



Institutional Quality, Growth and Cohesion: Insights from the World Bank's Experience



*Regional and
Urban Policy*



GOOD GOVERNANCE FOR COHESION POLICY

Brussels – 24 May 2018



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Outline

1. Institutional quality in our recent work on EU lagging regions
2. WBG experience with administrative capacity programs
3. Thoughts on leveraging financing for administrative capacity

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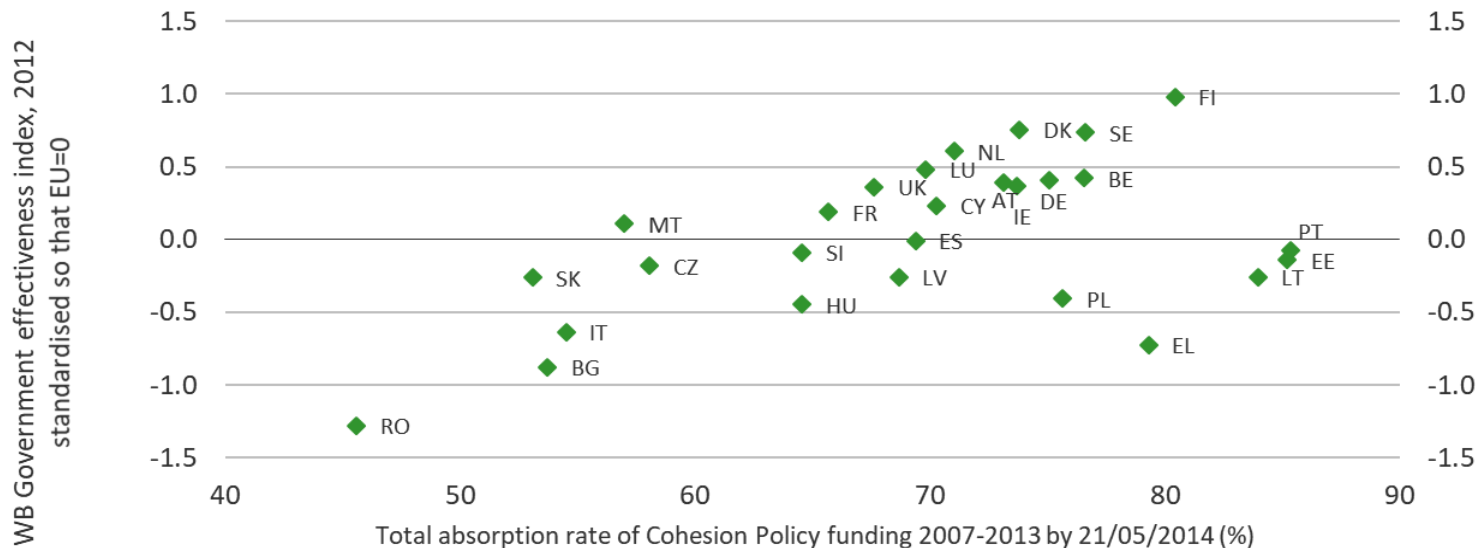
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Institutional quality is key to absorption...

