



VII. GOVERNANCE TRANSITION

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EU values such as equality, non-discrimination, inclusion, human dignity, freedom and democracy, are fortified and protected by the rule of law and spelled out in the EU Treaties⁷⁴ and the Charter of Fundamental Rights. The increased risks of disinformation, populism, and insufficient social dialogue show that a fair and sustainable prosperity needs to be accompanied by a political governance that promotes fundamental rights, rule of law, security and transparency.

A sustainable path for ‘a new growth strategy with a view to transform an economic zone into a fair and prosperous society’⁷⁵ requires ensuring that society is based on a common societal model, in which people feel they have a stake and to which they feel they belong. Governance transition describes key aspects of the institutional and societal framework that ground the social contract between citizens and their government. This pillar reflects the institutional and collective choices to be made to preserve and improve societies. It includes a sub-pillar Fundamental rights with two composite indicators measuring perceptions of the extent to which citizens can participate in selecting their government (Voice and accountability) and have confidence in and abide by the rules of society (Rule of law). The second sub-pillar Security includes the homicide rate. Transparency consists of two composite indicators quantifying the corruption perceptions (Corruption Perception Index) and the risk assessment for money laundering and terrorist financing (Basel Anti-Money Laundering Index). The last sub-pillar measures the Sound public finances (Debt-to-GDP ratio) and it captures in which extent the investments needed for the transitions – particularly the Environmental transition – are made in a sustainable way.

The Governance pillar focuses on key indicators defining a path to a fair and sustainable society which promotes and defends a set of shared values including fundamental rights, democracy and the rule of law. This pillar relies mostly on composite indicators which may lead to some repetition of information and a lack of clarity in the framework; it can also make the interpretation of results more challenging from an actionable policy perspective. Nonetheless, every composite indicator in the framework was selected to exclude or reduce these risks to the minimum and all the composite indicators are well flagged and used only in the Governance pillar as explained in the JRC audit (Appendix V).

As stated in the political guidelines of President von der Leyen, the Commission has established a comprehensive European Rule of Law Mechanism to deepen its monitoring of the situation in Member States. This Mechanism acts as a preventive tool, deepening dialogue and joint awareness of rule of law issues. At its centre is the annual Rule of Law Report⁷⁶, established in 2020, which provides a synthesis of significant developments – both positive and negative – in all Member States and the Union as a whole. Additionally, the European Democracy Action Plan, the renewed Strategy for the Implementation of the Charter of Fundamental Rights and targeted strategies towards a ‘Union of Equality’ are part of this broader EU effort to promote and defend a set of shared values including the respect of fundamental rights, democracy and the rule of law⁷⁷. The EU Justice Scoreboard⁷⁸ is also a part of the EU’s Rule of Law toolbox, providing annually data on efficiency, quality and independence of justice systems in all Member States.

74 [Article 2 of the Treaty on European Union](#)

75 European Commission, [The European Green Deal](#)

76 European Commission, communication [2021 Rule of Law Report](#), COM(2021) 700 final, 2021.

77 Article 2 of the Treaty on European Union

78 European Commission, [‘EU Justice Scoreboard’](#).



VII.1. OVERVIEW

More than half of the 72 countries achieve leader or strong performances in the Governance transition, with Norway ranking first, followed by New Zealand and Luxembourg (**TABLE 13**). Six EU countries rank in the top 10. On average, all 72 countries taken together (world) are in moderate transition and EU-27 is in strong transition. Most countries can make significant progress in Governance transition, especially in Transparency.

Sound public finances consists of a single indicator, the Debt-to-GDP ratio. The JRC audit (Appendix V) finds that this sub-pillar seems to describe a different concept than the three other sub-pillars as suggested by the low and sometimes negative correlations of this sub-pillar with the other elements of the Governance pillar. In fact, Sound public finances shows large heterogeneity across countries. Some countries in weak transition perform particularly well such as Russia, Nigeria or Iran. On the contrary, some leader or strong transition countries have weak performances, such as Japan, Singapore, Italy or Greece.

