improved up until 2017, they worsened over the next seven years. For transition regions, scores fluctuated over the five waves, but worsened relative to the EU average between 2021 and 2024 (Table 7.1).

19 Barbero et al. (2021).



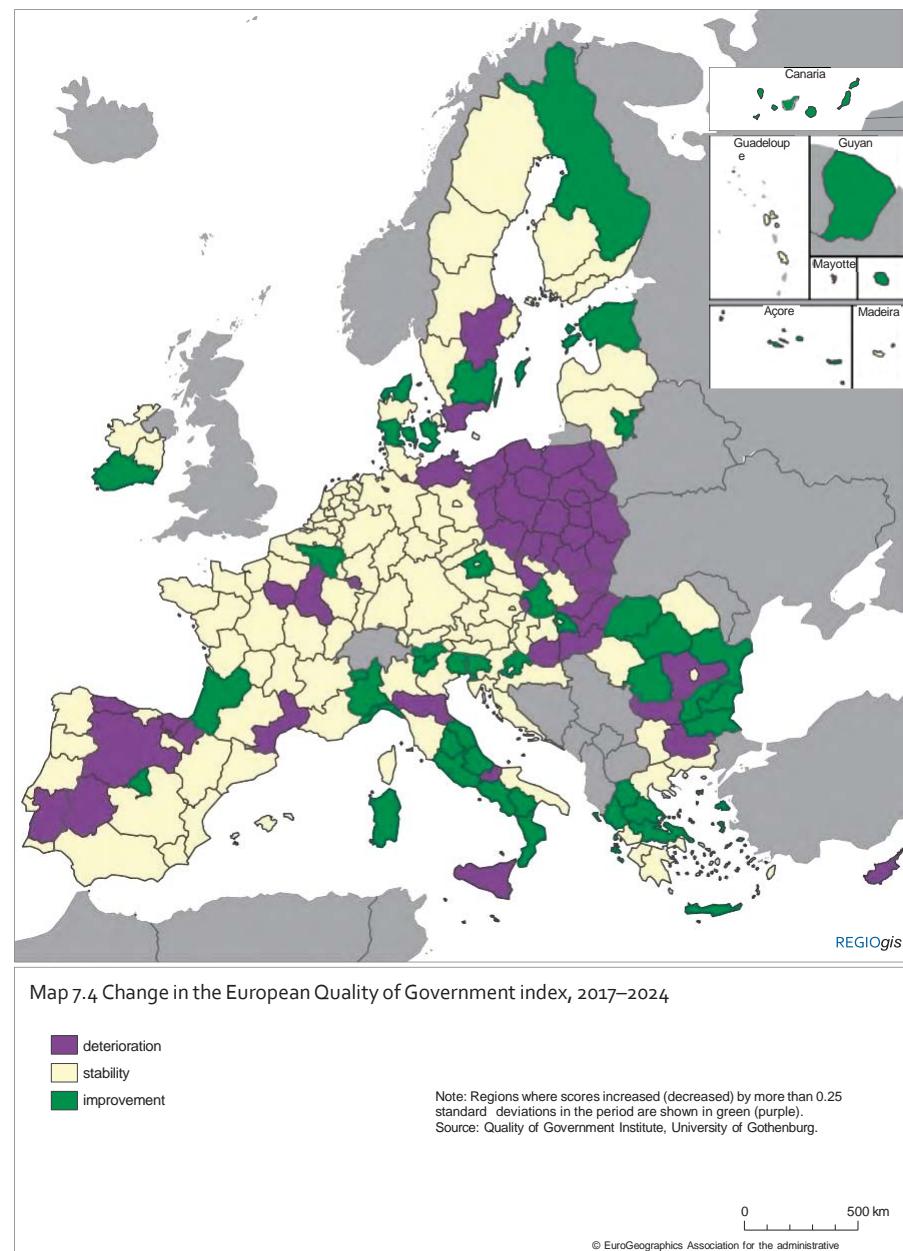
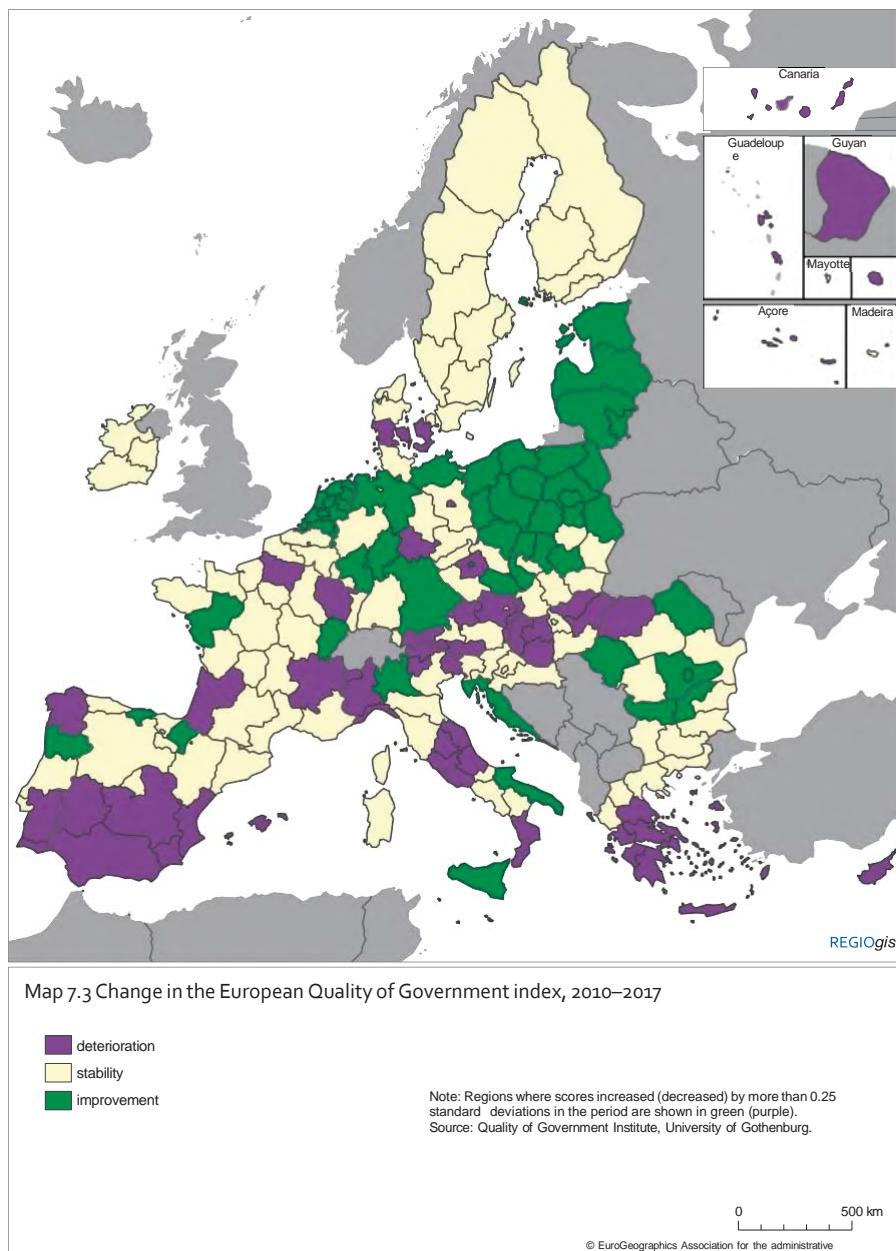