Absorption of Cohesion Policy funding and Government effectiveness, 2014



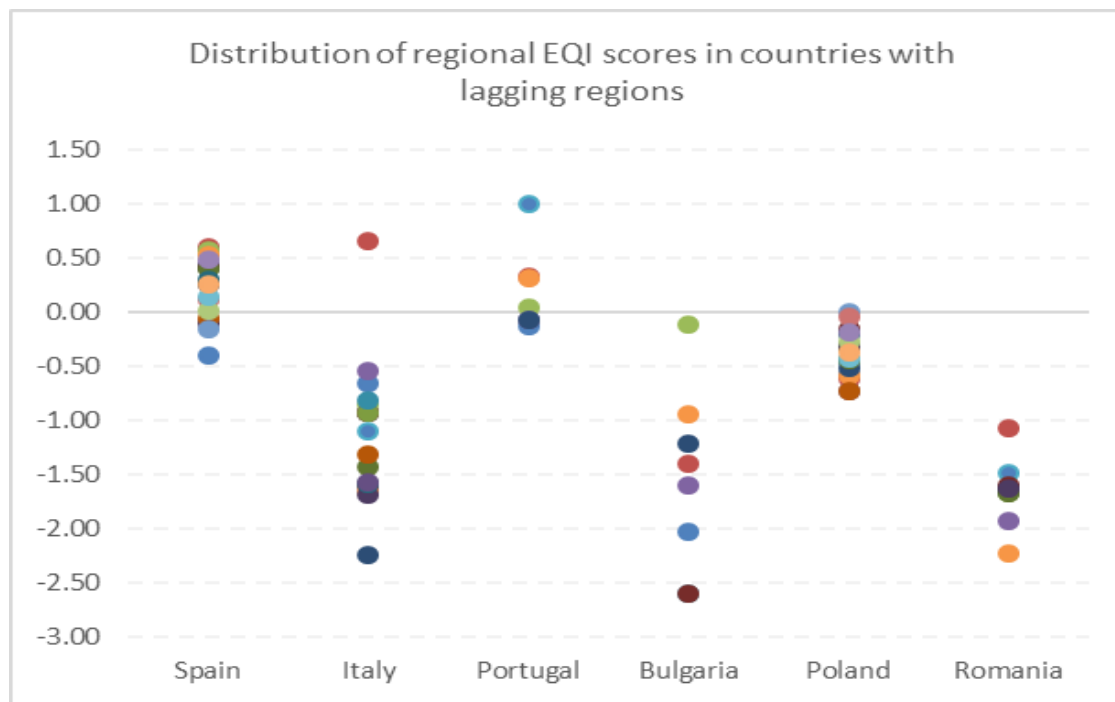
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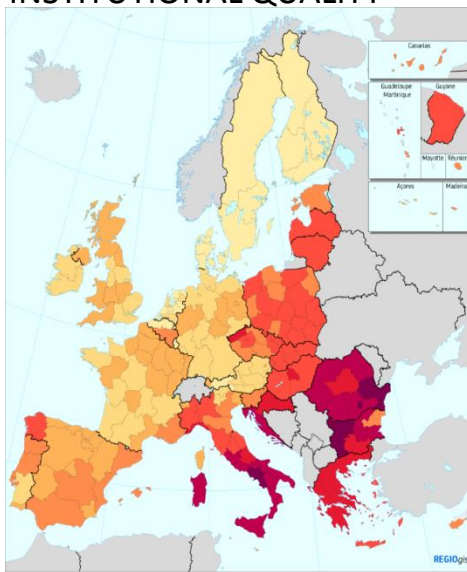
... is associated to laggardness...



Source: Charron, Dijkstra ad Lapuente (2015); Note: Greece and Hungary excluded as EQI available only at NUTS-1 level

... to current outcomes...

INSTITUTIONAL QUALITY



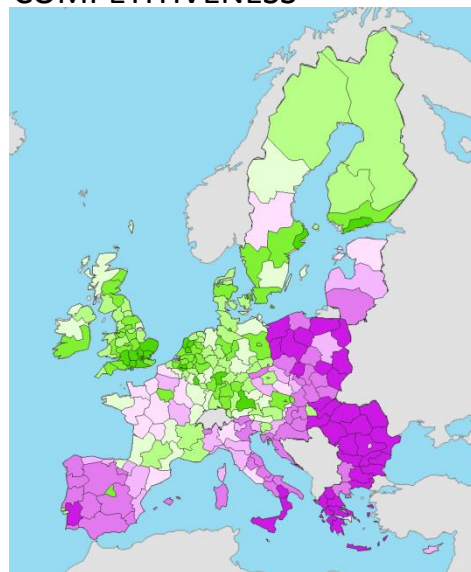
European Quality of Government index, 2013

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



Note: EU = 0
Source: ANECOMIP based on World Bank data and a regional quality of government survey