Debt-to-GDP ratio is one of the few indicators for which we have data from 2020, thus covering the first year of the pandemic. In many countries, the recovery packages adopted during and after the COVID-19 crisis will have long-term effects on this sub-pillar scores. In this regard, EU and its Member States have adopted the Recovery and Resilience Facility (the Facility), a European recovery plan to mitigate the economic and social impacts of the pandemic while supporting the priorities of green and digital transitions⁷⁹. In total, 15 countries have moderate or weak performances in Sound public finances. This result is driven by the decision last year to adopt relatively mild goalposts (upper and lower bounds of 25% and 180% of GDP respectively) to anticipate low interest rates and the effects of recovery packages on public finances. These goalposts were not revised in this year's edition.

Governance transition, leaders and strong performers

Eighteen countries are leaders in Governance transition, with 11 countries with leader position in Fundamental rights, Security and Sound public finances. Among the leaders, there is a relative heterogeneity in Sound public finances. Luxembourg and Estonia leading this sub-pillar, whereas the United Kingdom's performance is in moderate transition. Over the 18 countries, only Finland and Estonia achieve leading performance in Transparency and strong performance in Security. It suggests that even among the Governance transition leaders, there is room for improvement especially in Transparency.

Twenty countries are strong performers with Spain, Belgium and France having the highest performance. EU-27 belongs to this group too. Most of these countries – including Spain, France, Portugal, Canada, Japan, Cyprus and Italy – are leaders or strong performers in both Fundamental rights and Security but weak or moderate performers in Transparency and Sound public finances. In the group of strong performers, Bulgaria and United Arab Emirates stand out with a particular pattern of moderate Fundamental rights and Transparency but leader performances in Security and Sound public finances.

Governance transition, good performers

Thirteen countries are good performers in the Governance transition. The United States and Greece stand out with, respectively, leader and strong performances in Fundamental rights and good performances in Transparency. The sub-pillars with significant numbers of weak performers are Fundamental rights (Saudi Arabia, Bosnia and Herzegovina and Serbia) and Transparency (Bosnia and Herzegovina and Serbia). In addition, several countries perform moderately in these two sub-pillars.

⁷⁹ European Council, '*Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020)*', General Secretariat of the Council, Brussels, 21 July 2020.