Table 7.1 Average EQI scores by category of region, 2010–2024

	EQI edition				
	2010	2013	2017	2021	2024
Less developed	-0.98	-0.92	-0.84	-0.89	-0.92
Transition	0.41	0.23	0.25	0.35	0.24
More developed	0.44	0.44	0.54	0.47	0.52

Note: All years (EU average = 0).

Source: DG REGIO based on data from The Quality of Government Institute, University of Gothenburg.

Box 7.2 Quality of government, quality of governance and the return on EU-funded investment

European Commission research using the RHOMOLO macro-economic model of EU regions suggests that the quality of government significantly affects the return on investment financed by EU Cohesion Policy. The model estimates that a 5 % increase in the quality of government (proxied by the EQI index) in EU regions increases the impact of Cohesion Policy investment on GDP by up to 7 % in the short run and 3 % in the long term¹.

The quality of government, and of institutions more generally, also appears to affect the governance of policies, which in turn affects their impact. In particular, the capacity to design and implement policy interventions

results cannot be taken for granted. Governance affects the way that policy is implemented and, therefore, the link between means and ends, or the channels by which investment gives rise to outcomes.

A recent analysis using the RHOMOLO model estimates that around 40 % of the potential impact on GDP of 'smart specialisation' strategies in Italian regions is lost because of the comparatively low quality of governance in some cases².

This calls for a strengthening of administrative capacity at regional level to improve the quality of governance and so increase the impact of Cohesion Policy on regional

¹ Barbero et al. (2023).

2.2 Assessing the quality of governance across EU regions with public procurement data

Public procurement, worth over EUR 2 trillion (around 14 % of EU GDP) every year across the EU, is an important lever in transforming the EU economy. The EU legislative framework can mobilise and steer public funding towards green and digital goals, shape the markets by creating demand for future-proof, environmentally sustainable and socially responsible solutions and products and accelerate the green transition²⁰.

Efficient public procurement is an essential ingredient of good institutions but is one of the government activities most vulnerable to corruption and fraud. The volume of transactions, the financial interests at stake, the complexity of the process, and the close interaction between public officials and business, significantly increase the risk of corruption and the potential incentives to engage in illegal practices. EU legislation contains a minimum set of public procurement rules designed to ensure a level playing field for businesses and to prevent fraud and corruption.

²⁰ European Commission (2023b), p. 43.