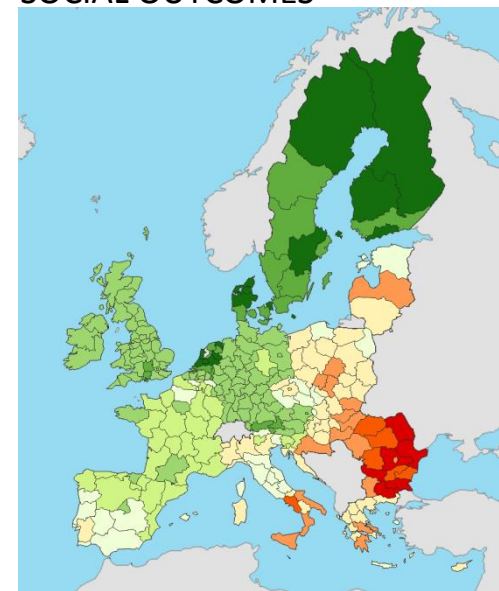
COMPETITIVENESS



Source: European Regional Competitiveness Index

Note: Green (and darker) indicates highest innovation;
purple (and darker) indicates lowest innovation

SOCIAL OUTCOMES



European Social Progress Index

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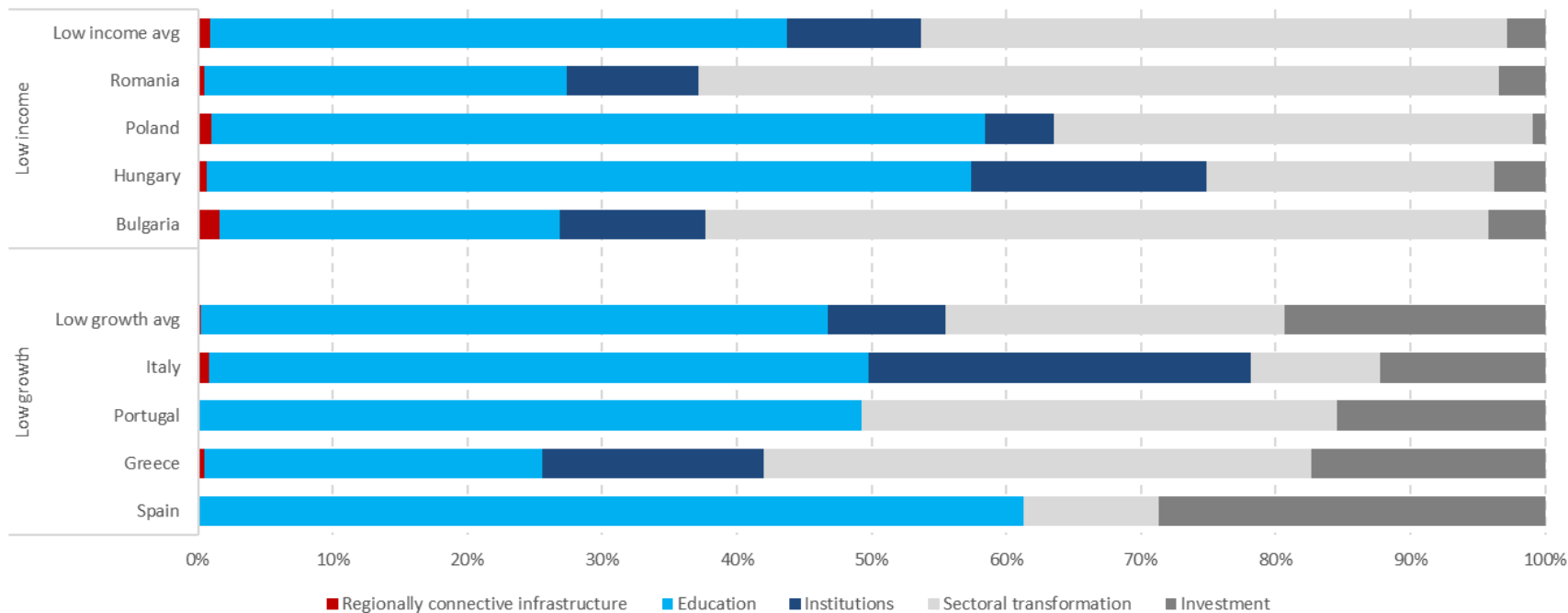
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...and to future potential.