TABLE 13: Governance transition pillar ranking

RANK	COUNTRY	PROGRESS 2011-20	2020 SCORES				
			GOVERNANCE TRANSITION	Fundamental rights	Security	Transparency	Sound public finances
1	Norway	4.2%	86.8	96.7	89.4	73.5	89.4
2	New Zealand	-1.4%	85.1	95.8	84.6	74.0	88.0
3	Luxembourg	5.0%	85.0	94.9	91.9	63.3	100.0
4	Denmark	-1.7%	84.0	95.2	80.7	74.4	89.0
5	Sweden	-3.1%	83.7	94.9	79.7	73.8	92.0
6	Switzerland	1.1%	83.0	95.2	87.2	64.7	88.8
7	Netherlands	1.6%	82.5	94.9	87.2	65.5	82.3
8	Australia	-3.1%	80.9	92.7	82.3	68.3	79.1
9	Finland	-2.7%	80.7	96.4	73.2	75.6	71.3
10	Estonia	9.9%	80.3	89.8	68.5	76.0	100.0
11	Iceland	2.3%	79.1	94.1	82.4	65.2	66.4
12	Germany	2.9%	79.1	92.8	81.5	65.4	71.6
13	Ireland	3.6%	79.0	92.6	82.6	62.1	78.4
14	Austria	2.6%	78.0	94.2	81.3	63.9	62.5
15	Slovenia	-3.6%	77.7	84.1	89.1	64.2	64.7
16	Czechia	1.1%	77.3	84.6	86.6	55.9	91.7
17	South Korea	2.3%	76.7	83.7	86.9	56.6	85.2
18	United Kingdom	-2.8%	75.7	91.3	78.1	66.5	48.7
EU-27			74.0	85.4	81.1	60.9	57.0
19	Spain	-3.6%	73.7	83.0	86.6	63.3	38.8
20	Belgium	-0.7%	73.3	90.7	72.6	66.8	42.5
21	France	-3.5%	73.2	88.3	78.2	63.7	41.9
22	Portugal	0.0%	73.1	88.9	83.9	61.3	28.9
23	Canada	-4.4%	72.7	94.1	71.9	62.8	40.3
24	Japan	2.4%	72.6	88.7	93.5	59.7	0.0
25	Poland	-3.5%	71.8	71.8	84.8	56.4	79.1
26	Israel	2.6%	71.5	79.2	74.7	61.0	69.7
27	Singapore	-4.2%	71.1	69.5	96.0	66.1	16.2
28	Slovakia	1.9%	70.9	78.1	79.0	53.4	77.2
29	Malta	-9.8%	70.1	84.5	73.6	48.5	81.7
30	Chile	-5.4%	69.9	85.1	53.3	62.9	95.1
31	Croatia	8.1%	68.7	66.7	87.4	55.2	58.9
32	Lithuania	8.2%	68.4	84.1	52.4	62.9	85.7
33	Bulgaria	4.6%	66.7	53.4	76.9	58.9	100.0
34	Romania	0.6%	66.6	68.2	77.2	48.7	84.0
35	Cyprus	-13.4%	66.1	76.9	77.4	53.1	39.3
36	Latvia	0.3%	66.0	82.0	53.5	55.1	88.1
37	United Arab Emirates	1.5%	65.9	46.9	89.4	52.9	90.7
38	Italy	0.2%	65.7	72.5	87.5	53.8	15.6
39	Indonesia	9.8%	63.9	45.4	90.0	46.7	92.5
40	Greece	12.8%	63.8	72.9	81.6	58.0	0.0
41	North Macedonia	1.9%	61.8	49.8	78.2	50.4	83.1
42	United States	-6.4%	61.7	86.1	50.6	59.2	29.7
43	Georgia	8.2%	61.1	56.7	67.6	53.5	77.4
44	Hungary	-14.4%	60.5	67.4	65.4	47.4	64.2
45	Malaysia	0.1%	59.9	59.3	68.4	47.6	72.6
46	Armenia	18.1%	59.6	49.2	72.6	51.8	75.2
47	Saudi Arabia	2.2%	57.6	32.4	77.3	50.5	95.1
48	Bosnia and Herzegovina	0.9%	57.3	37.6	78.5	44.1	92.4
49	Serbia	-3.8%	57.1	44.0	77.8	42.4	78.5
50	Montenegro	-0.9%	57.0	52.0	67.5	54.8	47.0
51	Tunisia	2.0%	55.5	58.1	61.2	46.4	58.2
52	India	0.4%	54.1	52.6	61.1	47.2	58.3
53	Morocco	1.9%	53.7	36.8	75.6	44.1	67.5
54	China	0.7%	52.7	26.3	88.3	36.6	73.3
55	Albania	8.5%	52.2	44.7	67.0	40.1	66.1
56	Moldova	3.1%	51.3	41.1	54.9	43.7	93.7
57	Thailand	8.0%	50.4	37.9	64.7	37.5	84.1
58	Argentina	7.7%	49.3	52.2	48.9	46.6	49.8
59	Turkey	-8.7%	49.3	27.7	64.6	41.8	90.5
60	Vietnam	4.3%	48.6	26.5	74.3	32.3	86.3
World			47.6	45.7	48.8	44.8	57.9
61	Algeria	-12.7%	46.4	17.6	76.2	34.0	80.3
62	Ukraine	5.5%	45.7	39.3	45.4	41.9	76.9
63	Philippines	4.2%	44.7	37.5	44.3	39.5	82.8
64	Egypt	-1.1%	44.3	21.4	64.9	42.1	58.2
65	Kenya	6.4%	41.0	32.8	50.7	29.0	72.5
66	South Africa	-15.6%	39.6	60.6	0.0	47.6	71.3
67	Russia	3.2%	38.7	18.2	38.5	39.1	100.0
68	Iran	-1.0%	37.8	13.1	65.3	17.4	90.6
69	Colombia	2.2%	37.6	43.5	9.4	47.8	73.9
70	Brazil	-14.9%	36.5	51.7	7.3	45.1	52.3
71	Mexico	-12.7%	33.0	36.9	5.7	41.9	76.8
72	Nigeria	7.4%	25.9	24.4	1.1	29.6	93.5

