



## **POLICY NOTE OF THE WORKING PAPER 5.13**

### **GOVERNANCE IN THE EUROPEAN UNION AND NEIGHBOURING COUNTRIES**

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#### **OBJECTIVE**

The objective of this report is to examine the level of governance quality the EU-countries and neighbouring countries. Governance and its quality have been viewed as more and more important in literature, especially in developing countries for economic development. Although geographically close to each-other, the countries in European Union (EU) and its neighbouring countries differ significantly from each-other according to cultural and historical background and environment. Thus, quality of governance in these countries may also differ significantly. The analysis covers all 27 EU countries and 27 neighbouring countries: Norway, Iceland, Switzerland, Albania, Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Moldova, Belarus, Russia, Ukraine, Armenia, Azerbaijan, Georgia, Cyprus, Turkey, Israel, Jordan, Lebanon, Syria, Egypt, Libya, Tunisia, Algeria, Morocco.

#### **SCIENTIFIC METHOD**

The analysis is based on the concept of governance quality distinguishing six different measures: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Besides looking at these six indicators separately, the mean values of these six indicators were calculated and also a latent factor was created in order to capture the information of initial measures into one indicator with the help of factor analysis. Data from the Worldwide Governance Indicators (WGI) were used.

#### **POLICY VALUE**

The findings show that in general, the countries with the communist background tend to have much lower levels of governance quality than the so-called old western economies. Among the latter, North-European countries have the highest and South-European countries the lowest governance quality. Among the neighbouring countries, besides the three old western economies, no further lines based on

geographical or historical background can be drawn. If the mean values of country groups are considered, it can be said that the communist background seems to have a strong influence, as those countries (except for Baltic countries that are also already in EU) that belonged to the former Soviet Union, have the lowest levels of governance quality. Among the countries of Middle East, the governance quality in North-African countries is, unfortunately comparable to the countries that belonged to the former Soviet Union. In general, the governance quality in neighbouring countries seems to have an influence on country's state of governance: the level of overall governance quality is quite similar in geographically close countries. Hence, there is a strong need to improve governance quality in the countries of former Soviet Union and North Africa; and a cooperation creating policies for improvements seems sensible.

Comparing the data from 2010 with the data from 2000 showed that governance quality, indeed, does not change much, although some more remarkable positive and negative changes were pointed out. The largest positive changes have been in Serbia and Georgia, but in many Central-and East-European countries now in the EU, the governance quality has clearly improved as well. At the same time, in Greece, Italy, Spain, Morocco, Egypt and Lebanon overall governance quality has declined most, and hence, needs attention most quickly.