Relative contribution of policy pillars for increasing regional potential in lagging regions



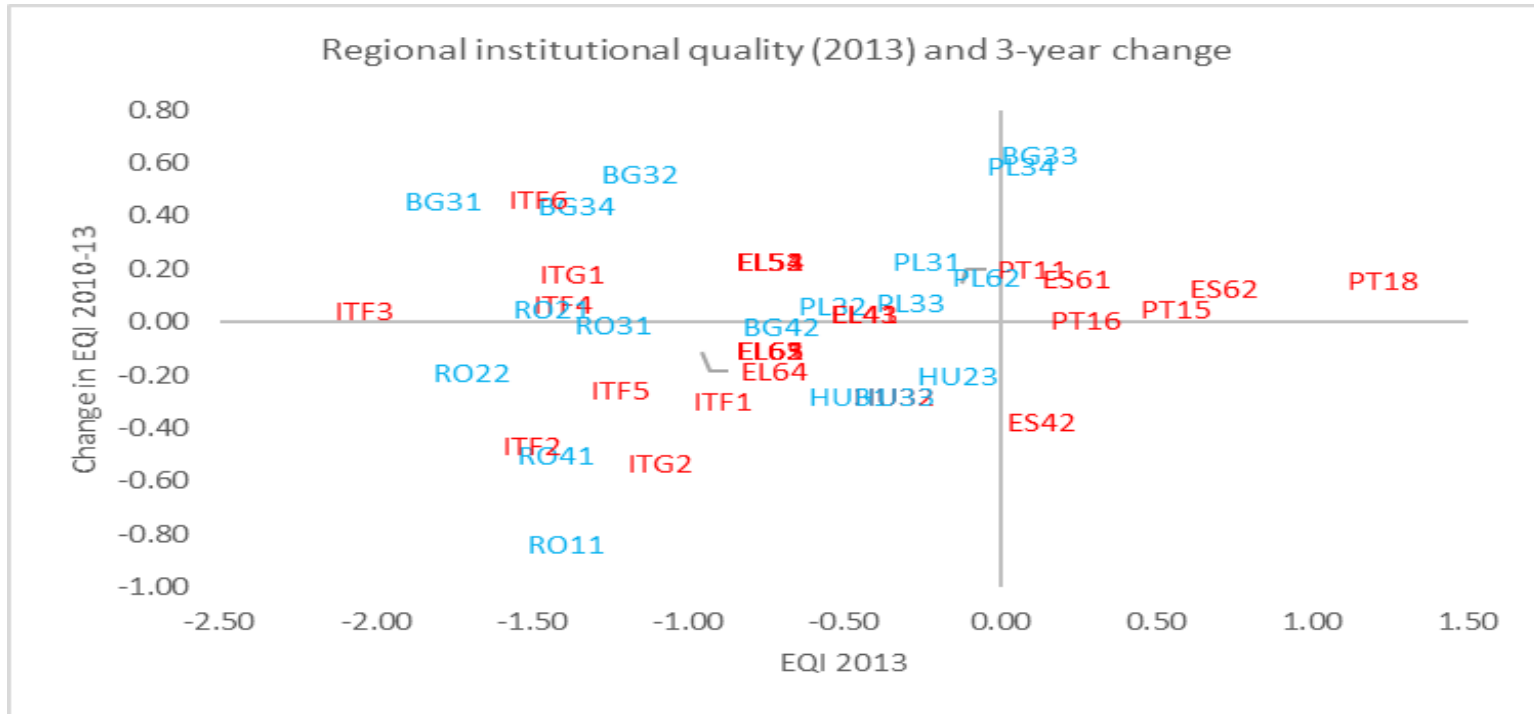
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Despite being ‘structural’, institutional quality can change.