■ Transition leader [75-100] ■ Strong transition [65-75] ■ Good transition [55-65] ■ Moderate transition [45-55] ■ Weak transition [0-45]

Notes: 'Progress 2011-20' refers to the percentage growth of economic transition scores from 2011 to 2020.

Source: European Commission, Transitions Performance Index 2021.



The situation is more satisfactory in Security and Sound public finances. All countries achieve leading or strong performance in Security with the exception of the United States (moderate) and Tunisia (good). In Sound public finances, all countries are leader, strong or good performers with the exceptions of Greece (weak), the United States (weak) and Montenegro (moderate).

Governance transition, moderate and weak performers

The world average and 21 countries are in moderate or weak Governance transition, despite 17 of them being leader or strong performers in Sound public finances. Only Argentina and Brazil are in moderate transition in Sound public finances and no countries are in weak transition. There is a large diversity in Security with a mix of leading and strong performers (Morocco, China, Albania, Vietnam, Algeria, and Iran) together with very weak performers such as South Africa, Colombia, Brazil, Mexico and Nigeria, with scores below 10.

In contrast, performances in Fundamental rights and Transparency are worrisome: out of 21 countries, 16 are weak performers in both Fundamental rights and Transparency. Only South Africa stands out with a good performance in Fundamental rights.

VII.2. GOVERNANCE TRANSITION, PROGRESS OVER 2011-2020

The overall score in the Governance transition over a decade has decreased on average by 2.6% for the 72 countries taken together (world) and has stayed stable (+0.1%) for EU-27 countries. Nonetheless, the rates of progress show great disparities. Out of 72 countries, 43 countries – in all regions of the world – have improved their governance scores. It is noticeable that in the top 3, Norway and Luxembourg have registered relatively high progress rates above 4% which shows that even leaders can significantly improve their performance in governance.

The highest progress rates in the Governance transition are seen in Armenia, Greece, Estonia, Indonesia, Albania, Lithuania, Croatia and Thailand (between 8% and 10% progress rates). The large progress rates in these three countries are fuelled by improvements in Fundamental rights in Armenia, Transparency in Greece and Security in Estonia. The good results in Greece are explained by the reforms adopted after 2012 to counterbalance the austerity programme⁸⁰. Additionally, the Greek Government has proposed new legislation to improve the transparency of media ownership⁸¹. In Armenia, despite the large progress in Fundamental rights over the last 10 years, the situation should be analysed in the light of more recent developments. The martial law imposed in 2020 during the military conflict with Azerbaijan, as well as the state of emergency introduced during the pandemic have restricted the rights to freedom of expression and peaceful assembly⁸².

On the other side, 39 countries have decreased their governance score, in particular countries in the moderate or weak performance groups. The biggest downward trends were registered in South Africa, Brazil, Hungary, Cyprus, Algeria and Mexico. These results are mainly explained by the decline in Security in South Africa and Brazil; in Fundamental rights and Transparency in Hungary and in Sound public finances in Brazil. In Hungary, the 2021 Rule of Law Report mentions that the transparency and quality of the legislative process as well as media pluralism remain a source of concern.

Fundamental rights, progress over 2011-2020

In the Fundamental rights sub-pillar, the progress of all 72 countries (world) remains limited (+0.2%) and the score declines for EU-27 (-1.6%). Less than half of the countries covered (31) improved their score in this sub-pillar indicating a need for efforts. The largest progress rates in Fundamental rights are achieved by Armenia, Vietnam and Tunisia, whereas the most downward movements are seen in Turkey, Brazil and Hungary. Since the Tunisian Revolution in 2011, the country has made significant progress in human rights with the adoption of a new constitution and laws to improve women's rights as well as the organisation of free legislative and presidential elections. Nevertheless, serious human rights violations persist in Tunisia⁸³.

80 Transparency International, '*CPI 2020: Western Europe & European Union*', 28 January 2021.

81 European Commission, '*Rule of Law Report 2021: country chapter abstracts*', OIB.

82 Amnesty International, '*Armenia 2020*'.

83 UN, '*Written Statement on the state of fundamental rights in Tunisia*', Human Rights Council, February 2021.



As part of the new European Rule of Law Mechanism, the Rule of Law Report is published to monitor developments in rule of law across Member States. Pressure is increasing on the rule of law globally⁸⁴ but EU maintains effort to promote and defend shared values.

Security, progress over 2011-2020

The picture changes in Security with limited world average progress (+0.2%) but improvement in the EU-27 (+2.9%) due to a significant increase in the scores of Norway and Greece. Norway's improvement in Security should be put in perspective with the exceptionally high level of homicide rate occurred in 2011 due to the 2011 Norway attacks.

A total of 49 countries improved their scores in Security between 2011 and 2020. In Colombia, despite the dramatic reduction in the homicide rate in the last decade (from 35.3 to 25.3 homicides per 100 000 inhabitants from 2011 to 2020), the country has still one of the lowest scores on this sub-pillar (9.4 over 100). The largest drops in security scores are seen in South Africa and Mexico for which the levels in 2011 were already two of the lowest.

Transparency, progress over 2011-2020

In Transparency, the progress remains limited at the world level (+0.8%) but more remarkable at the EU-27 level (+2.5%). Thirty-six countries improved their scores in Transparency between 2011 and 2020. The biggest improvements are in Argentina and Kenya for which the scores were relatively low in 2011. The largest decline are in two EU countries: Hungary and Malta where deep fraud corruption patterns have been revealed in Malta which led to the resignation of the prime minister in 2019.

Sound public finances, progress over 2011-2020

The scores in Sound public finances significantly decreased at the world level (-19.8%) as well as at the EU-27 level (-10.3%). Out of 72 countries, only 13 countries improved or stabilised their scores with Iceland experiencing the most positive movement helped by a substantial devaluation following the Icelandic financial crisis (2008-2011). On the other hand, scores in Sound public finances worsened the most in Singapore and Italy.

VII.3. SPECIFIC IMPACT OF COVID-19

To cope with the exceptional health and economic situation of COVID-19, most governments adopted urgent measures to curb the spread of the virus and support their economy. Some of these measures will have long term effects on Fundamental rights, Security, Transparency and Sound public finances. The impact of COVID-19 is not fully captured in this edition of the TPI because of delays in data collection and lags in transmission to aggregate indicators. Therefore, small changes of the sub-pillars over shorter periods of time should not be over-interpreted.

Fundamental rights

Many countries adopted lockdowns and other measures to slow down the spread of the virus during the first months of the pandemic. Fourteen EU Member States – Bulgaria, Czechia, Estonia, Finland, France, Germany, Hungary, Italy, Latvia, Luxembourg, Portugal, Romania, Spain, and Slovakia – declared a state of emergency or equivalent, based on constitutional provisions or under ordinary laws⁸⁵. These measures directly affect human rights such as freedom of movement and freedom of expression and assembly, freedom of religion, freedom to conduct a business and the right to data protection. Moreover, the measures raise concerns on the right to privacy with contact tracing for instance.

While COVID-19 affects all of us, certain individuals and groups are particularly vulnerable during the pandemic because of their overall health and socio-economic situation. This includes older persons, Roma, asylum seekers and persons with disabilities to name just a few. If the emergency nature of the crisis justifies some restrictions, there are concerns that the pandemic becomes a pretext for some countries to curb human rights not related to the pandemic. The justification of the emergency measures taken by some countries, their proportionality and legal foundation are key questions to address. The emergency measures have affected the political process and, in some places, have raised concerns about the impact on democracy⁸⁶.