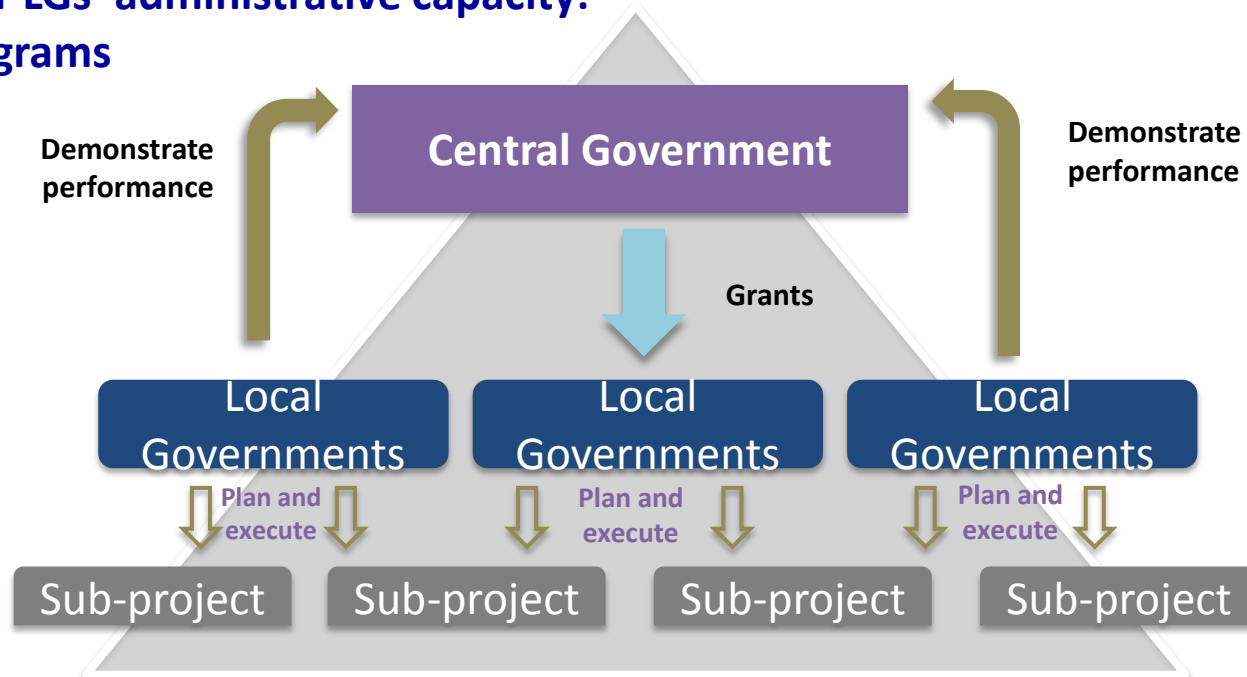
Three lessons from World Bank public sector management (PSM) projects

- **High Risk/High Reward:** success takes time → overcome project timeframes mismatch through phased approaches
- **No one size-fits all model:** context matters, as do baseline conditions → avoid institutional mimicry, facile “best practice”, de jure/de facto gap;
- **Incentives matter:** technical support is necessary, but not sufficient → combine TA with strengthening downwards (beneficiaries); horizontal (across government agencies) and upwards (funders) accountabilities.

Incentivizing accountability for LGs' administrative capacity: Performance Based Grant Programs

Key Principles:

- Grant funding spent on physical infrastructure
- Disbursements based on institutional performance
- Rely on a robust and non-gameable performance assessment system



Performance Areas Targeted by PBG Programs

- Planning and budgeting: quality of development plans and links to budget, execution rates;
- Inter-municipal organization and ‘behaviour’;
- HR performance monitoring/incentives
- Council, executive and finance committee interactions
- Accountability and transparency (reporting, open budgets, citizens’ feedback mechanisms);
- Financial management performance (books of accounts, assets management etc.)
- Procurement performance;
- Local revenue performance and contribution to own development;
- Operation and maintenance (sustainability) of investments

→ **improve the institutional performance of local governments**

→ **expand the stock and quality of municipal infrastructure in areas such as roads and drainage, water and sanitation, social housing, health and education services.**

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Conclusions: leveraging cohesion policy for good governance.

- Institutional quality is a key determinant of absorption capacity of cohesion funding;
- It is also a key determinant of current and future economic and social outcomes;
- Improving administrative capacity can yield immense benefits, but takes time, context specificity and attention to the actors' incentives;
- Financing flows can be shaped to strengthen accountability dynamics and enhance TA's impact.

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THANK YOU

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<http://www.worldbank.org/en/region/eca/publication/rethinking-lagging-regions>