84 European Commission, [communication 2021 Rule of Law Report, COM\(2021\) 700 final](#).

85 European Agency for Fundamental Rights, [The Coronavirus Pandemic and Fundamental rights: A Year in Review, 2021](#).

86 Council of Europe, [Venice Commission Interim Report](#), 8 October 2020.



In the EU, the European Commission has made clear from the outset that the response to this crisis must fully respect the fundamental principles and values as set out in the Treaties. Emergency measures must be limited to what is necessary, strictly proportionate, clearly restricted in time, and in line with constitutionally enshrined safeguards, as well as European and international standards. Moreover, governments must make sure that such measures are subject to regular scrutiny.

In the EU, the European Commission has monitored developments in all Member States and analysed the exceptional measures taken, with their impact on the rule of law reflected in the country chapters of the 2021 Rule of Law Report⁸⁷. This year's Report consolidates the exercise started by the 2020 report and deepens the Commission's assessment and further develops the impact and challenges brought to the fore by the COVID-19 pandemic. The monitoring highlights the resilience of national systems but also the need to reflect how to better prepare for future crises affecting the rule of law. The report notes that during the pandemic 'transparency and public access to information were a general concern'⁸⁸. As part of this resilience effort, the digitalisation of public administration and justice systems mitigate the negative impact of the pandemic. In this regard, the 2021 EU Justice Scoreboard notes that the majority of EU Member States have digital tools for courts, prosecutors and staff. Nevertheless, significant progress can still be made⁸⁹.

There is no clear pattern emerging in the TPI on deterioration of Fundamental rights with the COVID-19 crisis. The changes in governance over year-to-year period should be analysed cautiously as the majority of year-to-year changes in Voice and accountability and Rule of law indicators are too small relative to the margins of errors, to be viewed as statistically significant⁹⁰. The composite indicator Voice and accountability, which captures perception of freedom of expression, freedom of association and free media, does not decrease significantly from 2019 to 2020 compared to the previous period from 2018 to 2019. The indicator Voice and accountability is constructed from 21 data sources for which only one data source (Institutional Profile Database) was not updated in 2020.

At the world level, this indicator drops by 4.1% between 2019 and 2020 confirming a persistent downward trend in the previous years. At the EU-27 level, it stabilises between 2019 and 2020 confirming the trend in the previous years.

The second component of the Fundamental rights sub-pillar measures to which extend countries adhere to the rule of law. This indicator increases at the global level (+3.1%) between 2019 and 2020, whereas it is decreasing between 2018 and 2019 (-2.6%).

Security

The COVID-19 pandemic has changed the nature of social interactions. Early research suggests that the containment measures adopted have had a significant effect on crimes with variation across countries and type of crimes. As the reliability and comparability at the global level of other data related to security are difficult, the homicide rate was chosen as a proxy for this sub-pillar.

Regarding the homicide rate, the UN Office on Drugs and Crime notes that homicide rates declined by up to 25% in some countries during lockdown periods⁹¹. The changes are expected to be temporary with pre-pandemic dynamics soon returning. Nevertheless, preliminary data from the US Center for Disease Control and Prevention suggests that homicide rates rose by 30% in the US between 2019 and 2020⁹², primarily driven by rising gun violence in the context of extensive social unrest and political polarisation.

Confinements and quarantine measures have had a negative impact on family-related violence, enhanced by economic stress, increased exposure to exploitative relationships and social isolation. In addition, according to UNODC, other types of crimes, such as property crime and interpersonal violence, might increase in the aftermath of the pandemic, especially due to the economic crisis.

Data on homicide rates for 2020 are not yet available with a large coverage. Therefore, the impact of COVID-19 on Security is not captured in this edition of the TPI.

87 European Commission, '[2021 Rule of law report - Communication and country chapters](#)'.

88 European Commission, communication [2021 Rule of Law Report](#), 2021., p. 4.

89 European Commission, '[EU Justice Scoreboard](#)'.

90 World Bank, '[Worldwide Governance Indicators 2021 Interactive, FAQ](#)'.

91 UNODC, [Property Crime Brief](#), 2020. The latest data used in the index is from year 2018, imputed to 2019 and 2020

92 National Center for Health Statistics, '[Quarterly Provisional Estimates for Mortality Dashboard](#)'.



Transparency

COVID-19 has also revealed that corruption in health care systems is prevalent in many countries, from Norway to Mexico⁹³. By taking emergency measures to respond quickly to the crisis situation, governments have relaxed safeguards, raising the risk of corruption. This has been the case with the easing of procurement rules in many countries that have created opportunities for corruption as suggested by early research in the UK with 'high priority lane' to fast track offers of personal protective equipment (PPE) biased in favour of those with political access⁹⁴, or in Colombia⁹⁵ where contracts signed during the emergency were more likely to be awarded to campaign donors.

At a lower level, the corruption can take many forms such as favouritism to prioritise treatments to people having social connections with providers, theft and embezzlement, bribery, manipulation of data and other forms of corruption. Corruption tends also to affect disproportionality the most vulnerable people. Moreover, countries with high levels of corruption tend to be violators of fundamental rights as suggested by the high correlation between the two sub-pillars Transparency and Fundamental rights (0.9)⁹⁶. The pandemic is also expected to affect money laundering and fraud risk as user behaviours change and virtual transactions are preferred over in-person transactions⁹⁷.

The Transparency World average score decreases between 2019 and 2020 (-1.9%) after improving by 3.7% between 2018 and 2019. At the EU-27 level, Transparency stabilises (+0.1%) following an improvement in the previous year (+2.2%). If the measure of Transparency seems to suggest a worsening situation in 2020 – mostly due to declines in the Basel anti-money laundering index – it is too early to draw any clear conclusions on the link with the COVID-19 crisis.

Sound public finances

Public debts and deficits have increased in many developed and developing countries since the financial crisis of 2008, encouraged by low interest rates. The 2020 health and economic crises triggered by the pandemic have exacerbated this trend as health and social expenditures are rising in most countries. Moreover, many middle-income and high-income countries adopted stimulus packages to recover from the pandemic. In this regard, the EU's NextGenerationEU⁹⁸ plan aims to boost the economic recovery and social cohesion, including specific support for digital and green transitions.

The post-pandemic situation raises concerns on debt sustainability in many countries. According to the IMF, 35 to 40 countries are in debt distress, such as Tunisia or Argentina which have defaulted on some of their loans in 2020. In this regard, the G20 adopted a 'Debt Service Suspension Initiative' (DSSI) for 77 of the poorest countries to suspend interest payments they owe. The UN highlights that additional resources will be needed to overcome the crisis and achieve the Sustainable Development Goals⁹⁹. In the EU, the Commission has identified 12 Member States with macroeconomic vulnerabilities related to imbalance and excessive imbalance¹⁰⁰. COVID-19 has not changed the nature of Member States' imbalances but may increase the risk to macroeconomic stability. Additionally, the net public wealth (public assets minus public debts) for rich countries has declined since 1970, as documented in the World Inequality Report 2022¹⁰¹. The COVID-19 crisis has exacerbated this trend, which has been driven by the rise of public debt following shutdowns of economies and the recovery packages adopted by governments. Countries with small or negative public debt are then constrained in their actions to redistribute income, mitigate growing inequality and, more generally, invest in the transitions.

93 Transparency International, *'The ignored pandemic behind COVID-19'*, December 2020

94 Transparency International UK, *'Track and Trace: Identifying corruption risks in UK public procurement for the COVID-19 pandemic'*, April 2021

95 Gallego, J. A., Prem, M., & Vargas, J. F., *'Corruption in the Times of Pandemia'*, Available at SSRN 3600572, 2020.

96 See Table V.5 in JRC Statistical Audit of the TPI

97 Council of Europe, *'Money laundering and terrorism financing trends in MONEYVAL jurisdictions during the COVID-19 crisis'*, September 2020.

98 European Union, *NextGenerationEU*

99 United Nations, *'Debt and COVID-19: A global response in solidarity'*, April 2020

100 European Commission, *'Economic policy coordination in 2021 : overcoming COVID-19, supporting the recovery and modernising our economy'*, COM(2021) 500 final, June 2021

101 Chancel, L., Piketty, T., Saez, E., Zucman, G. et al., *World Inequality Report 2022*, World Inequality Lab. 2021.



The impact of COVID-19 is observable in the scores on public finances. At the EU-27 level, the score decreases by 13% between 2019 and 2020, whereas it had improved (+2.1%) between 2018 and 2019. Similar trends appear at the world level with a widening of deficits: the score decreased (-13%) in 2020, whereas the trend was a slight decrease between 2018 and 2019 (-1.0%). Some countries have severely deteriorated between 2019 and 2020, such as Canada, France, Italy, Portugal, Spain and the United States. These downward trends are explained largely by economic slowdown and policies to support the recovery.

VII.4. LINKAGES WITH OTHER MEASURES OF DEMOCRACY

Challenges related to the exercise of democracy are global. As highlighted in the Communication of the European Commission ‘On the European democracy action plan’¹⁰², the world’s democracies have a common interest in working together to address them. Democracy, the rule of law and fundamental rights are core European values and cannot be taken for granted. In this regard, the European democracy action plan aims to strengthen the resilience of EU democracies, which includes actions to protect election integrity and promote democratic participation, strengthen media freedom and media pluralism and counter disinformation. Democracy requires checks and balances, institutions and safeguards to preserve pluralistic democratic debate, unhampered activities and financing of civil society, free and fair elections, free media and academic freedom.

The governance pillar of the TPI partly captures some aspects of democracy notably with the Voice and accountability composite indicator in Fundamental rights. Voice and accountability includes measures on freedom of expression, free media, satisfaction with democracy and an electoral index to name a few, but has limited scope on some dimensions such as ‘checks and balances’. It is then important to verify that the scores obtained under the Governance pillar are consistent with other measures of democracy such as ‘Robust Democracy’ and ‘Executive Accountability’ in the Sustainable Governance Indicators¹⁰³ (SGI).

The SGI are published by the Bertelsmann Foundation, a think tank, and aims to provide a survey of sustainable governance for OECD member countries; it does not therefore cover the full set of countries in the TPI. ‘Robust Democracy’ is one of the dimensions measured by the SGI with ‘Sustainable Policies’ and ‘Good Governance’. ‘Robust Democracy’ consists of a composite indicator with equal weights on aspects related to the electoral processes, access to information, civil rights and political liberties, and rule of law. The correlation between the two TPI sub-pillars Fundamental rights and Transparency (with equal weights) and the SGI measure of Quality of Democracy is strong (0.85).

Some aspects of democracy are also captured by the ‘Executive Accountability’ dimension of the SGI, which includes citizens’ participatory competence, legislative actors’ resources, media, parties and interest associations and independent supervisory bodies (the latter with sub-dimensions such as audit, ombuds and data protection functions, which are integral parts of the concept of democracy). The correlation between SGI’s ‘Executive Accountability’ and TPI’s Fundamental rights and Transparency is strong too (0.81). Other measures of aspects related to democracy exist such as the Economist Intelligence Unit’s Democracy Index¹⁰⁴ and the International Institute for Democracy and Electoral Assistance (IDEA) ‘Global State of Democracy’¹⁰⁵.

These positive and strong correlations suggest that the TPI captures well some aspects of democracy measured by the Sustainable Governance Indicators. The TPI is then consistent with other measures of quality of democracy.

102 European Commission, *European Democracy Action Plan*

103 Sustainable Governance Indicators, *SGI 2020*

104 Economist Intelligence, *‘Democracy Index 2020: In sickness and in health?’*, 2021

105 International Institute for Democracy and Electoral Assistance (IDEA), *‘The Global State of Democracy Report 2021’*, 2021